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 2012

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 2012 as follows:

RESULT HIGHLIGHTS

	Unaudited		
	Six months ended 30 June		
	2012	2011	
	HK$'000	*HK$'000*	Change
Turnover	**589,565**	508,397	16.0%
Gross profit	**314,540**	280,366	12.2%
Profit before taxation	**101,721**	43,561	133.5%
Profit attributable to equity shareholders of the Company	**77,967**	36,480	113.7%
Net cash generated from/(used in) operating activities	**161,042**	(51,670)	411.7%
Earnings per share *(HK cent)*	**4.37**	2.05	113.2%
Interim dividend per share *(HK cent)*	**2.50**	–	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2012 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2012 $'000	2011 $'000
Turnover	3	**589,565**	508,397
Cost of sales		**(275,025)**	(228,031)
Gross profit		**314,540**	280,366
Other revenue	4	**8,999**	6,930
Other net income	4	**267**	949
Selling and distribution costs		**(145,125)**	(181,536)
Administrative expenses		**(63,039)**	(58,143)
Profit from operations		**115,642**	48,566
Finance costs	5(a)	**(13,921)**	(5,005)
Profit before taxation	5	**101,721**	43,561
Income tax	6	**(22,165)**	(6,418)
Profit for the period		**79,556**	37,143
Other comprehensive income for the period, net of tax			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**(6,222)**	20,385
Available-for-sale securities: net movement in fair value reserve	7	**823**	(2,264)
		(5,399)	18,121
Total comprehensive income for the period		**74,157**	55,264

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2012 – unaudited (continued)
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	**2012**	2011
		$'000	*$'000*
Profit attributable to:			
– Equity shareholders of the Company		**77,967**	36,480
– Non-controlling interests		**1,589**	663
Profit for the period		**79,556**	37,143
Total comprehensive income attributable to:			
– Equity shareholders of the Company		**72,637**	54,019
– Non-controlling interests		**1,520**	1,245
Total comprehensive income for the period		**74,157**	55,264
Earnings per share	*8*		
Basic and diluted		**4.37 cents**	2.05 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2012 – unaudited
(Expressed in Hong Kong dollars)

	Note	At 30 June 2012 $'000	At 31 December 2011 $'000
Non-current assets			
Fixed assets			
– Investment properties		**3,310**	3,426
– Other property, plant and equipment		**262,896**	253,093
– Interests in leasehold land held for own use under operating leases		**197,117**	199,516
– Construction in progress		**77,360**	87,861
Prepayments for fixed assets		**75,145**	37,707
		615,828	581,603
Intangible assets		**95,594**	101,646
Goodwill		**207,509**	208,644
Other financial assets		**9,538**	8,601
Deferred tax assets		**12,515**	12,744
		940,984	913,238
Current assets			
Other financial assets		**109,115**	81,411
Inventories		**221,035**	233,935
Trade and other receivables	*9*	**326,289**	346,891
Deposits with banks		**104,586**	4,919
Cash and cash equivalents		**69,632**	42,354
		830,657	709,510
Current liabilities			
Trade and other payables	*10*	**246,333**	240,798
Bank loans		**496,582**	340,570
Current taxation		**10,995**	12,251
Current portion of deferred government grants		**1,651**	3,230
		755,561	596,849
Net current assets		**75,096**	112,661
Total assets less current liabilities		**1,016,080**	1,025,899

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2012 – unaudited (continued)
(Expressed in Hong Kong dollars)

	Note	**At 30 June 2012** **$'000**	At 31 December 2011 *$'000*
Non-current liabilities			
Deferred tax liabilities		**54,786**	52,097
Deferred government grants		**11,993**	9,487
		66,779	61,584
NET ASSETS		**949,301**	964,315
CAPITAL AND RESERVES	*11*		
Share capital		**178,341**	178,341
Reserves		**753,863**	770,397
Total equity attributable to equity shareholders of the Company		**932,204**	948,738
Non-controlling interests		**17,097**	15,577
TOTAL EQUITY		**949,301**	964,315

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 2012 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 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 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 few amendments to HKFRSs 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 interim financial statements:

- Amendments to HKFRS 7, Financial instruments: Disclosures – Transfers of financial assets

- Amendments to HKAS 12, Income taxes – Deferred tax: Recovery of underlying assets

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

Amendments to HKFRS 7 Financial instruments: disclosures

The amendments to HKFRS 7 require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

Amendments to HKAS 12 Income taxes

Under HKAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset(s) in question. In this regard, the amendments to HKAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under HKAS 40, Investment property, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments to HKAS 12 has not yet had a material impact on the Group's financial statements as the changes will first be effective as and when the Group enters a relevant transaction (for example, deferred tax arising from the investment property carried at fair value under HKAS 40).

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	
	2012	2011
	$'000	*$'000*
Sale of pharmaceutical products		
– Pills and tablets	**307,086**	299,773
– Medicine wine	**36,725**	41,862
– Injections	**37,926**	45,395
– Granules	**106,605**	65,353
– Others	**101,223**	56,014
	589,565	508,397

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

4 Other revenue and net income

	Six months ended 30 June	
	2012	2011
	$'000	*$'000*
Other revenue		
Rental income	**566**	597
Government grants	**3,763**	5,465
Interest income	**4,670**	868
	8,999	6,930
Other net income		
Available-for-sale securities:		
– gain on disposal reclassified from equity *(Note 7)*	**–**	841
Gain/(loss) on disposal of fixed assets	**72**	(84)
Others	**195**	192
	267	949

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2012	2011
	$'000	*$'000*
Interest on bank advances and other borrowings wholly repayable within five years	**17,475**	5,005
Less: interest expense capitalised into construction in progress*	**(3,554)**	–
	13,921	5,005

* The borrowing cost have been capitalised at a rate of 5.679% – 8.528% per annum (2011: 5.355% – 7.095%).

(b) Other items

	Six months ended 30 June	
	2012	2011
	$'000	*$'000*
Inventory write-down and losses net of reversals	**214**	266
Depreciation		
– investment properties	**98**	104
– interests in leasehold land under operating leases	**1,303**	2,178
– property, plant and equipment	**18,113**	16,062
Amortisation		
– intangible assets	**5,509**	12,860
Net provision/(reversals) for impairment losses for trade and other receivables	**1,014**	(3,427)
Operating lease charges on buildings	**2,834**	2,000
Research and development costs	**20,419**	17,475

6 Income tax

	Six months ended 30 June	
	2012	2011
	$'000	*$'000*
Current tax		
PRC income tax for the period	**18,329**	12,462
Under-provision in respect of prior years	**909**	478
	19,238	12,940
Deferred tax		
Origination and reversal of temporary differences	**2,927**	(6,522)
	22,165	6,418

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 2012 and 2011.

Pursuant to the Corporate Income Tax Law of the Peoples' Republic of China, 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 recognized as Advanced and New Technology Enterprises to enjoy a preferential corporate income tax rate of 15% in 2012 (2011: 15%) 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.

According to the Law Corporate Income Tax of the People's Republic of China and its relevant regulations, PRC-resident enterprises are levied withholding income tax at 10% on dividends to their non-PRC-resident corporate investors for earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest of a PRC-resident enterprise is entitled to a reduced withholding tax rate of 5%. The Group is subject to withholding tax rate of 5% on retained earnings beginning on 1 January 2008.

7 Other comprehensive income

Available-for-sale securities

	Six months ended 30 June	
	2012	2011
	\$'000	*\$'000*
Changes in fair value recognised during the period	**968**	(3,504)
Gain on disposals transferred to profit or losses *(Note 4)*	**–**	841
Income tax effect on the change in fair value recognised during the period	**(145)**	399
	823	(2,264)

8 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of \$77,967,000 (six months ended 30 June 2011: \$36,480,000) and the weighted average of 1,783,410,000 ordinary shares (six months ended 30 June 2011: 1,783,410,000) 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 2012 *$'000*	At 31 December 2011 *$'000*
Within 3 months after invoice date	**266,118**	298,882
3 to 6 months after invoice date	**11,176**	15,022
More than 6 months less than 12 months after invoice date	**12,689**	6,966
Trade debtors and bills receivable, net of allowance for doubtful debts	**289,983**	320,870
Other receivables	**36,306**	26,021
	326,289	346,891

Trade receivables are due within 30 to 90 days from the date of billing.

Bills receivables with carrying value of $20,425,000 (31 December 2011: $11,349,000) were pledged as securities of bank loan of the Group as at 30 June 2012.

10 Trade and other payables

	At 30 June 2012 *$'000*	At 31 December 2011 *$'000*
Trade creditors	**121,227**	97,621
Other creditors and accrued charges	**111,359**	134,693
Advances received from customers	**13,747**	8,484
	246,333	240,798

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

11 Capital, reserves and dividends

(a) Share capital

There were no movements in share capital during the six months ended 30 June 2012.

(b) Dividends

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

	Six months ended 30 June	
	2012	2011
	$'000	*$'000*
Interim dividend declared after the interim period of 2.5 cents per ordinary share (six months ended 30 June 2011: Nil)	**44,585**	–

The interim dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	Six months ended 30 June	
	2012	2011
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the six months ended 30 June 2012 of 5 cents per ordinary share (six months ended 30 June 2011: Nil)	**89,171**	–

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS PERFORMANCE AND DIVIDEND

During the period under review, despite the uncertainty of the macroeconomic environment in China, the Group still achieved encouraging results. Through optimizing product mix, pushing up sales volume of competitive products and expanding our market share, the Group's turnover increased by 16.0% to HK$ 589,565,000 from HK$508,397,000 for the corresponding period last year.

In addition to accelerating our sales growth, the Group also endeavored to control operating cost as well as improve operational efficiency through products and technologies innovation, and to achieve optimal resource allocation. Net profit attributable to shareholders of the Company was HK$77,967,000, representing a significant increase of 113.7% as compared to HK$36,480,000 for the corresponding period last year.

The Board of directors recommended the payment of an interim dividend of HK2.50 cents per share.

GROUP OVERVIEW

The Group is a generic drugs manufacturing enterprise with excellent brands. It has a total of 475 products and product specifications, 32 of which are national exclusive products, while 3 are State's protected Traditional Chinese Medicine (TCM). The Group has 69 products and product specifications being listed on the National Essential Drugs List, 2 of which are exclusive products, namely Bi Yan Kang Tablet (鼻炎康片) and Yu Ping Feng Granule (玉屏風顆粒). The Group has 96 products being listed on the National Drugs List (Category A) for Basic Medical Insurance, and another 60 products being listed on the National Drugs List (Category B) for Basic Medical Insurance, among which Bi Yan Kang Tablet (鼻炎康片), Yu Ping Feng Granule (玉屏風顆粒), Gandakang Tablet (肝達康片), Bai Ling Tablet (白靈片) and Wuji Bai Feng Granule (烏雞白鳳顆粒) are the exclusive products on the National Drugs List for Basic Medical Insurance. Furthermore, the Group has been advocated for TCM manufacturing for over 400 years, and is in posession of a range of TCM secret formulas, many of them are national famous products, such as Po Chai Pills (保濟丸), Da Huo Luo pills (大活絡丸), Shaolin Dieda Herbal Plaster (少林跌打止痛膏), Yuanjilin Herbal Tea (源吉林甘和茶), etc. The Group has accumulated extensive technical experience in the extraction of Chinese medicine, preparation of modern Chinese medicine, sustained or controlled release preparation, manufacturing of traditional Big Candid Pills (大蜜丸) and enhancement of quality.

The Group has established manufacturing bases in Foshan city of Guangdong Province and Jining city of Shandong Province, with an annual production capacity of 3 billion tablets, 200 million capsules, 200 million packs of granule, 14 million bottles of medical wine, and 100 million jabs of antibiotics and oncology powder for injection.

During the period under review, sales of essential drugs accounted for approximately 52.4% of the turnover of the Group, while the sales of TCM made up approximately 83.4% of our turnover. The Group's sustainable development in the future is closely related to the implementation of the National Essential Drugs system and the development of Chinese medicine industry.

INDUSTRY OVERVIEW

The "12th Five-Year" Plan for Pharmaceutical Industry

On 19 January 2012, the Ministry of Industry and Information Technology promulgated the "12th Five-Year Development Plan for Pharmaceutical Industry (《醫藥工業"十二五"發展規劃》)" while the State Council promulgated the "12th Five-Year Plan for National Drugs Safety (《國家藥品安全"十二五"規劃》) " on 20 January 2012. These two plans were set to create a more favorable environment for the pharmaceutical industry of China by implementing supportive policy during the period from 2011 to 2015 ("12th Five-Year"). The core idea of these plans is to require pharmaceutical enterprises to enhance the overall quality and technical standard of drugs; while government policy towards the pharmaceutical industry will focus on supporting those enterprises with quality advantage and scalable sales, with an aim to helping China's pharmaceutical industry go international. In order to become the first pharmaceutical enterprise in the industry in accomplishing consistency evaluation, the Group has also made relevant arrangements, including speeding up the research on the consistency evaluation for generic drugs of Nifedipine Sustained-release Tablet (Sheng Tong Ping)(硝苯地平緩釋片 (聖通平)) and Cefodizime Sodium for injection (Gaode) (注射用頭孢地嗪鈉(高德)), aiming to expand the market share of these two core products through enhancing their technology standard.

On 14 March 2012, the State Council promulgated the "Regulation and Implementation Plan for Deepening Medical and Health System Reformation during the 12th Five-year Plan Period (《"十二五"期間深化醫藥衛生體制改革規劃暨實施方案》)". The plan explicitly stated that the National Essential Drugs List will be further enhanced; the practice of marking up drugs prices in public hospital will be cancelled; the reformation of drugs production and circulation will be encouraged; and that the coverage of medical insurance will continue to be expanded. By 2015, all county-level public hospitals should have achieved the reformation target of that stage, and comprehensive reformation on urban public hospitals will be implemented in full. These measures could help to increase the sales of general and inexpensive drugs in ranked hospital and retail pharmacies, which will be beneficial to the Group as well.

Chinese Medicine Industry of A Golden Age

On 5 June 2012, State Administration of Traditional Chinese Medicine promulgated the "12th Five-Year Plan for the Development of Chinese Medicine Industry (中醫藥事業發展"十二五"規劃) ", which has stated that the government will increase investment to include Chinese medicine into the insurance system as well as improving such system, such as to extend medical insurance coverage to qualified Chinese medical institutions, Chinese medical diagnosis and treatment, Chinese medicine and preparations, so as to setup a foundation for the development of Chinese medicine industry. Chinese medicine practitioners focus on curing illnesses fundamentally, recuperation and improve patient's living habit and physical functions. Chinese medicines are made from natural substance with minimal toxic side effect and drugs resistance, particularly suitable for chronic diseases and specialty medicines, and the treatment costs are relatively low. Aging population in China has created huge demand for health care services and products, which will lead Chinese medicine industry into its golden time and will bring the Group opportunities for sustainable development in the future.

National Essential Drugs Policy

The Ministry of Health issued the Key Health Task for 2012 on 2 February 2012, which emphasized that the task for this year is to further expand the scope of the National Essential Drugs System, and to formulate administrative measures for the use of essential drugs by health care institutions. It is also stated that the "Guideline for the Clinical Application of National Essential Drugs (國家基本藥物臨床應用指南)" and "National Essential Drugs Prescription Catalogue (國家基本藥物處方集)" will be revised. The ministry also considered formulating incentive policy to promote the use of essential drugs, so as to motivate other health care institutions to gradually stock up and give priority in using essential drugs. As China is in the process of improving the national essential drugs policy mechanism, it is expected that the model of "lowest price win the bid" for essential drugs tender will be rectified. We anticipated that the expanded essential drugs list will be issued in 2012, which will increase the use of essential drugs for prescriptions in ranked hospitals.

On 21 June 2012, Guangdong Province has completed its first tender procurement after the issuance of No. 56 Document for Tender Procurement of Essential Drugs (關於基本藥物招標採購的56號文件) by the State Council. Essential drugs tenders conducted in Guangdong Province continued to adopt the "Anhui Model", which has committed to use "two-envelope" tendering system, purchase based on agreed price and volume, as well as sourcing from single supplier, while it has emphasized more on adjusting the balance between price and quality. This compromise solution was generally accepted by all parties. In order to avoid vicious competition for low price drugs, the Terms of Tender for Essential Drugs Tender in Guangdong Province (廣東基藥招標方案) provided that drugs listed on the Inexpensive Drugs List will not adopt the "two-envelope" system and tender will be decided by quality. Since the implementation of the Essential Drugs System, Guangdong Province is the first and the only province that proposes the use of an Inexpensive Essential Drugs List in the tender. It is expected that such Inexpensive Essential Drugs List will be encouraged to be adopted in the tender procedures of other provinces.

Guangdong province is the biggest sales region for the Group's pharmaceutical products. 25 products and product specifications of the Group won tender in the recent Essential Drugs Tender in Guangdong Province, which is expected to expand our market shares in the hospitals in Guangdong Province, especially for Nifedipine Sustained-release Tablet (聖通平), a cerebro-cardiovascular drugs being listed on the Inexpensive Drugs List. The implementation of inexpensive drugs policy has created a favorable condition for the Group to explore the market and expand the market share for generic drugs.

Downside Trend of Price of TCM Materials

The comprehensive rectification to the pharmaceutical market carried out by relevant government departments this year has weakened the market demand for TCM materials. Meanwhile, the global financial crisis has caused a substantial decrease in the export of TCM materials. As supply increased, together with the influence from the control measures implemented by the country, the price of TCM materials has returned to normal levels. In July 2012, the 200 TCM Materials Composite Index declined by approximately 16% as compared to the corresponding period last year. The decrease in the prices of TCM materials will reduce our procurement costs.

Administrative Measures on the Clinical Use of Antibiotic

"Administrative Measures on the Clinical Use of Antibiotic (《抗菌藥物臨床應用管理辦法》)"has been duly implemented since 1 August 2012. The requirement to classify antibiotic into different grade has inevitably reduced the market of antibiotic, and the effect on our Cefodizime Sodium for injection (Gaode) (注射用頭孢地嗪鈉 (高德)) is more apparent. Such management requirement has promoted the prudent use of antibiotic by clinicians, while certain Chinese medicines that have antibiotic function has gained more attention from doctors, and therefore should have better sales prospect. During the period under review, anti-inflammatory TCM of the Group such as Lianzhi Anti-inflammatory Tablet (蓮芝消炎片), Anti-inflammatory Cholagogic Tablet (消炎利膽片), Yinqiao Antidotal Tablet (銀翹解毒片), VC Yinqiao Tablet (維C銀翹片), Andrographis Tablet (穿心蓮片)has achieved good sales performance.

BUSINESS REVIEW

Sales of Products

During the period under review, the Group's turnover increased by 16.0% to HK$589,565,000, which was mainly attributable to the focus strategies in terms of specific products, markets and management. Focusing on specific products means the Group emphasized on expanding the market for its core products, including Yu Ping Feng Granule (玉屏風顆粒), Nifedipine Sustained-release Tablet (Sheng Tong Ping) (硝苯地平緩釋片(聖通平)), Bi Yan Kang Tablet (鼻炎康片), Feng Liao Xing Medicinal Wine (馮了性藥酒)and Nicotinic Acid Sustained Release Capsules (Luoweiding) (煙酸緩釋膠囊(洛唯定)). Focusing on markets means enhancing the market development work and increasing the usage of our core products at ranked health care institutions; expanding the coverage of essential drugs among primary health care institutions, and co-operating with mainstream chain stores to increase coverage of end-market retailing for our core and essential products. Focusing on management means the implementation of a comprehensive performance evaluation on our sales team at all levels and enhancing the integrated management ability of our provincial managers.

The Group had increased coverage of two exclusive essential drugs, namely Yu Ping Feng Granule (玉屏風顆粒)and Bi Yan Kang Tablet (鼻炎康片), in ranked hospitals and primary health care institutions. As at 30 June 2012, the coverage of Yu Ping Feng Granule (玉屏風顆粒) in ranked hospitals was extended from around 1,300 hospitals in 2011 to around 1,800 hospitals, and from around 5,000 primary health care institutions to around 8,000 institutions. Meanwhile, coverage of Bi Yan Kang Tablet in ranked hospitals was extended from around 300 hospitals to around 500 hospitals, and from around 12,000 primary health care institutions to around 18,000 institutions.

Analysis by National Essential Drugs:

	For the six months ended 30 June				
	2012	**Percentage**	2011	Percentage	
	HK$'000	**to turnover**	*HK$'000*	to turnover	Change
Essential drugs	**309,171**	**52.4%**	225,167	44.3%	37.3%
Non-essential drugs	**280,394**	**47.6%**	283,230	55.7%	-1.0%
Total	**589,565**	**100.0%**	508,397	100.0%	16.0%

Analysis by Types of Medicines:

	For the six months ended 30 June				
	2012	**Percentage**	2011	Percentage	
	HK$'000	**to turnover**	*HK$'000*	to turnover	Change
Respiratory system drugs and nasal preparations	**273,182**	**46.3%**	229,822	45.2%	18.9%
Cerebro-cardiovascular drugs	**74,927**	**12.7%**	75,993	15.0%	-1.4%
Rheumatic diseases and bone injury drugs	**60,134**	**10.2%**	64,564	12.7%	-6.9%
Antibiotics	**28,750**	**4.9%**	36,100	7.1%	-20.4%
Oncology drugs	**7,749**	**1.3%**	8,805	1.7%	-12.0%
Others	**144,823**	**24.6%**	93,113	18.3%	55.5%
Total	**589,565**	**100.0%**	508,397	100.0%	16.0%

Analysis by TCM and Western Medicine:

	For the six months ended 30 June				
	2012	**Percentage**	2011	Percentage	
	HK$'000	**to turnover**	*HK$'000*	to turnover	Change
TCM	**491,482**	**83.4%**	407,754	80.2%	20.5%
Western medicine	**98,083**	**16.6%**	100,643	19.8%	-2.5%
Total	**589,565**	**100.0%**	508,397	100.0%	16.0%

Sales Analysis of Core Products:

	For the six months ended 30 June				
	2012	**Percentage**	2011	Percentage	
	HK$'000	**to turnover**	*HK$'000*	to turnover	Change
Bi Yan Kang Tablet	**122,798**	**20.8%**	131,926	25.9%	-6.9%
Yu Ping Feng	**91,330**	**15.5%**	55,185	10.9%	65.5%
Sheng Tong Ping	**49,059**	**8.3%**	46,550	9.2%	5.4%
Feng Liao Xing Medicinal Wine	**36,725**	**6.2%**	41,862	8.2%	-12.3%
Gaode	**28,352**	**4.8%**	36,100	7.1%	-21.5%
VC Yinqiao Tablet	**21,723**	**3.7%**	12,017	2.4%	80.8%
Total	**349,987**	**59.3%**	323,640	63.7%	8.1%

Cost control

During the period under review, the Group kept deepening the integration of end-market sales resources, streamlining sales personnel, reinforcing sales expense control and improving sales and marketing efficiency, so as to lay a solid foundation for the stable sales growth of the Group. Meanwhile, the Group rationalized and optimized the management procedures of various departments, including marketing, operation, finance, research and development, production and human resources, so as to reduce administrative costs and improve the output per capita and management efficiency.

Research and development

The Group's research and development on new products will be focused on Cerebro-cardiovascular drugs, which mainly include: Nicotinic Acid Sustained Release Capsules (Luoweiding) (煙酸緩釋膠囊 (洛唯定)), Rosuvastatin Tablet (瑞舒伐他汀片), Indapamide Release Tablet (吲噠帕胺緩釋片), Nifedipine Sustained-release Tablet (30mg) (New Sheng Tong Ping) (硝苯地平緩釋片(新聖通平)). These products are expected to commence production and launch for sales next year, which will greatly enrich our Cerebro-cardiovascular product lines and will serve as the catalyst for the sustainable sales growth in the future.

In addition, the Group has achieved remarkable progress in some major R&D projects, such as obtaining approval for Aspirin Paracetamol and Caffeine Tablet (阿咖酚片) (use for curing migraine) for a term of 2 years and completing the revision on its quality standard; completing the reporting procedure for enhancing the standard of Cefodizime Sodium for injection (Gaode) (注射用頭孢地嗪(高德)); and rolling out Phase IV clinical trial of Sha Pei Lin used for curing bladder cancer in full.

Products under research and development include: Cerebro-cardiovas products--Metoprolol Tartrate Sustained Release Tablet (酒石酸美托洛爾緩釋片), Telmisartan Tablet (替米沙坦片), Telmisartan and Hydrochlorothiazide Bilayer Tablet (替米沙坦+氫氯噻嗪雙層片), Amlodipine Besylate and Atorvastatin

Calcium Tablet (氨氯地平阿托伐他汀鈣片), Benidipine Tablet (貝尼地平片), Sitagliptin Tablet (西格列汀), Dofetilide (多非利特); drugs for dysmnesia treatment-Galanthamine Hydrobromide Sustained Release Capsule (氫溴酸加蘭他敏緩釋膠囊); drugs for BPH treatment – Alfuzosin Hydrochloride Sustained Release Tablet (鹽酸阿夫唑嗪緩釋片).

Investment in TCM decoction pieces

Foshan Nanhai Pharmaceutical Group Medicinal Material Co., Ltd. (佛山市南海醫藥集團藥材有限公司), a wholly-owned subsidiary of the Group, has been renamed as Foshan Feng Liao Xing Medicinal Materials & Slices Co., Ltd. (佛山馮了性藥材飲片有限公司) with effect from 15 June 2012, so as to reflect its business development and "Feng Liao Xing Medicinal Material" brand strategy. The new name can better reflect the three major businesses scope that will be developed in the future, including TCM decoction pieces business, high-end quality TCM decoction pieces and health care business.

According to the five year (2011-2015) plan of the Group, the business strategy of Feng Liao Xing Medicinal Materials will focus on TCM decoction pieces, and supplemented by health care products, and will become the new driver for the Group's sales growth by enriching our product mix, exploring new sales channels and improving overall product quality.

Investment in Guizhou Zhongtai

Pursuant to a conditional investment agreement dated 22 December 2011 entered into among a wholly-owned subsidiary of the Group, Guangdong Medi-World and Henan Xintai Medicine Company Limited ("Henan Xintai")and Guizhou Zhongtai Biological Technology Company Limited ("Guizhou Zhongtai", a wholly-owned subsidiary of Henan Xintai) ("the Investment Agreement"), Henan Xintai has agreed that Guizhou Zhongtai will increase its registered capital ("Increased Capital") and Guangdong Medi-World has agreed to invest in the Increased Capital of Guizhou Zhongtai for a cash consideration of RMB153 million (approximately $183.6 million). The Increased Capital represented 51% of the entire registered capital of Guizhou Zhongtai. The consideration will be payable by Guangdong Medi-World by installments. The Group is in the proceeding with the necessary legal procedures for completion of the transaction. Upon completion of the transaction, Guizhou Zhongtai will become a subsidiary of the Group.

Expansion of production capacity

Gaoming Base

The construction work of Gaoming's TCM extraction project has commenced in October 2010. The main structure of the TCM extraction workshop and medicinal materials pre-processing workshop will soon be completed and the interior furnishing is currently underway. The Gaoming project is expected to provide a production capacity of processing 20,000 tonnes TCM materials and 80 million packets of TCM decoction pieces upon completion annually. The center will greatly increase the production capacity of the Group's TCM products.

Solid Preparations Workshop

Yu Ping Feng Granules is one of our core products, the sales of which have increased substantially in recent years. In order to meet the need for strategic development of the Group, we have been planning for constructing a new and modernized solid preparations workshop since last year. On 15 June 2012, the construction of the new solid preparations workshop with an annual capacity of 600 million bags of granules has commenced. This workshop occupies a site area of 2,660 square meters and its production technology and equipment model will fully comply with the new GMP's requirement.

PROSPECTS

In the short run, as essential drugs tenders in all provinces tend to be won by the lowest bid, pricing pressure will become the general challenge faced by pharmaceutical enterprises, especially for generic drugs manufacturers. We expect costs in general will rise, such as costs of raw material, salary, energy expenses and finance costs. The implementation of the new Pharmacopoeia and new GMP has increased the costs for reconstructing and managing our production lines. Uncertainty in global economy prospects, as well as weakening consumption sentiment has affected the sales of drugs to certain extend. However, in the medium to long run, the change in population structure and spectrum of disease will inevitably drive up the demand for drugs. With medical reform entering into a critical stage, government involvement continues to expand the market. The number of hospitals of different levels is increasing steadily, while the increase in community health service centers (such as primary health care institutions) is more apparent. With the improvement of infrastructure, as well as higher affordability brought by medical insurance, it is expected that the demand for diagnosis and treatment will be driven up.

Besides, the standardization of Chinese medicine has laid down an important foundation for establishing the protection system for the country's Chinese medicine industry. We can foresee that the modernization of Chinese medicine will further enhance the market recognition of TCM, which will become the key driver for market growth in the future. The gradual implementation of the standardization work will boost the prosperous development of Chinese medicine industry, which will cause a wave of revolutionary change in Chinese medicine industry that covers the plantation of medicinal materials, preparation, TCM decoction pieces, reformation of modern preparations as well as clinic application, and will become the main driver for the rapid growth of Chinese medicine industry.

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2012, the Group's turnover increased by 16.0% to HK$589,565,000 from HK$508,397,000 for the corresponding period last year. The increase in sales was attributable to the successful expansion of our product coverage in primary health care institutions, as well as the partnerships established with major chain pharmacy which has increased its coverage in OTC retail market, resulting in the substantial growth for our core products (such as Yu Ping Feng Granule). In addition, the business of Foshan Winteam Pharmaceutical Sales Company Limited (previously named as Foshan Nanhai Yikang Pharmaceutical Co., Ltd), which was acquired by the Group at the end of last year, also contributed to the increase in the turnover of the Group directly.

Cost of Sales and Gross Profit Margin

For the six months ended 30 June 2012, the Group's cost of sales was HK$275,025,000, representing an increase of 20.6% as compared to HK$228,031,000 for the corresponding period last year. Direct raw materials, direct labor and production overhead accounted for approximately 71.0%, 10.2% and 18.8% of the total cost of sales respectively, as compared to 70.9%, 8.1% and 21.0% for the corresponding period last year. As the TCM materials consumed during the year was purchased at a higher price during the previous period, the price hike in raw materials was still affecting the cost of sales for the period, and has exerted pressure on our cost of sales, reducing the Group's gross profit margin to 53.4% from 55.1% for the corresponding period last year. However, for six months ended 30 June 2012, the Group has basically consumed all the medicinal materials purchased in 2011, therefore the benefit of the decline in medicinal materials price will be gradually reflected in the cost of sales for products manufactured in the second half of the year.

Other Revenue

For the six months ended 30 June 2012, the Group's other revenue was HK$8,999,000, representing an increase of approximately 29.9% compared to HK$6,930,000 for the corresponding period last year. Such increase was mainly attributable to the increase in interest income of HK$3,802,000 while government grants decreased by HK$1,702,000, as well as the rental income and other income decreased by HK$31,000 as compared to the corresponding period of last year.

Other Net Income

For the six months ended 30 June 2012, the Group's other net income was HK$267,000, representing a decrease of 71.9% as compared to HK$949,000 for the corresponding period last year.

Sales and Distribution Costs

For the six months ended 30 June 2012, the Group's sales and distribution costs amounted to HK$145,125,000 (for the six months ended 30 June 2011: HK$181,536,000), which mainly consisted of advertising, promotion and traveling expenses of HK$84,723,000, salary expenses of sales and marketing staffs of HK$37,034,000, distribution and logistics costs of HK$7,536,000 and other sales and distribution costs of HK$15,832,000. The effective reduction in expenses was a result of the Group's effort in optimizing its resources allocation, streamlining sales team and implementing more stringent control over costs, especially the advertising expenses, thus enabling us to reduce sales and distribution costs by 20.1% as compared to last year.

Administrative Expenses

For the six months ended 30 June 2012, the Group's administrative expenses amounted to HK$63,039,000 (for the six months ended 30 June 2011: HK$58,143,000). Such expenses mainly comprised staff salary of HK$16,428,000, depreciation and amortization of HK$6,173,000, expenses for product research and development of approximately HK$20,419,000, office rental cost and other expenses of approximately HK$20,019,000. The increase in administrative expenses was mainly attributable to the increase in research and development costs and salary expenses of administrative staffs by HK$2,675,000.

Profit from Operations

For the six months ended 30 June 2012, the Group's profit from operations was HK$115,642,000, representing an increase of 138.1% as compared to HK$48,566,000 for the corresponding period last year, while operating profit ratio (defined as profit from operations divided by total turnover) increased to approximately 19.6% from 9.6% for the corresponding period last year.

Finance Costs

For the six months ended 30 June 2012, the Group's finance costs amounted to HK$13,921,000 (for the six months ended 30 June 2011: HK$5,005,000), and the higher finance costs as compared with the corresponding period last year was attributable to the increase in the Group's bank borrowings to approximately HK$496,582,000 (31 December 2011: HK$340,570,000). The effective interest rate for the loans was 7.62% (31 December 2011: 6.23%).

Earnings per share

For the six months ended 30 June 2012, the basic earnings per share was HK4.37 cents, representing an increase of 113.2% as compared to HK2.05 cents for the corresponding period last year. The increase in basic earnings per share was due to the profit attributable to equity shareholders increased by 113.7% to approximately HK$77,967,000 (for the six months ended 30 June 2011: HK$36,480,000).

Liquidity and Financial Resources

As at 30 June 2012, the Group's current assets amounted to approximately HK$830,657,000 (31 December 2011: HK$709,510,000), which included cash, cash equivalents and deposits with banks of approximately HK$174,218,000 (31 December 2011: HK$47,273,000), as well as trade and other receivable of approximately HK$326,289,000 (31 December 2011: HK$346,891,000). Current liabilities amounted to approximately HK$755,561,000 (31 December 2011: HK$596,849,000). Net current assets aggregated to approximately HK$75,096,000 (31 December 2011: HK$112,661,000). The Group's current ratio was 1.1 (31 December 2011: 1.2). The gearing ratio (defined as bank loans divided by the interests attributable to equity shareholders of the Company) increased to 53.3% from 35.9% as at 31 December 2011. Such increase was due to the increase in bank loans to fund the Group's business expansion and production capacity expansion.

Bank Loans and Pledge of Assets

As at 30 June 2012, the balance of the Group's bank loans was approximately HK$496,582,000 (31 December 2011: HK$340,570,000), of which approximately HK$281,910,000 (31 December 2011: HK$161,711,000) was secured by the Group's assets with book value of HK$208,449,000 (31 December 2011: HK$80,627,000). The additional bank loans were mainly used as the expenditure on financial planning and the construction cost of Gaoming Base.

Contingent Liabilities

The Group did not have any contingent liabilities as at 30 June 2012 (31 December 2011: Nil).

Employee and Remuneration Policies

As at 30 June 2012, the Group employed a total of 3,332 (31 December 2011: 3,510) 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 1,562, 1,390 and 380 respectively. Remuneration packages principally comprised salary and discretionary performance bonus based on individual merits. The Group's total remuneration for the period was approximately HK$84,462,000 (for the six months ended 30 June 2011: HK$70,957,000).

INTERIM DIVIDEND

The Board recommended an interim dividend of HK2.50 cents per share for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil). The interim dividend will be payable on 15 October 2012 to the shareholders on the register of members of the Company on 24 September 2012.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from Thursday, 20 September 2012 to Monday, 24 September 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrars of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 19 September 2012.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

For the six months ended 30 June 2012, there was no material acquisition or disposal of subsidiaries by the Company.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices and Corporate Governance Code

To the knowledge of the Board, the Company has complied throughout the six months ended 30 June 2012 with the Code Provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (newly effective from 1 April 2012) contained in Appendix 14 of the Listing Rules except for the deviation from the new code provision thereof as described below during the period:-

Provision A.6.7 requires independent non-executive directors and other non-executive directors to attend general meetings and develop a balanced understanding of the views of shareholders. However, Mr. ZHANG Jianhui, the independent non-executive director, was unable to attend the annual general meeting held on 10 May 2012 due to family matters.

The Model Code for Securities Transactions

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

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

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
XU Tiefeng
Chairman

Hong Kong, 30 August 2012

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