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China NT Pharma Group Company Limited

中國泰凌醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01011)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013

HIGHLIGHTS

- As described in the 2012 annual report, the Group underwent a major restructuring exercise which involved exiting from the low-margin vaccine business, downsizing its vaccine promotion and sales team and terminating certain dermatological products and the over-the-counter (“OTC”) business during that year, in order to focus on the higher margin third-party pharmaceutical promotion and sales business.
- As a result of the increase in revenue from the third-party pharmaceutical promotion and sales business as well as from the proprietary products production and sales business, the overall revenue of the Group for the six months ended 30 June 2013 increased by 5.1% to RMB526.3 million, as compared with RMB500.6 million for the corresponding period in 2012. However, due to lower average selling price and higher logistics costs, gross profit decreased by 14.5% to RMB190.6 million for the six months ended 30 June 2013, as compared to RMB223.0 million for the corresponding period in 2012. Gross profit margin decreased to 36.2% as compared to 44.5% for the corresponding period in 2012.
- Certain outstanding issues relating to the major restructuring exercise in the previous year continued to pose challenges to the Group. Due to the increased impairment provisions made for vaccine receivables and slow-moving inventories, net loss of the Group for the six months ended 30 June 2013 was RMB432.1 million, as compared with a net loss of RMB61.5 million for the corresponding period in 2012.
- Basic loss per share was RMB39.94 cents for the six months ended 30 June 2013, as compared to basic loss per share of RMB5.69 cents for the corresponding period in 2012.

INTERIM RESULTS

The board of directors (the “**Board**”) of China NT Pharma Group Company Limited (the “**Company**” or “**NT Pharma**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2013, together with the comparative figures for the six months ended 30 June 2012 as follows:

Condensed Consolidated Income Statement

For the six months ended 30 June 2013

		Six months ended 30 June	
		2013	2012
	Note	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
			(Note 3a)
Revenue	3	526,264	500,611
Cost of sales		<u>(335,621)</u>	<u>(277,623)</u>
Gross profit		190,643	222,988
Other revenue	4	10,054	1,173
Other net loss	5	(10,645)	(6,570)
Selling and distribution expenses		(240,516)	(210,657)
Administrative expenses		(45,231)	(62,404)
Business restructuring costs	3(c)	<u>(328,701)</u>	<u>–</u>
Loss from operations		(424,396)	(55,470)
Finance costs		<u>(37,125)</u>	<u>(27,664)</u>
Loss before taxation	6	(461,521)	(83,134)
Income tax	7	<u>29,435</u>	<u>21,609</u>
Loss for the period		<u>(432,086)</u>	<u>(61,525)</u>
Attributable to:			
Owners of the Company		(432,086)	(61,525)
Non-controlling interests		<u>–</u>	<u>–</u>
Loss for the period		<u>(432,086)</u>	<u>(61,525)</u>
Loss per share	8		
Basic		<u>(39.94) cents</u>	<u>(5.69) cents</u>
Diluted		<u>(39.94) cents</u>	<u>(5.69) cents</u>

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		<i>(Note 3a)</i>
Loss for the period	(432,086)	(61,525)
Other comprehensive income for the period		
Exchange differences on translation of financial statements of entities outside the People's Republic of China, net of nil tax	<u>(469)</u>	<u>10,084</u>
Total comprehensive income for the period	<u>(432,555)</u>	<u>(51,441)</u>
Attributable to:		
Owners of the Company	(432,555)	(51,441)
Non-controlling interests	<u>—</u>	<u>—</u>
Total comprehensive income for the period	<u>(432,555)</u>	<u>(51,441)</u>

Condensed Consolidated Statement of Financial Position

At 30 June 2013

		30 June 2013	31 December 2012
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
Non-current assets			
Fixed assets			
– Property, plant and equipment		193,199	233,749
– Interests in leasehold land held for own use under operating leases		14,177	30,950
		207,376	264,699
Prepayments		–	21,560
Intangible assets		49,543	23,014
Designated loans		139,709	–
Deferred tax assets		120,274	88,398
		516,902	397,671
Current assets			
Inventories		148,438	242,920
Trade and other receivables	9	545,912	935,923
Pledged bank deposits		359,894	402,448
Cash at bank and in hand		188,359	246,030
		1,242,603	1,827,321
Current liabilities			
Trade and other payables		528,943	781,299
Bank loans	10	449,698	526,170
Current taxation		13,867	11,476
		992,508	1,318,945
Net current assets		250,095	508,376

Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2013

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Total assets less current liabilities	766,997	906,047
Non-current liabilities		
Unsecured debenture	313,259	20,000
Deferred tax liabilities	1,053	1,053
NET ASSETS	452,685	884,994
CAPITAL AND RESERVES		
Share capital	1	1
Reserves	452,684	884,993
Total equity attributable to equity shareholders of the Company	452,685	884,994
Non-controlling interests	—	—
TOTAL EQUITY	452,685	884,994

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

1 PRINCIPAL ACTIVITIES OF REPORTING ENTITY

China NT Pharma Group Company Limited (the “Company”) and its subsidiaries (collectively, referred to as the “Group”) are principally engaged in manufacturing, sales and distribution of pharmaceutical and vaccine products and the provision of marketing and promotion services to suppliers in the People’s Republic of China (“PRC”).

With a view to enhancing the Group’s competitiveness and improving its cash flow, the Group began to restructure its business model in 2012. In the second quarter of 2012, the Group decided to gradually exit from the low-margin vaccine business and downsized its vaccine sales and promotion team. In the last quarter of 2012, the Group further decided to terminate the OTC business and dermatological product line in light of a continuing decrease in gross margins of these products and challenging operating environment. Going forward, the Group will focus on promoting and distributing third-party and self-produced proprietary pharmaceutical products with higher margins and investment returns. The financial impact of the business restructuring exercise is summarised in note 3(c).

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 *Interim Financial Reporting*.

2 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the condensed consolidated financial statements for the six months ended 30 June 2013 are consistent with those followed in the preparation of the Company’s consolidated financial statements for the year ended 31 December 2012.

Up to the date of issue of these financial statements, the Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a number of amendments, new standards and interpretations which are not yet effective for the six months ended 30 June 2013, and which have not been adopted in these financial statements.

The directors of the Company (the “Directors”) anticipate that the application of these new or revised standards and amendments will have no material impact on the results and the financial position of the Group.

3 SEGMENT REPORTING

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group’s most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments effective from 1 January 2012:

- Third-party pharmaceutical promotion and sales: pharmaceutical promotion and sales derives turnover from selling and marketing third-party manufactured pharmaceutical products to customers and providing marketing and promotion services.

- Proprietary products production and sales: NT branded products production and sales derives turnover from production and sales of NT branded products and generic drugs through the Company's subsidiary, Suzhou First Pharmaceutical Co., Ltd.
- Third-party vaccines and other pharmaceuticals: this segment includes sales from vaccine promotion, vaccine supply chain and pharmaceutical supply chain. For the supply chain business, turnover is derived from supply chain services for pharmaceutical/vaccine products sold through the Group's supply chain network. Promotion activities of such products are carried out by suppliers but not the Group.

(a) Segment results

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

- Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and expenses incurred specifically by those segments.
- The measure used for reporting segment operating profit/loss is "operating profit/loss" which is the profit/loss from operations adjusted for items not specifically attributed to individual segments, such as other revenue, other net income/loss, head office or corporate administration expenses.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2013 and 2012 is set out below.

	Third-party pharmaceutical promotion and sales Six months ended 30 June		Proprietary products production and sales Six months ended 30 June		Third-party vaccines and other pharmaceuticals Six months ended 30 June		Total Six months ended 30 June	
	2013	2012	2013	2012	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Reportable segment revenue (<i>Note</i>)	457,377	419,932	60,727	56,112	8,160	24,567	526,264	500,611
Cost of sales	(295,391)	(204,928)	(33,377)	(35,499)	(6,853)	(37,196)	(335,621)	(277,623)
Reportable segment gross profit/(loss)	<u>161,986</u>	<u>215,004</u>	<u>27,350</u>	<u>20,613</u>	<u>1,307</u>	<u>(12,629)</u>	<u>190,643</u>	<u>222,988</u>
Reportable segment operating (loss)/profit	<u>(19,763)</u>	<u>59,112</u>	<u>12,930</u>	<u>4,885</u>	<u>(345,973)</u>	<u>(68,300)</u>	<u>(352,806)</u>	<u>(4,303)</u>

Note: The service income for Libod for the six months ended 30 June 2012, which amounted to RMB23,040,000, has been reclassified from revenue to cost of sales to conform with the current period's presentation.

(b) **Reconciliations of reportable segment revenue and profit or loss**

	Six months ended 30 June	
	2013	2012
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Revenue		
Reportable segment revenue and consolidated revenue	526,264	500,611
Loss		
Reportable segment operating loss	(352,806)	(4,303)
Unallocated head office and corporate expenses	(70,999)	(45,770)
Other revenue	10,054	1,173
Other net loss	(10,645)	(6,570)
Finance costs	(37,125)	(27,664)
Consolidated loss before taxation	(461,521)	(83,134)

(c) **Business restructuring costs for 2013**

As described in note 1, the Group underwent a major business restructuring exercise during the year ended 31 December 2012. The restructuring exercise continued to impact the financial results of the Group for the six months ended 30 June 2013, a summary of which is as follows:

	Third-party pharmaceutical promotion and sales RMB'000 (Unaudited)	Third-party vaccines and other pharmaceuticals RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Reportable segment revenue	457,377	8,160	465,537
Cost of sales	(295,391)	(6,853)	(302,244)
Reportable segment gross profit	161,986	1,307	163,293
Other operating expenses	(168,021)	(32,307)	(200,328)
Business restructuring costs			
– write-down of inventories	(13,728)	(42,773)	(56,501)
– impairment of trade receivables	–	(245,700)	(245,700)
– impairment of deposits and prepayments	–	(26,500)	(26,500)
Subtotal	(13,728)	(314,973)	(328,701)
Total operating loss	(19,763)	(345,973)	(365,736)

4 OTHER REVENUE

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Bank interest income	9,517	2,473
Subsidy income	–	1,677
Sundry income (loss)	537	(2,977)
	<u>10,054</u>	<u>1,173</u>

5 OTHER NET LOSS

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net loss on disposal of property, plant and equipment	(16,437)	(184)
Net exchange gain (loss)	5,792	(6,386)
	<u>(10,645)</u>	<u>(6,570)</u>

6 LOSS BEFORE TAXATION

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Depreciation	7,414	7,917
Amortisation of interests in leasehold land held for own use under operating leases	382	382
Amortisation of intangible assets	4,000	4,682
Operating lease charges: minimum lease payments – property rental	5,211	5,411
Write-down of inventories in normal course of business	2,177	8,246
Write-down of inventories due to business restructuring (<i>note 3c</i>)	56,501	–
Impairment of trade receivables due to business restructuring (<i>note 3c</i>)	245,700	–
Impairment of deposit and prepayments due to business restructuring (<i>note 3c</i>)	26,500	–
	<u>26,500</u>	<u>–</u>

7 INCOME TAX

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax – Hong Kong Profits Tax		
Provision for the period	–	648
	-----	-----
Current tax – PRC Income Tax		
Provision for the period	2,441	15,800
Under-provision in respect of prior years	–	923
	-----	-----
	2,441	16,723
	-----	-----
Deferred tax		
Origination and reversal of temporary differences	(31,876)	(38,980)
	-----	-----
Income tax benefit	(29,435)	(21,609)
	=====	=====

The provision for Hong Kong Profits Tax for the six months ended 30 June 2013 is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for that period. The payments of dividends by Hong Kong companies are not subject to withholding tax.

Taxation for the PRC operations is charged at the appropriate current rates of taxation ruling in the PRC. During the six months ended 30 June 2013, all PRC subsidiaries applied the national Enterprise Income Tax rate of 25% (2012: 25%).

8 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to the equity shareholders of the Company for the six months ended 30 June 2013 of RMB432,086,000 (2012: Loss RMB61,525,000) and the weighted average number of 1,081,957,000 (2012: 1,081,943,000) ordinary shares of the Company in issue during the period.

(b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to the equity shareholders of the Company for the six months ended 30 June 2013 of RMB432,086,000 (2012: Loss RMB61,525,000) and the diluted weighted average number of ordinary shares in the respective period, calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2013	2012
	<i>Number of</i>	<i>Number of</i>
	<i>shares</i>	<i>shares</i>
	<i>'000</i>	<i>'000</i>
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares (basic) at 30 June	1,081,957	1,081,943
Effect of deemed issue of shares under the share option scheme for nil consideration	—	—
Weighted average number of ordinary shares (diluted) at 30 June	1,081,957	1,081,943

9 TRADE AND OTHER RECEIVABLES

	At 30 June	At 31 December
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Trade debtors and bills receivable	903,874	1,092,312
Less: Allowance for doubtful debts	(595,955)	(377,706)
	307,919	714,606
Deposits, prepayments and other receivables	237,993	221,317
	545,912	935,923

As at 30 June 2013, none (31 December 2012: RMB74,569,000) of the Group's trade and other receivables were secured for banking facility.

Trade debtors are due within 30 to 240 days from the date of billing. Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis, based on the date of invoice, as of the date of the statement of financial position:

	At 30 June 2013			At 31 December 2012		
	Non-vaccine <i>RMB'000</i> (Unaudited)	Vaccine <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)	Non-vaccine <i>RMB'000</i> (Audited)	Vaccine <i>RMB'000</i> (Audited)	Total <i>RMB'000</i> (Audited)
Within 3 months	143,933	–	143,933	267,254	11,282	278,536
More than 3 months but within 6 months	6,051	–	6,051	41,051	17,584	58,635
More than 6 months but within 1 year	79,274	–	79,274	53,554	42,714	96,268
More than 1 year but within 2 years	45,743	32,094	77,837	22,724	254,901	277,625
More than 2 years	824	–	824	3,542	–	3,542
	275,825	32,094	307,919	388,125	326,481	714,606

10 BANK LOANS

	At 30 June 2013 <i>RMB'000</i> (Unaudited)	At 31 December 2012 <i>RMB'000</i> (Audited)
Bank loans repayable within 1 year or on demand		
– Secured	351,506	346,870
– Unsecured	98,192	179,300
	449,698	526,170

As at 30 June 2013, the banking facilities were secured by certain assets of the Group as follows:

	At 30 June 2013 <i>RMB'000</i> (Unaudited)	At 31 December 2012 <i>RMB'000</i> (Audited)
Fixed assets	26,284	26,756
Inventories	–	13,450
Trade and other receivables	–	74,569
Pledged bank deposits	180,000	180,000
	206,284	294,775

11 DIVIDEND

No dividend was declared or paid by the Company during the six months ended 30 June 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

1. OVERVIEW

NT Pharma is principally a third-party pharmaceutical promotion and sales services provider in the People's Republic of China ("China" or "PRC"). The Group's history dates back to 1995 and the Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "HKSE") on 20 April 2011. NT Pharma has an extensive third-party promotion network covering approximately 4,000 hospitals in China. The Group also possesses manufacturing capabilities through its wholly-owned subsidiary, Suzhou First Pharmaceutical Co., Ltd. ("Suzhou First") which is Good Manufacturing Practice (the "GMP")-certified and has obtained approvals from the State Food and Drug Administration of China (the "SFDA") for 176 drug licences to manufacture and sell pharmaceutical products.

2013 has continued to be a challenging year for the Group as it is in the process of recovering from the significant financial losses incurred in the previous year. As described in the 2012 annual report, the Group underwent a major restructuring exercise which involved exiting from the low-margin vaccine business, downsizing its vaccine promotion and sales team and terminating certain dermatological products and the OTC business. Following its decision to focus on the higher margin third-party pharmaceutical promotion and sales business, the Group was able to devote its resources to specialized, high-end and high-growth therapeutic areas. The Group's two major products, Fortum and Libod, both reported notable growth in sales of 61.7% and 51.4%, respectively during the six months ended 30 June 2013 over those for the corresponding period in 2012. Fortum is an antibiotic manufactured by GlaxoSmithKline Plc ("GSK") which benefited from a general increase in demand for branded antibiotics by larger hospitals following the implementation of the strict regulations on the prescription of antibiotics issued by the Chinese Ministry of Health in late 2011. Libod is an oncology drug manufactured by Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd ("FDZH") which had experienced a shortage of supply during 2012 when FDZH upgraded its facilities to meet the new standards of the GMP. Since FDZH completed its upgrade and resumed normal production of Libod in the last quarter of 2012, sales performance of Libod has improved steadily in tandem with the lifting of supply constraints.

Whilst the third-party pharmaceutical promotion and sales business showed improvements during the six months ended 30 June 2013, certain outstanding issues relating to the major restructuring exercise in the previous year continued to pose challenges to the Group. Vaccine receivables remained the most significant outstanding issue. As at 30 June 2013, total vaccine receivables before any impairment provision amounted to RMB621.7 million, as compared with RMB 670.4 million as at 31 December 2012. In view of the on-going challenges in the debt collection process, the Group made an impairment provision of RMB589.6 million as at 30 June 2013, representing an increase of RMB245.7 million over that as at 31 December 2012. In addition, as reported in the 2012 annual report,

the Group had largely ceased doing new businesses with the Centers for Disease Control and Prevention (“CDCs”) and the residual vaccine business only represents a small portion of the overall business of the Group. Such residual vaccine business however requires the Group to fulfill certain contractual procurement obligations or risk losing the guarantee deposit of RMB26.5 million currently held by the supplier. As at 30 June 2013, based on the Group’s assessment, the selling price of the related vaccine product would most likely need to be significantly discounted for it to be competitive in the market. As such, an additional impairment provision of RMB42.8 million was made for the vaccine inventory as at 30 June 2013. The Group is currently negotiating with the supplier to terminate the promotion and distribution contract concerned and has made a full provision against the guarantee deposit of RMB26.5 million as the potential penalty for terminating the contract. Besides the afore-mentioned, the Group currently has no other vaccine promotion and distribution business. Furthermore, as reported in the 2012 annual report, the Group terminated the promotion and sales business of several dermatological products before the end of that year. Based on the latest circumstances, significant discounts would be required to sell the remaining inventories of these products and therefore an additional impairment provision of RMB13.7 million was made for the inventories as at 30 June 2013. Besides the afore-mentioned, the Group did not have any other material inventory related to the terminated dermatological products as at 30 June 2013.

The overall revenue of the Group for the six months ended 30 June 2013 increased by RMB25.7 million or 5.1% to RMB526.3 million, as compared with RMB500.6 million for the corresponding period in 2012. However due to the increased impairment provisions made for vaccine receivables and slow-moving inventories described above, the net loss of the Group for the six months ended 30 June 2013 was RMB432.1 million, as compared with a net loss of RMB61.5 million for the corresponding period in 2012.

2. BUSINESS REVIEW

The Group currently operates three major business segments, namely (1) third-party pharmaceutical promotion and sales, (2) proprietary products production and sales, and (3) third-party vaccines and other pharmaceuticals.

Third-party Pharmaceutical Promotion and Sales

Third-party pharmaceutical promotion and sales represents the core business of the Group since the restructuring exercise described above.

During the six months ended 30 June 2013, revenue generated by the third-party pharmaceutical promotion and sales segment increased by RMB37.4 million or 8.9% to RMB457.4 million, as compared with RMB419.9 million for the corresponding period in 2012.

The revenue of Fortum increased by RMB124.3 million or 61.7% to RMB325.9 million, accounting for 71.3% of the segment's total sales for the six months ended 30 June 2013, as compared with RMB201.6 million or 48.0% of the segment's total sales for the corresponding period in 2012. Although during 2012 Fortum was impacted by the new regulations on prescription of antibiotics issued by the Chinese Ministry of Health in late 2011, which led to a sharp decline in the total sales of antibiotics in China, the new regulations proved to be an effective means of eliminating generic antibiotic products from the market, as many hospitals actually prefer to use products of known quality and reputation in the face of tighter regulations. As such, the sales of Fortum had benefited from the increase in demand for brand-name antibiotics products during the first half of 2013.

The revenue of Libod increased by RMB15.3 million or 51.4% to RMB45.1 million, accounting for 9.9% of the segment's total sales for the six months ended 30 June 2013, as compared with RMB29.8 million or 7.1% of the segment's total sales for the corresponding period in 2012. Libod's manufacturer, FDZH, had experienced certain production capacity constraints during 2012 when it upgraded its facilities to meet the new GMP standards. The upgrade had been completed in the last quarter of 2012 and the sales of Libod increased notably during the first half of 2013 after the resumption of normal supply.

As reported in the 2012 annual report, the Group has identified oncology, anti-infectives and central nervous systems ("CNS") as specialized therapeutic areas that will deliver sustainable growth in the long-run. At the beginning of 2013, the Group established a separate business unit under the pharmaceutical promotion and sales business for each of these therapeutic areas. With dedicated resources, the promotion and sales team will strive to continue to expand the size of sales network and hospital penetration rate. As at 30 June 2013, the Group's sales network comprised approximately 4,000 hospitals.

The Group underwent a critical review and re-assessment of its existing business lines and product portfolio during the second half of 2012 and as a result terminated the OTC business and several dermatological products at the end of that year. Based on the latest market conditions, the Group believed that significant discounts would be required to sell the remaining inventories of the dermatological products and therefore an additional impairment provision of RMB13.7 million was made as at 30 June 2013 for these inventories. Besides the afore-mentioned, the Group did not have any other material inventory related to the terminated dermatological products as at 30 June 2013.

Due to the additional inventories impairment provision described above as well as increased selling and distribution expenses, the operating loss of the segment amounted to RMB19.8 million for the six months ended 30 June 2013, as compared with an operating profit of RMB59.1 million for the corresponding period in 2012.

Proprietary Products Production and Sales

Proprietary products of the Group are produced by Suzhou First and comprise Shusi, an atypical antipsychotic drug, as well as a wide range of other drugs. The total revenue of the proprietary products production and sales segment increased by RMB4.6 million or 8.2% to RMB60.7 million for the six months ended 30 June 2013, as compared with RMB56.1 million for the corresponding period in 2012. Of the total segment revenue, the revenue of Shusi increased by RMB7.8 million or 61.2% to RMB20.7 million, accounting for 34.1% of the segment's total sales for the six months ended 30 June 2013, as compared with RMB12.9 million or 22.9% of the segment's total sales for the corresponding period in 2012.

Third-Party Vaccines and Other Pharmaceuticals

Third-party vaccines and other pharmaceuticals business segment includes sales from vaccine promotion, vaccine supply chain and pharmaceutical supply chain.

With a view to enhancing its competitiveness and improving its cash flow, the Group began to restructure its business model in the second quarter of 2012 by exiting from its low-margin vaccine business, downsizing its vaccine promotion and sales team and focusing on its third-party pharmaceutical promotion and sales business which has higher margins and returns. As a result, revenue from the third-party vaccines and other pharmaceuticals business segment decreased by RMB16.4 million or 66.8% to RMB8.2 million for the six months ended 30 June 2013, as compared with RMB24.6 million for the corresponding period in 2012. The restructuring exercise also incurred total costs of RMB288.5 million which comprised impairment provisions of vaccine receivables and inventories. As such the operating loss of the segment increased by RMB277.7 million or 406.5% to RMB346.0 million for the six months ended 30 June 2013, as compared with an operating loss of RMB68.3 million for the corresponding period in 2012.

The above restructuring costs and operating loss for the third-party vaccines and other pharmaceuticals segment included RMB245.7 million of impairment loss on trade receivables in relation to the vaccine business. Since deciding to exit from the low-margin vaccine business in the second quarter of 2012 and downsize the vaccine sales and promotion team, the Group has devoted considerable resources to collecting trade receivables related to the vaccine business. The Group currently has a team of approximately 30 employees involved in the collection of vaccine receivables. These employees regularly follow up with the debtors through physical visits, phone calls and other means of communication. The Group has also engaged one of the largest pharmaceutical logistics and distribution companies in China as agent to collect part of the vaccine receivables and is closely monitoring its performance. Furthermore, the Group has engaged a specialised debt collection company in China as collection agent since May 2013. The collection agent has thus far initiated legal actions against 26 debtors on behalf of the Group and is exploring the possibility of commencing legal action against other debtors in due course.

Despite the above attempts made by the Group, substantial difficulties were encountered in the debt collection process due to the reasons described in the 2012 annual report. The Group performed further individual credit evaluations on each vaccine debtor's background, financial strengths, repayment status and other specific circumstances as at 30 June 2013. It was noted that provincial and municipal CDCs had a better repayment ratio than those from counties and rural areas, as the former generally receive more funds under the current national healthcare funding system. It was also noted that the CDCs as a whole had a better repayment ratio than non-CDC distributors. Therefore, after making provision on certain debtor balances based on their specific circumstances, additional specific provision was provided based on the following:

Debtors	Repayment status during six months ended 30 June 2013	Ratio of bad debt provision
Provincial and municipal CDCs	No repayment	80% provision
Counties and rural areas CDCs	No repayment	100% provision
Non-CDC distributors	No repayment	100% provision

In addition, the specialised debt collection company engaged by the Group in May 2013 charges a success fee of around 20% based on actual collected amounts. Such success fee has also been taken into account in the Group's assessment of impairment provision.

Based on the above-mentioned methodology and factors and having considered the information available and prevailing circumstances, the Group provided the following impairment provision as at 30 June 2013:

<i>RMB'000</i>	Gross balance	Specific provision	Net balance	Provision rate
<i>CDCs</i>				
Provincial and municipal	224,431	(192,337)	32,094	85.7%
Counties and rural areas	<u>77,234</u>	<u>(77,234)</u>	<u>—</u>	<u>100.0%</u>
Subtotal	301,665	(269,571)	32,094	89.4%
<i>Non-CDC distributors</i>	<u>320,063</u>	<u>(320,063)</u>	<u>—</u>	<u>100.0%</u>
Total	<u>621,728</u>	<u>(589,634)</u>	<u>32,094</u>	<u>94.8%</u>

As a result of the above, the Group incurred an additional impairment provision for vaccine receivables of RMB245.7 million for the six months ended 30 June 2013.

The Group is using its best endeavours to resolve all the outstanding vaccine receivables before the end of 2013. The objective of the Group is to reduce the balance of vaccine debtors substantially throughout 2013, either through collection, outright sale of remaining receivables or reassessment of the impairment provision based on the latest debt collection status and other available information, so that it no longer constitutes a material item on the statement of financial position as at 31 December 2013.

In addition to impairment of accounts receivables, the business restructuring cost for the third-party vaccines and other pharmaceuticals segment for the six months ended 30 June 2013 also included a vaccine inventory provision of RMB42.8 million. The inventory relates to the residual vaccine business which pertains to the Group fulfilling certain contractual procurement obligations or risk losing the guarantee deposit of RMB26.5 million currently held by the supplier. As at 30 June 2013, based on the Group's assessment, the selling price of the related vaccine product would most likely need to be significantly discounted for it to be competitive in the market. An additional impairment provision of RMB42.8 million was therefore made for the inventory as at 30 June 2013. The Group is currently negotiating with the supplier in regard of terminating the promotion and distribution contract concerned and has made a full provision against the guarantee deposit of RMB26.5 million as the potential penalty for terminating the contract. Besides the afore-mentioned, the Group currently has no other vaccine promotion and distribution business.

3. PROSPECTS AND OUTLOOK OF THE GROUP

Going forward, the Group will continue to pursue its new strategy of focusing on the third-party pharmaceutical promotion and sales business as well as on more specialized, high-end and high-growth therapeutic areas. The Group believes that the specialized therapeutic areas of oncology, anti-infectives and CNS will deliver sustainable growth in the long-run. Therefore, the Group will search for new products to enrich its product portfolio in these therapeutic areas.

On 20 May 2013, the Group entered into a transfer agreement with Hefei Yongsheng Pharmaceutical Co., Ltd (合肥永生製藥有限公司) to acquire the intellectual property rights including patents, know-how and trademarks in relation to Xi Di Ke (喜滴克) for a consideration of RMB30.5 million from a pharmaceutical company in China which is unrelated to the Group. The acquisition was completed on 20 June 2013. Xi Di Ke is the commercial name of an uroacitides injection formula (尿多酸肽注射劑) and a unique national class 1 new drug approved by the SFDA for the treatment of malignant lung and breast tumors. In line with NT Pharma's strategic focus on the promotion and sales of oncology products, the Group believes that the acquisition of Xi Di Ke will complement and expand its existing product portfolio. The Group plans to launch the product in the market in the second half of 2013. In view of the expanding oncology drugs market due to the increasing prevalence of cancer in China, NT Pharma believes that the successful marketing of Xi Di Ke will provide long-term growth and increase profitability for the Group.

Besides the therapeutic areas described above, the Group is also constantly evaluating products in other therapeutic areas with a view to identifying potentially high-growth opportunities. Since the beginning of 2013, the Group has established a management committee (comprising the chief executive officer, chief financial officer, general manager of operations and other senior executives) which meets regularly to discuss and decide on key strategic matters and development of the Group, including new projects or products. Furthermore, the Group has recruited several new senior executives, including a marketing director and a clinical research director, who both have substantial industry experience with both multi-national and domestic pharmaceutical companies. These new management talents will strengthen the Company's capabilities of evaluating the commercial viability and clinical qualities of new products.

4. FINANCIAL REVIEW

Revenue

Total revenue for the six months ended 30 June 2013 increased by RMB25.7 million or 5.1% to RMB526.3 million, as compared to RMB500.6 million for the six months ended 30 June 2012. The increase was primarily due to the increase in revenue from the third-party pharmaceutical promotion and sales business as well as the proprietary products production and sales business.

The following table sets forth a breakdown of the Group's revenue by reportable segment for the six months ended 30 June 2013:

Breakdown of Reportable Segment Revenue

	For the six months ended 30 June				
	2013		2012		% Change
	Revenue RMB'000 (Unaudited)	% of total revenue	Revenue RMB'000 (Unaudited)	% of total revenue	
Third-party pharmaceutical promotion and sales <i>(Note)</i>	457,377	86.9%	419,932	83.9%	+8.9%
Proprietary products production and sales	60,727	11.5%	56,112	11.2%	+8.2%
Third-party vaccines and other pharmaceuticals	8,160	1.6%	24,567	4.9%	-66.8%
Total	<u>526,264</u>	<u>100.0%</u>	<u>500,611</u>	<u>100.0%</u>	<u>+5.1%</u>

Note:

The service income for Libod for the six months ended 30 June 2012, which amounted to RMB23.0 million, has been reclassified from revenue to cost of sales to conform with the current period's presentation.

Revenue from third-party pharmaceutical promotion and sales increased by RMB37.4 million or 8.9% to RMB457.4 million, accounting for 86.9% of total revenue in the first six months of 2013, as compared with RMB419.9 million or 83.9% of the Group's total revenue for the six months ended 30 June 2012. The increase in revenue from third-party pharmaceutical promotion and sales was primarily due to increased usage of the Group's products by existing hospital customers, an increase in new hospital customers and strong performance of Fortum and Libod.

Revenue from proprietary products production and sales increased by RMB4.6 million or 8.2% to RMB60.7 million, accounting for 11.5% of total revenue in the first six months of 2013, as compared with RMB56.1 million or 11.2% of the Group's total revenue for the six months ended 30 June 2012. The increase in revenue from proprietary products production and sales was primarily due to an increase in sales of Shusi.

Revenue from third-party vaccines and other pharmaceuticals decreased by RMB16.4 million or 66.8% to RMB8.2 million, accounting for 1.6% of total revenue in the first six months of 2013, as compared with RMB24.6 million or 4.9% of the Group's total revenue for the six months ended 30 June 2012. The decrease in revenue from third-party vaccines and other pharmaceuticals was primarily due to the Group's decision to exit from the vaccine and pharmaceutical supply chain businesses as well as to downsize its vaccine sales and promotion team.

Cost of Sales

Cost of sales increased by RMB58.0 million or 20.9% to RMB335.6 million for the six months ended 30 June 2013, as compared to RMB277.6 million for the six months ended 30 June 2012. The increase in cost of sales was primarily due to an increase in cost of sales in the third-party pharmaceutical promotion and sales business.

Gross Profit and Gross Profit Margin

Gross profit decreased by RMB32.3 million or 14.5% to RMB190.6 million for the six months ended 30 June 2013, as compared to RMB223.0 million for the corresponding period in 2012.

Gross profit margin decreased by 8.3 percentage points to 36.2% for the six months ended 30 June 2013 as compared to 44.5% for the corresponding period in 2012. The decrease was mainly due to lower average selling price and higher logistics expenses.

Segment Operating (Loss) Profit

Total segment operating loss was RMB352.8 million for the six months ended 30 June 2013 as compared to the total segment operating loss of RMB4.3 million for the six months ended 30 June 2012.

The following table sets forth a breakdown of the Group's operating (loss) profit by reportable segment for the six months ended 30 June 2013:

Breakdown of Reportable Segment Operating (Loss) Profit

	For the six months ended 30 June		
	2013 RMB'000	2012 RMB'000	% Change
Third-party pharmaceutical promotion and sales	(19,763)	59,112	-133.4%
Proprietary products production and sales	12,930	4,885	+164.7%
Third-party vaccines and other pharmaceuticals	(345,973)	(68,300)	+406.5%
Total	<u>(352,806)</u>	<u>(4,303)</u>	<u>+8,099.1%</u>

The respective operating loss of the third-party pharmaceutical promotion and sales segment and of the third-party vaccines and other pharmaceuticals segment for the six months ended 30 June 2013 was stated after business restructuring costs of RMB13.7 million and RMB315.0 million. A breakdown of such costs is set forth in the table below:

	Third-party pharmaceutical promotion and sales RMB'000	Third-party vaccines and other pharmaceuticals RMB'000	Total RMB'000
Business restructuring costs:			
Write-down of inventories	(13,728)	(42,773)	(56,501)
Impairment of trade receivables	—	(245,700)	(245,700)
Impairment of deposits and prepayments	—	(26,500)	(26,500)
Total	<u>(13,728)</u>	<u>(314,973)</u>	<u>(328,701)</u>

Finance Costs

The Group's finance costs consist of interest on bank borrowings and bank charges. Finance costs increased by RMB9.5 million or 34.2% to RMB37.1 million for the six months ended 30 June 2013, as compared to RMB27.7 million for the same period in 2012. The increase was mainly due to an increase in long-term debt, which carries a higher interest rate, during the period.

Taxation

Income tax credit was RMB29.4 million for the six months ended 30 June 2013 as compared to an income tax credit of RMB21.6 million for the same period in 2012. The income tax credit was mainly due to the temporary differences arising from provisions made and deferred taxation assets recognized.

Loss Attributable to Owners of the Company

Loss attributable to owners of the Company was RMB432.1 million for the six months ended 30 June 2013 as compared to a loss of RMB61.5 million for the six months ended 30 June 2012. The loss was primarily attributable to the business restructuring costs described above.

Basic Loss Per Share

Basic loss per share was RMB39.94 cents for the six months ended 30 June 2013, as compared to basic loss per share of RMB5.69 cents for the corresponding period in 2012.

Capital Expenditure

Total capital expenditure decreased by RMB22.7 million or 66.8% to RMB11.2 million for the six months ended 30 June 2013, as compared to RMB33.9 million for the same period in 2012. The capital expenditure was used mainly for the purchase of production machinery by Suzhou First and intangible assets.

Use of Proceeds from Listing

The shares of the Company were listed on the HKSE on 20 April 2011. The net proceeds received by the Company from the listing amounted to approximately RMB933.8 million. In the prospectus of the Company dated 8 April 2011 (the "Prospectus"), it was stated that approximately 25% of the net proceeds would be used for upgrading and expanding its infrastructure, including further investments in the advanced cold chain technology and equipment. However, as the Group decided to exit from the vaccine supply chain business, there will be no further investment in cold chain technology and equipment. As a result, the Group intends to apply the unutilized amount to other areas of development including expanding product portfolio, purchasing imported pharmaceutical products and general working capital.

As at 30 June 2013, the balance of unutilized proceeds amounted to approximately RMB181.4 million and the use of proceeds can be summarized as follows:

At 30 June 2013	
<i>RMB'000</i>	
Expanding distribution network and promotion teams	98,120
Infrastructure, information technology and logistics	22,270
Product portfolio expansion	214,532
Purchasing imported vaccines or pharmaceutical products and general working capital	372,454
Loan settlement	45,000
Total	<u><u>752,376</u></u>

5. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2013.

6. COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to ensuring high standards of corporate governance and has adopted the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules and certain recommended best practices. The Company has complied with all the applicable code provisions in the CG Code throughout the six months ended 30 June 2013 except for the deviation from code provision A.2.1 of the CG Code, which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ng Tit assumes both the roles of chairman and chief executive officer of the Company. Nevertheless, the division of responsibilities between the two roles is clearly defined. On the whole, the role of chairman is that of monitoring the duties and performance of the Board, whereas the role of chief executive officer is that of managing the Company’s business. The Board believes that at the current stage of development of the Company, vesting the roles of both chairman and chief executive officer in the same person provides the Company with a strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Board currently comprises one executive Director, four non-executive Directors and three independent non-executive Directors, with the independent non-executive Directors representing approximately 37.5% of the Board, which is higher than one third of the Board. Such percentage of independent non-executive Directors on the Board can ensure their views carry significant weight and reflect the independence of the Board.

**7. COMPLIANCE WITH THE MODEL CODE FOR SECURITIES
TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE “MODEL
CODE”)**

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. On specific enquiries made, all Directors have confirmed that they have complied with the standard as stipulated in the Model Code throughout the six months ended 30 June 2013.

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2013 (2012: nil).

9. REVIEW OF INTERIM REPORT BY AUDIT COMMITTEE

The audit committee of the Company comprises Mr. Patrick Sun (Chairman), Mr. Yue Nien Martin Tang and Dr. Lap-Chee Tsui, who are all independent non-executive Directors of the Company. The audit committee has reviewed the unaudited interim report of the Group for the six months ended 30 June 2013 and has recommended its adoption by the Board.

By order of the Board
China NT Pharma Group Company Limited
Ng Tit
Chairman

Hong Kong, 22 August 2013

As at the date of this announcement, the executive director of the Company is Mr. Ng Tit, the non-executive directors of the Company are Ms. Chin Yu, Dr. Qian Wei, Mr. Wang Fan and Mr. Hung Leung; and the independent non-executive directors of the Company are Mr. Yue Nien Martin Tang, Mr. Patrick Sun and Dr. Lap-Chee Tsui.