THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Composite Document, the Offer or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in **Winteam Pharmaceutical Group Limited**, you should at once hand this Composite Document and the accompanying Form of Acceptance to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s). This Composite Document should be read in conjunction with the accompanying Form of Acceptance, the contents of which form part of the terms of the Offer contained herein.

SINOPHARM

中國醫藥集團總公司
China National Pharmaceutical Group Corporation
(A state-owned enterprise established in the People's Republic of China)

國藥集團香港有限公司
Sinopharm Group Hongkong Co., Limited
(Incorporated in Hong Kong with limited liability)

盈天醫藥集團有限公司
WINTEAM PHARMACEUTICAL GROUP LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock code: 570)

COMPOSITE OFFER AND RESPONSE DOCUMENT
VOLUNTARY CONDITIONAL CASH OFFER BY CITIGROUP GLOBAL MARKETS ASIA LIMITED FOR AND ON BEHALF OF SINOPHARM GROUP HONGKONG CO., LIMITED, AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF CHINA NATIONAL PHARMACEUTICAL GROUP CORPORATION, TO ACQUIRE ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF WINTEAM PHARMACEUTICAL GROUP LIMITED (OTHER THAN THE LOCK-UP SHARES AND THOSE SHARES ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY SINOPHARM GROUP HONGKONG CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

Sole Financial Adviser to Sinopharm Group Hongkong Co., Limited
citi

Financial Adviser to Winteam Pharmaceutical Group Limited
OPTIMA CAPITAL
Optima Capital Limited

Joint Independent Financial Advisers to the Independent Board Committee

國泰君安國際
GUOTAI JUNAN INTERNATIONAL
Guotai Junan Capital Limited

高銀融資有限公司
GOLDIN FINANCIAL LIMITED

Capitalised terms used in this cover have the same meaning as those defined in the section headed "*Definitions*" in this Composite Document. A letter from Citigroup containing, among other things, the details of the terms and conditions of the Offer is set out on pages 9 to 22 of this Composite Document. A letter from the Board of Winteam is set out on pages 23 to 33 of this Composite Document. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the Offer is set out on pages 34 to 35 of this Composite Document. A letter from the Joint Independent Financial Advisers containing their advice to the Independent Board committee and the Independent Shareholders in respect of the Offer is set out on pages 36 to 61 of this Composite Document.

The procedures for acceptance and settlement of the Offer are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptances of the Offer contained herein should be received by the Registrar, by no later than 4:00 p.m. on 26 February 2013 or such later time or date as the Offeror may determine and announce, with the consent of the Executive and in accordance with the Takeovers Code.

Any persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this Composite Document and/or the Form of Acceptance to any jurisdiction outside of Hong Kong should read the details in this regard which are contained in the section headed "Overseas Shareholders" in the letter from Citigroup and Appendix I of this Composite Document before taking any action. It is the responsibility of each Overseas Shareholder wishing to accept the Offer to satisfy himself, herself or itself as to full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements. Overseas Shareholders are advised to seek professional advice on deciding whether to accept the Offer.

5 February 2013

CONTENTS

The timetable set out below is indicative only and may be subject to changes. Further announcement(s) will be made as and when appropriate.

Despatch date of this Composite Document . . . . .Tuesday, 5 February 2013

Commencement date of the Offer. . . . . .Tuesday, 5 February 2013

First Closing Date (*Note 1*) . . . . .Tuesday, 26 February 2013

Latest time and date for acceptance of the Offer (*Notes 1, 2*) . . . . .4:00 p.m. on Tuesday, 26 February 2013

Announcement of the results of the Offer as at the Closing Date, on the website of the Stock Exchange . . . . .by 7:00 p.m. on Tuesday, 26 February 2013

Latest time and date for posting of remittances for the amounts due under the Offer in respect of valid acceptances received by the Closing Date, assuming the Offer become, or are declared, unconditional on such date (*Note 3*). . . . . .4:00 p.m. on Thursday, 7 March 2013

Latest time and date by which the Offer can become or be declared unconditional as to acceptance (*Note 4*). . . . . .7:00 p.m. on Monday, 8 April 2013

Notes:

1. In accordance with the Takeovers Code, the Offer must initially be open for acceptance for at least 21 days following the date on which this Composite Document is posted. **The Offer will close for acceptances at 4:00 p.m. on Tuesday, 26 February 2013 unless the Offeror revises or extends the Offer** in accordance with the Takeovers Code. The Offeror has the right under the Takeovers Code to extend the Offer until such date as it may determine in accordance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). The Offeror will issue an announcement in relation to any extension of the Offer, which announcement will state either the next Closing Date or, if the Offer is at that time unconditional as to acceptances, a statement that the Offer will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given before the Offer is closed to the Shareholders who have not accepted the Offer.

2. Beneficial owners of Share(s) who hold their Share(s) in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (set out in Appendix I) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.

3. Remittances in respect of the Consideration payable for the Offer Share(s) tendered under the Offer will be despatched by ordinary post to those Shareholder(s) accepting the Offer as soon as possible but in any event within seven Business Days from the later of the date of receipt by the Registrar of all relevant documents to render the acceptance under the Offer complete and valid, and the date on which the Offer becomes or is declared unconditional in all respects.

4. In accordance with the Takeovers Code, when the Offer becomes or is declared unconditional in all respects, at least 14 days' notice in writing must be given before the Offer is closed to those Shareholder(s) who has/have not accepted the Offer. In accordance with the Takeovers Code, except with the consent of the Executive, the Offer may not become or be declared unconditional as to acceptance after 7:00 p.m. on the 60th day after the day this Composite Document was posted. Accordingly, unless the Offer has previously become unconditional as to acceptances, the Offer will lapse after 7:00 p.m. on 8 April 2013 unless extended with the consent of the Executive. If the Offer becomes or is declared unconditional as to acceptances, the Offeror may declare the Offer open for acceptances (i) up to the date four months from the day this Composite Document was posted or (ii) if the Offeror has by that time become entitled to exercise compulsory acquisition rights, until any such later date as the Offeror may choose to close the Offer in accordance with the Takeovers Code.

All time and date references contained in this Composite Document and the accompanying Form of Acceptance refer to Hong Kong times and dates.

In this Composite Document, the following expressions have the meanings set out below, unless the context requires otherwise:

"Acquisition"	means the sale and purchase of the Sale Shares contemplated under the S&P Agreement;
"acting in concert"	has the meaning ascribed thereto under the Takeovers Code;
"Adjusted Net Profit"	has the meaning ascribed thereto in the letter from Citigroup in this Composite Document;
"Announcement"	means the joint announcement issued by the Offeror, CNPGC and Winteam dated 31 August 2012 in relation to the Acquisition and the Offer;
"associate"	has the meaning ascribed thereto in the Listing Rules;
"Banking Ordinance"	means the Banking Ordinance, Chapter 155 of the Laws of Hong Kong;
"Board"	means the board of Directors;
"Business Day"	means a day on which the Stock Exchange is open for transaction of business. For the purpose of "Completion Date" only, Business Day shall not include public holidays in the PRC;
"BVI"	means British Virgin Islands;
"CCASS"	means the Central Clearing and Settlement System established and operated by HKSCC;
"CCBI"	CCB International Capital Limited, a corporation licensed to carry out Type 1 (dealing in Securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the financial adviser to Mr. Xu and Mr. Yang in connection with the transaction of the Sale Shares and Shares pursuant to the Irrevocable Undertakings;

"Citigroup"	means Citigroup Global Markets Asia Limited, a registered institution under the SFO, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on future contracts), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the SFO, a licensed bank under the SFO and a licensed bank under the Banking Ordinance and the financial adviser to the Offeror in respect of the Offer;
"Closing Date"	means 26 February 2013, being the 21st day after the Despatch Date of this Composite Document, or any subsequent closing date of the Offer if it is extended pursuant to the Takeovers Code;
"CNPGC"	means China National Pharmaceutical Group Corporation (中國醫藥集團總公司), a state-owned enterprise established in the PRC and the ultimate holding company of the Offeror;
"CNPGC Group"	means CNPGC and its subsidiaries from time to time;
"Committed Shareholders"	means collectively, Mr. Yang, Mr. Xu, Sureplan, Profit Channel, Extra Benefit and Profit United;
"Companies Ordinance"	means the Companies Ordinance, Chapter 32 of the Laws of Hong Kong;
"Completion"	means completion of the Acquisition in accordance with the terms and conditions of the S&P Agreement;
"Completion Date"	means 29 January 2013, being the date on which Completion takes place in accordance with the S&P Agreement;
"Composite Document"	means this composite offer and response document dated 5 February 2013 jointly issued by the Offeror, CNPGC and Winteam in relation to the Offer;
"Conditions"	means the conditions to the Offer, as set out in the section headed "*Conditions*" of the letter from Citigroup in this Composite Document;

"Consideration"	means the consideration paid and payable by the Offeror to the Vendors for the Sale Shares, being the minimum aggregate amount of HK$496,858,250 (equivalent to HK$1.40 per Sale Share) and the maximum aggregate amount of HK$603,327,875 (equivalent to HK$1.70 per Sale Share);
"Despatch Date"	means 5 February 2013, being the date of posting of this Composite Document;
"Directors"	means directors of Winteam;
"Encumbrances"	means mortgage, charge, pledge, lien, option, restriction, purchase right, right of first refusal, right of pre-emption, voting trust or agreement, third-party right or interest, other encumbrance or security interest of any kind, or another type of preferential arrangement (including a title transfer or retention arrangement) having similar effect;
"Executive"	means the Executive Director of the Corporate Finance Division of the SFC and any of his delegates;
"Extra Benefit"	means Extra Benefit Corp., a company incorporated in the BVI with limited liability and is ultimately and beneficially owned as to 100% by Mr. Xu;
"First 12 Months"	means the period commencing from the execution of the S&P Agreement to the end of the 12th month from the Completion Date;
"Form of Acceptance"	means the form of acceptance and transfer of Share(s) in respect of the Offer (accompanying this Composite Document);
"FY 2012"	means the financial year of Winteam ended 31 December 2012;
"Group"	means Winteam and its subsidiaries from time to time;
"Guarantors"	means collectively, Mr. Yang and Mr. Xu;
"Hong Kong"	means the Hong Kong Special Administrative Region of the PRC;

"HKSCC"	means Hong Kong Securities Clearing Company Limited;
"HK$"	means Hong Kong dollars, the lawful currency of Hong Kong;
"IAS"	means International Accounting Standard;
"IFRIC"	means International Financial Reporting Interpretations Committee;
"Independent Board Committee"	means the independent committee of the Board comprising the non-executive Director and all of the independent non-executive Directors (other than Mr. Zhang Jianhui who is also a director of CNPGC), established to give recommendation to the Independent Shareholders as to whether the terms of Offer are, or are not, fair and reasonable and as to acceptance;
"Independent Shareholders"	means Shareholders other than the Offeror and parties acting in concert with it;
"Irrevocable Undertakings"	means the irrevocable undertakings given by the Committed Shareholders in favor of the Offeror to accept the Offer in respect of an aggregate of 562,498,963 Shares;
"Joint Independent Financial Advisers"	means Guotai Junan Capital Limited and Goldin Financial Limited;
"Last Trading Date"	means 30 August 2012, being the final day of trading prior to suspension of trading in the Shares and the last trading day for the Shares immediately preceding the date of the Announcement;
"Latest Practicable Date"	means 1 February 2013, being the latest practicable date prior to the despatch of this Composite Document for the purpose of ascertaining certain information for inclusion in this Composite Document;
"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange;

"Lock-up Shares"	means 267,511,621 Shares held indirectly by Mr. Yang, representing approximately 15% of the issued share capital of Winteam as at the Latest Practicable Date, which are subject to the lock-up undertaking given by Mr. Yang and Profit Channel under the S&P Agreement and the Irrevocable Undertakings;
"Mr. Xu"	means Mr. Xu Tiefeng (徐鉄峰先生), an executive Director, the Executive Deputy Chairman of Winteam and a substantial Shareholder (as defined in the Takeovers Code and the Listing Rules);
"Mr. Yang"	means Mr. Yang Bin (楊斌先生), an executive Director, the Managing Director of Winteam and a substantial Shareholder (as defined in the Takeovers Code and the Listing Rules);
"November 2012 Profit Alert"	means the positive profit alert announcement issued by Winteam dated 28 November 2012 in relation to profits for the year ended 31 December 2012;
"Offer"	means the voluntary conditional cash offer being made by Citigroup for and on behalf of the Offeror for all the issued Shares (other than the Lock-up Shares and those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) in accordance with the Takeovers Code;
"Offer Period"	means the period from 31 August 2012, being the date the Offeror and Winteam jointly issued the Announcement pursuant to Rule 3.7 of the Takeovers Code, to 4:00 p.m. on the Closing Date, unless the Offer is revised or extended;
"Offer Price"	means the price at which the Offer is being made, being a minimum of HK$1.40 and a maximum of HK$1.70 per Offer Share;
"Offer Share(s)"	means issued Share(s) other than the Lock-up Shares and those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it;

"Offeror"	means Sinopharm Group Hongkong Co., Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of CNPGC;
"Optima Capital"	Optima Capital Limited, a corporation licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the financial adviser to Winteam in respect of the Offer;
"Overseas Shareholder(s)"	means Independent Shareholder(s) whose address(es) as shown on the register of members of Winteam is/are outside Hong Kong;
"PRC"	means the People's Republic of China which, for the purpose of this Composite Document, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
"Pre-condition"	means the pre-condition to the making of the Offer as described in the section headed "*Pre-condition to the Offer*" in the Announcement, i.e. Completion;
"Profit Channel"	means Profit Channel Development Limited, a company incorporated in the BVI with limited liability and is ultimately and beneficially owned as to 100% by Mr. Yang;
"Profit United"	means Profit United Investments Limited, a company incorporated in the BVI with limited liability and is owned as to 50% by Mr. Yang and as to 50% by Mr. Xu;
"Registrar"	means Computershare Hong Kong Investor Services Limited, the share registrar of Winteam at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong;
"Relevant Authorities"	means any government, governmental, quasi-governmental, statutory or regulatory authority, body, agency, tribunal, court or institution in the PRC or other jurisdiction that has the authority to grant permit, license or approval or accept registration or filing in connection with the Acquisition and the Offer;

"Relevant Period"	means the period commencing on the date falling six months preceding the commencement of the Offer Period on 31 August 2012 up to and including the Latest Practicable Date;
"RMB"	means Renminbi, the lawful currency of the PRC;
"S&P Agreement"	means the conditional sale and purchase agreement entered into among the Offeror, the Vendors and the Guarantors, on 31 August 2012 in relation to the Acquisition;
"Sale Shares"	means the legal and beneficial interests in 354,898,750 issued Shares, representing approximately 19.90% of the total issued share capital of Winteam directly held by Sureplan and beneficially owned by the Vendors immediately prior to Completion;
"Second 12 Months"	means the 12 months immediately following the expiry date of the First 12 Months;
"SFC"	means the Securities and Futures Commission of Hong Kong;
"SFO"	means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;
"Share(s)"	means ordinary share(s) of HK$0.10 each in the share capital of Winteam;
"Shareholder(s)"	means holder(s) of the issued Share(s);
"Stamp Duty Ordinance"	means the Stamp Duty Ordinance, Chapter 117 of the Laws of Hong Kong;
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited;
"Sureplan"	means Sureplan Limited, a company incorporated in the BVI with limited liability and is owned as to 67% by Profit Channel and 33% by Extra Benefit;
"Takeovers Code"	means the Hong Kong Code on Takeovers and Mergers;
"TCM"	means traditional Chinese medicine;

"Vendors"	means collectively, Mr. Yang, Mr. Xu, Extra Benefit, Profit Channel and Sureplan;
"Winteam"	means Winteam Pharmaceutical Group Limited (盈天醫藥集團有限公司), a company incorporated in Hong Kong with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange; and
"%"	means per cent.

* Certain amounts and percentage figures in the Composite Document have been subject to rounding adjustments.

** Certain English translations of Chinese names or words or Chinese translations of English names or words in this Composite Document are included for information and identification purpose only and should not be regarded as the official English translation of such Chinese names or words or Chinese translation of such English names or words, respectively.

5 February 2013

To the Independent Shareholders

Dear Sir or Madam,

**COMPOSITE OFFER AND RESPONSE DOCUMENT
VOLUNTARY CONDITIONAL CASH OFFER BY
CITIGROUP GLOBAL MARKETS ASIA LIMITED
FOR AND ON BEHALF OF
SINOPHARM GROUP HONGKONG CO., LIMITED,
AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF
CHINA NATIONAL PHARMACEUTICAL GROUP CORPORATION,
TO ACQUIRE ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF
WINTEAM PHARMACEUTICAL GROUP LIMITED
(OTHER THAN THE LOCK-UP SHARES AND THOSE SHARES ALREADY OWNED BY
OR AGREED TO BE ACQUIRED BY
SINOPHARM GROUP HONGKONG CO., LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

I. INTRODUCTION

On 31 August 2012, the Offeror, CNPGC and Winteam jointly announced that (i) the Offeror entered into the S&P Agreement with the Vendors and the Guarantors on the same day, pursuant to which the Offeror had conditionally agreed to purchase and the Vendors had conditionally agreed to sell or procure the sale of the Sale Shares for a minimum consideration of an aggregate of HK$496,858,250 (equivalent to HK$1.40 per Sale Share) and a maximum consideration of an aggregate of HK$603,327,875 (equivalent to HK$1.70 per Sale Share); and (ii) the Offeror, an indirect wholly-owned subsidiary of CNPGC, would, subject to the satisfaction of the Pre-Condition, make a voluntary conditional offer to acquire all the issued share capital of Winteam (other than the Lock-up Shares and those Shares already owned by or agreed to be acquired by the Offeror and parties acting in concert with it).

Immediately prior to Completion, the Offeror and parties acting in concert with it did not hold any Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of Winteam. On 29 January 2013, the Offeror, CNPGC and Winteam jointly announced that Completion took place on 29 January 2013 and the Pre-Condition had been satisfied on that date. As at the Latest Practicable Date, the Offeror and parties acting in concert with it hold 354,898,750 Shares, representing approximately 19.90% of the total issued share capital of Winteam.

This letter forms part of this Composite Document. The purpose of this letter is to provide you with, among other things, the details of the Offer, information on the Offeror, the reasons for making the Offer and the intentions of the Offeror in relation to the Group. The terms of the Offer are set out in this letter, Appendix I and in the Form of Acceptance.

Your attention is also drawn to the letter from the Board of Winteam on pages 23 to 33**,** the letter from the Independent Board Committee on pages 34 to 35 and the letter from the Joint Independent Financial Advisers on pages 36 to 61 in this Composite Document.

II. THE OFFER

Principal terms of the Offer

As the Pre-condition has been satisfied, Citigroup hereby, for and on behalf of the Offeror, makes a voluntary conditional cash offer to acquire all of the issued Shares (other than the Lock-up Shares and those Shares already owned by or agreed to be acquired by the Offeror and parties acting in concert with it) on the following terms:

For each Offer Share. . . . . **a minimum of HK$1.40 and a maximum of HK$1.70, in cash**

The Offer will be extended to all Independent Shareholders in accordance with the Takeovers Code (other than Mr Yang in relation to the Lock-up Shares and the Offeror and any parties acting in concert with it). The Offer Shares to be acquired under the Offer shall be fully paid and shall be acquired free from all Encumbrances of any nature and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

The Offer Price is the same as the price per Sale Share payable by the Offeror under the S&P Agreement with the payment schedule as follows:

(a) HK$1.40 per Offer Share payable in cash in respect of acceptances of the Offer will be made as soon as possible, but in any event within seven Business Days of the date of receipt of a duly completed and valid acceptance of the Offer, or of the date on which the Offer becomes or is declared unconditional in all respects, whichever is the later;

(b) if the Adjusted Net Profit for FY 2012 is HK$190 million or more, an additional amount of HK$0.30 per Offer Share shall be payable to all the accepting Shareholders within seven Business Days after the release of the 2012 annual results announcement of Winteam. For the avoidance of doubt, if the Adjusted Net Profit for FY 2012 is less than HK$190 million, no further payment shall be made by the Offeror for the Offer Shares.

The "**Adjusted Net Profit**" referred to above shall mean the Audited Net Profit after deduction of the profits and gains arising from the Adjusted Items (or addition of any losses arising from the Adjusted Items) of Winteam in the consolidated financial statements of the Group prepared in accordance with the Hong Kong Financial Reporting Standards. "**Adjusted Items**" means any profits or losses that arise from events or transactions that are clearly distinct from the ordinary operating activities of Winteam or albeit the ordinary operating activities of Winteam but are unusual and infrequent in nature and therefore are not expected to recur frequently or regularly, and the inclusion of which would cause users of the financial statements to draw misleading conclusions from an analysis on the net profit. The events or transactions which shall be treated as the Adjusted Items are set out below:

- non-operating profits and losses;
- government subsidy or refund (including tax exemption and deduction enjoyed by any member of the Group);
- disposal gains or losses of long-term assets such as long-term equity investment, fixed assets, construction-in-progress and intangible assets;
- reversal of impairment provision made in the previous years;
- gains or losses of short-term investment;
- debt restructuring gains;
- gains arising from transactions traded at non-arm's length basis;
- retrospective adjustment to the net profit during the previous period as a result of changes in the accounting policy and estimate changes;
- gains arising from the fact that the cost incurred by Winteam in acquiring the investment in subsidiaries, associated enterprises and joint venture enterprises is less than its entitlement to the fair value of identifiable net assets of the investee(s) when acquiring the investment;
- gains or losses from barter transactions;
- gains or losses arising from contingent matters unrelated to the normal operating activities of Winteam;
- gains or losses from changes in the fair value arising from ownership of financial assets and financial liabilities held for trading purposes other than valid hedging operations related to the normal operating activities of Winteam; and
- investment income arising from the disposal of the financial assets and financial liabilities held for trading purpose and financial assets available for sale.

Any gains or losses arising from a transaction or event falling within the list of Adjusted Items will be deducted or added (as the case may be) from the accounts of the Group in determining its Adjusted Net Profit. The Adjusted Net Profit will be calculated on the basis of the definition set out above. The Adjusted Net Profit will be set out in the 2012 annual results announcement of Winteam so that the Shareholders (including Shareholders who have tendered acceptances under the Offer) will be notified as to whether the Adjusted Net Profit will have been met and an announcement will also be published.

Comparison of value

The minimum Offer Price of HK$1.40 per Offer Share represents:

(a) a discount of approximately 15.7% to the closing price of HK$1.66 Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a discount of approximately 3.4% to the closing price of HK$1.45 per Share as quoted on the Stock Exchange on the Last Trading Date;

(c) a discount of approximately 2.9% to the average closing price of the Shares as quoted on the Stock Exchange for the last five consecutive full trading days up to and including the Last Trading Date, being approximately HK$1.44 per Share;

(d) a discount of approximately 1.3% to the average closing price of the Shares as quoted on the Stock Exchange for the last 30 consecutive full trading days up to and including the Last Trading Date, being approximately HK$1.42 per Share;

(e) a premium of approximately 167.8% over the unaudited consolidated equity per Share attributable to the Shareholders of approximately HK$0.52 per Share as at 30 June 2012; and

(f) a premium of approximately 163.2% over the audited consolidated equity per Share attributable to the Shareholders of approximately HK$0.53 per Share as at 31 December 2011.

The maximum Offer Price of HK$1.70 per Offer Share represents:

(a) a premium of approximately 2.4% over the closing price of HK$1.66 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a premium of approximately 17.2% over the closing price of HK$1.45 per Share as quoted on the Stock Exchange on the Last Trading Date;

(c) a premium of approximately 17.9% over the average closing price of the Shares as quoted on the Stock Exchange for the last five consecutive full trading days up to and including the Last Trading Date, being approximately HK$1.44 per Share;

(d) a premium of approximately 19.8% over the average closing price of the Shares as quoted on the Stock Exchange for the last 30 consecutive full trading days up to and including the Last Trading Date, being approximately HK$1.42 per Share;

(e) a premium of approximately 225.2% over the unaudited consolidated equity per Share attributable to the Shareholders of approximately HK$0.52 per Share as at 30 June 2012; and

(f) a premium of approximately 219.6% over the audited consolidated equity per Share attributable to the Shareholders of approximately HK$0.53 per Share as at 31 December 2011.

Highest and lowest Share prices

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK$1.68 per Share on 30 and 31 January 2013 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK$1.17 per Share on 29 March 2012.

Total Consideration

Based on the maximum Offer Price of HK$1.70 per Offer Share and 1,783,410,807 Shares in issue as at the Latest Practicable Date, the entire issued share capital of Winteam is valued at approximately HK$3,031,798,372. In the event that the Offer is accepted in full, the maximum amount payable by the Offeror under the Offer will be approximately HK$1,973,700,741 for an aggregate of 1,161,000,436 Offer Shares (based on the maximum offer price of HK$1.70 per Offer Share), of which (i) approximately HK$956,248,237 would be paid by the Offeror for 562,498,963 Offer Shares (to be tendered pursuant to the Irrevocable Undertakings) and (ii) approximately HK$1,017,452,504 would be paid by the Offeror for 598,501,473 Offer Shares (to be tendered pursuant to the Offer other than the Irrevocable Undertakings).

A comparison of the Offer Price to the closing prices of the Shares is set out above under the section headed "*Comparisons of value*".

No fractions of a cent will be payable and the amount of cash consideration payable to the Shareholder who accepts the Offer will be rounded down to the nearest cent.

Financial resources available for the Offer

The consideration payable under the S&P Agreement and in respect of acceptances under the Offer by the Offeror will be financed (i) by a term loan facility in the amount of HK$2,576 million pursuant to a facility agreement between Bank of China Limited Macau Branch (as lender) and the Offeror (as borrower); (ii) by an intercompany loan in the amount of HK$1,100,000 by CNPGC through its wholly-owned subsidiary; and (iii) from available financial resources of CNPGC and its wholly-owned subsidiary. The amounts set out above will cover the maximum consideration of HK$2,577,028,616 (equivalent to HK$1.70 per Sale Share and Offer Share, as the case may be) payable by the Offeror under the Acquisition and the Offer.

The payment of interest on, repayment of or security for any liability (contingent or otherwise) in the paragraph above will not depend to any significant extent on the business of Winteam.

Citigroup, as the sole financial adviser to the Offeror, is satisfied that sufficient resources are available to the Offeror to satisfy payment of the consideration in respect of full acceptance of the Offer.

III. CONDITIONS

The Offer will be conditional on the satisfaction of the following Conditions:

(a) valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of such number of Shares which, together with Shares acquired or agreed to be acquired before or during the Offer, would result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights in Winteam in accordance with the Takeovers Code ("**Acceptance Condition**");

(b) the Shares remaining listed and traded on the Stock Exchange up to the Closing Date save for any suspension(s) of trading in the Shares of less than 14 days as a result of the Offer and no indication being received on or before the Closing Date from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange is or is likely to be withdrawn;

(c) the representations and warranties of the Vendors contained in the Irrevocable Undertakings remaining true and accurate and not misleading from the time of execution of the Irrevocable Undertakings to the date the Acceptance Condition is fulfilled, and being valid as if such representations and warranties had been made and given on such dates;

(d) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Offer remaining in full force and effect without material variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no material and adverse requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Offer or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Offer becomes or is declared to be unconditional in all respects;

(e) all necessary consents which may be required for the implementation of the Offer under any existing contractual obligations of Winteam and any member of the Group being obtained or waived by the relevant party(ies) and such consents remaining in full force and effect without material variation;

(f) no Relevant Authority in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order) that would make the Offer or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Offer or its implementation in accordance with its terms);

(g) since the date of the Announcement, there having been no change, effect, fact, event or circumstance which has had or would reasonably be expected to have a material adverse effect on, or to cause a material adverse change in, the general operations, management, financial position, business, prospects, conditions (whether financial, operational, legal or otherwise), earnings, solvency, shareholders' equity or results of operations of the Group taken as a whole, whether or not arising in the ordinary course of business; and

(h) there having been no frustrating action taken by Winteam or any member of the Group since the date of the Announcement, unless with the consent of the Offeror.

The Offeror reserves the right to waive any of the above Conditions (save for item (a)) either in whole or in part, either generally or in respect of any particular matter. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions (other than the Acceptance Condition) as a basis for not proceeding with the Offer if the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offeror in the context of the Offer. Winteam has no right to waive any of the Conditions.

The Offer is made on the basis that acceptance of the Offer by any person will constitute a warranty by such person or persons to the Offeror that the Shares shall be fully paid and shall be acquired free from all Encumbrances of any nature and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

WARNING: Shareholders and/or potential investors of Winteam should note that the completion of the Offer is subject to the Conditions being fulfilled and therefore the Offer may or may not become unconditional and be completed. Accordingly, the issue of this Composite Document does not imply that the Offer will become unconditional and Shareholders and/or potential investors of Winteam should therefore exercise caution when dealing in the securities of Winteam. Persons who are in doubt as to the action they should take should consult their licensed securities dealers or registered institutions in securities, bank managers, solicitors, professional accountants or other professional advisers.

IV. IRREVOCABLE UNDERTAKINGS

On 31 August 2012, each of Mr. Yang, Mr. Xu, Sureplan, Profit Channel, Extra Benefit and Profit United executed the Irrevocable Undertakings in favour of the Offeror, pursuant to which each of the Committed Shareholders has undertaken, *inter alia*, to accept, or procure the acceptance of, the Offer in respect of an aggregate of 562,498,963 Shares (representing approximately 31.54% of the issued share capital of Winteam as at the Latest Practicable Date), not later than three Business Days after the despatch of this Composite Document. The table below sets out the composition of the Shares that the Committed Shareholders have agreed to sell under the Irrevocable Undertakings:

Name	Number of Shares	Approximate percentage of the issued share capital of Winteam as at the Latest Practicable Date
Sureplan	68,178,172	3.822%
Profit Channel	112,633,822	6.3156%
Extra Benefit	380,145,443	21.3156%
Mr. Xu	1,470,000	0.0824%
Profit United	71,526	0.004%
Total	562,498,963	31.54%

The Irrevocable Undertakings also provide that, before the Offer closes, lapses or is withdrawn, each of the Committed Shareholders shall not, among other things, directly or indirectly, sell, transfer, charge, encumber, grant any option over or otherwise dispose of any direct or indirect interest in its/his Shares, nor will any of them accept any other offer in respect of any of its/his Shares, nor will any of them enter into any agreement or any arrangement to do any of the above acts.

Assuming the Conditions are satisfied or waived and the Offer is completed, the Offeror shall acquire from the Committed Shareholders a total of 562,498,963 Shares pursuant to the Irrevocable Undertakings in consideration for a minimum of approximately HK$787,498,548 (based on the minimum Offer Price of HK$1.40 per Offer Share) and a maximum of approximately HK$956,248,237 (based on the maximum Offer Price of HK$1.70 per Offer Share) in cash.

The Irrevocable Undertakings and the obligations of the Committed Shareholders thereunder shall lapse and terminate on the date on which the Offer lapses or is withdrawn.

The Irrevocable Undertakings will, however, remain binding even if a higher offer is made for the Shares by or on behalf of a party or parties other than the Offeror.

V. LOCK-UP SHARES

Upon Completion and close of the Offer (taking into account the Irrevocable Undertakings), Mr. Yang will, through Profit Channel, continue to hold 267,511,621 Shares, representing approximately 15% of the issued share capital of Winteam as at the Latest Practicable Date.

Mr. Yang and Profit Channel have undertaken, *inter alia*, in the S&P Agreement and the Irrevocable Undertakings that unless with the prior written consent of the Offeror, he/it will not dispose of any part of the Lock-up Shares or enter into any agreement or arrangement which has the same or similar effect during the First 12 Months and will not dispose of 50% or more of the Lock-up Shares or enter into any agreement or arrangement which has the same or similar effect during the Second 12 Months. Mr. Yang has agreed and undertaken that, the above restriction shall also apply to the disposal of any part of the shares held by him in Profit Channel or the entry into of any agreement or arrangement by him in respect of the shares in Profit Channel which has the same or similar effect. For the avoidance of doubt, the Offeror will not give its prior written consent to such disposal of any part of the Lock-up Shares or the entry into of any agreement or arrangement which has the same or similar effect during the period from the execution of the S&P Agreement until the Offer has completed, expired or been withdrawn. As a result of the restrictions above, Profit Channel will not be able to tender the Lock-up Shares in acceptance of the Offer.

The lock-up arrangement is a commercial agreement between the Offeror and Mr. Yang which has been reached after arm's length negotiation. As the parties consider that it would be in the best interest of Winteam and its Shareholders to have the continuing service and contributions of Mr. Yang after completion of the Offer, the lock-up arrangement will ensure Mr. Yang will retain minority but meaningful stake in Winteam, which will facilitate a smooth transition after the completion of the Offer and the stable and continuous development of the business and operations of the Group.

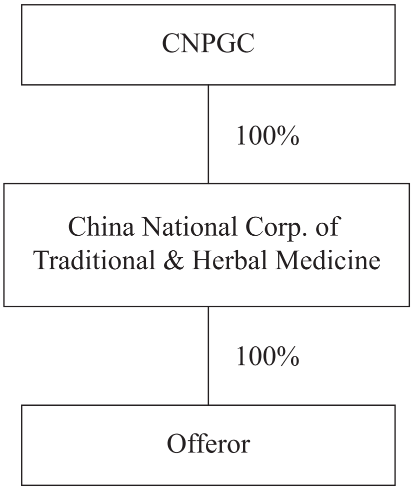
VI. GENERAL INFORMATION

Information on CNPGC and the Offeror

The Offeror is an investment holding company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of CNPGC. The Offeror is set up to hold the Shares and has not conducted any business since its incorporation. As at the Latest Practicable Date, the Offeror does not own any Shares. Mr. Yang Shanhua is the sole director of the Offeror.

CNPGC is a state-owned enterprise established in the PRC. It is the largest state-owned pharmaceutical and healthcare group administered directly by the State-owned Assets Supervision and Administration Commission of the State Council. Its core businesses are pharmaceutical distribution, pharmaceutical scientific research and manufacture of medical and biotech products. The board of directors of CNPGC comprises nine directors, of which Mr. Song Zhiping is the Chairman, Mr. She Lulin is the Vice Chairman and General Manager and Ms. Wang Lifeng is the Vice Chairman; Mr. Wang Fucheng, Mr. Li Yuhua, Mr. Fan Xiaofu, Mr. Liu Zhi, Mr. Zhang Jianhui and Ms. Xu Linli are directors.

The shareholding chart of the Offeror as at the Latest Practicable Date is set out below:



Reasons for the Offer

The commercial reasons for the Offeror entering into the contemplated transactions are as follows:

Bolsters long-term strategic plan, optimises integration opportunities

CNPGC is the largest state-owned pharmaceutical and healthcare group administered directly by the State-owned Assets Supervision and Administration Commission of the State Council. CNPGC will continue to grow and play a significant role in the development of the overall healthcare industry in the PRC. CNPGC is looking to strengthen its position by expanding and integrating the healthcare value chain including, but not limited to, the manufacturing and selling of pharmaceutical and healthcare products. The proposed transaction is consistent with its long-term corporate development and strategic plans.

CNPGC hopes to expand its presence in the manufacturing and selling of TCM products through the Acquisition and the Offer. CNPGC also hopes to increase Winteam's sales through its expertise in financial management, operation management, strategy and human resources and information management.

TCM is an attractive market, enhances shareholder value

The transaction gives the Offeror an opportunity to further develop the TCM market, which is a large and fast-growing segment of China's healthcare industry. Winteam is one of the leading players with a strong business profile and an attractive product portfolio in the TCM industry. The Offeror believes that Winteam will continue to generate strong growth and improve the risk-reward profile of this investment, thereby increasing shareholder value. The Offeror's belief is based on Winteam's historical revenue growth driven by well-known TCM brand names (e.g. De Zhong and Feng Liao Xing), capacity expansion, new product development, vertically-integrated infrastructure as well as commitment to quality.

Intention of the Offeror in relation to the Group

The Offeror will conduct a review on the overall business of the Group following the close of the Offer with a view to formulating a business strategy to further develop and expand the business of the Group. As at the Latest Practicable Date, the Offeror has conducted an internal review of the business opportunities available to the CNPGC Group and considers some of these opportunities to be synergistic with that of the Group. Following the review of the overall business of the Group, the Offeror may consider recommending to the Board any of such opportunities, as well any other opportunities that may arise in the market from time to time that it considers to be value-enhancing to Shareholders and/or otherwise in the best interests of the Group. The Offeror will keep Shareholders and investors informed by making further announcement(s) as and when appropriate in accordance with the requirements of applicable law, including but not limited to the Takeovers Code and the Listing Rules.

Notwithstanding this, other than certain changes to the composition of the Board as described in the section headed *"Proposed changes to composition of the Board"* below, the Offeror does not have an intention to institute any major changes to Winteam's current business and operations (including any redeployment of assets or employee changes within the Group). As at the Latest Practicable Date, the Offeror has no agreement, arrangement, understanding, intention or negotiation with any party (concluded or otherwise) about any disposal of assets and/or business of the Group (other than any disposal of current assets in the ordinary course of business of the Group), any injection of new business into the Group or any fund raising activities by the Group after the completion of the Offer.

Proposed changes to the composition of the Board

Each of Mr. Xu Tiefeng, Mr. Situ Min, Mr. Du Richeng, Mr. Lo Wing Yat, Mr. Pang Fu Keung, Mr. Wang Bo and Mr. Zhang Jianhui had, prior to Completion, tendered his resignation as a Director and (where appropriate) a director of its subsidiaries. Their resignation will take effect from the first Closing Date in accordance with the Takeovers Code. Each of Mr. Wu Xian and Mr. Lu Jun has been appointed as an executive Director, each of Mr. She Lulin, Mr. Liu Cunzhou and Mr. Zhao Dongji has been appointed as a non-executive Director and each of Mr. Zhou Bajun, Mr. Xie Rong and Mr. Fang Shuting has been appointed as an independent Director, in each case with effect after the despatch of the Composite Document in accordance with the Takeovers Code.

For further details of the biographical details of Mr. Wu Xian, Mr. Lu Jun, Mr. She Lulin, Mr. Liu Cunzhou, Mr. Zhao Dongji, Mr. Zhou Bajun, Mr. Xie Rong and Mr. Fang Shuting and the terms of their appointment, please refer to the joint announcements issued by CNPGC, the Offeror and Winteam on 29 January 2013 and 4 February 2013.

The Offeror has undertaken to the Vendors in the S&P Agreement that it will, to the extent permitted under applicable laws and memorandum and articles of association of Winteam, vote in favour of the continuing appointment of Mr. Yang as a Director for a period of three years from the Completion Date provided that Mr. Yang holds not less than 10% of the total issued

Shares. Mr. Yang's continuing services with Winteam will be on terms similar to the current terms of employment offered to him as an executive Director, save that his remuneration may be revised by the remuneration committee of the Board from time to time based on, *inter alia*, the prevailing market practice, his duties, responsibilities and contribution to Winteam.

Compulsory acquisition

The Offeror does not intend to exercise any right which may be available to it to compulsorily acquire any outstanding Offer Shares not acquired under the Offer after the close of the Offer.

Maintenance of the listing status of Winteam

The Offeror intends to maintain the listing of the Shares on the Stock Exchange after the close of the Offer. The directors of the Offeror and the new directors to be appointed to the Board by the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps including, among others, the placing of Shares by the Offeror or the issue of new Shares by Winteam, as soon as possible following the close of the Offer to ensure that a sufficient public float is maintained for the Shares.

The Stock Exchange has stated that if, upon the close of the Offer, less than the minimum prescribed percentage applicable to Winteam, being 25%, of the issued Shares are held by the public or if the Stock Exchange believes that: (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the Shares.

General matters relating to the Offer

Extension of the Offer Period

If the Offer has not been declared or has not become unconditional as to acceptances on or before the 60th day after the posting of this Composite Document, and/or the Offer has not been declared or has not become unconditional in all respects on or before the 81st day after the posting of this Composite Document, the Offer will lapse unless the Offer is extended with the consent of the Executive in accordance with the Takeovers Code.

If the Conditions of the Offer are satisfied (or if permissible, waived), Shareholders will be notified by an announcement in accordance with the Takeovers Code and the Listing Rules.

Effect of accepting the Offer

By accepting the Offer, Shareholders will sell their Offer Shares to the Offeror free from all Encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

Guarantors

Each of the Guarantors irrevocably and unconditionally guarantees, on a joint and several basis, to the Offeror the due and punctual performance of the Vendors' obligations under the S&P Agreement. The Guarantors shall pay to the Offeror from time to time on demand a sum of money which the Vendors may at any time be liable to pay to the Offeror under the S&P Agreement and which has not been paid at the time the demand is made. The Guarantors' obligations shall be joint and several with the obligations of the Vendors under the S&P Agreement.

Offeror's right to request the Vendors to buy back the Sale Shares

Upon the occurrence of the following facts or circumstance after the Completion but before closing of the Offer, the Offeror may require the Vendors to buy back the Sale Shares at the same Consideration: if the Offer lapses as a result of the Conditions set out in the section headed "*Conditions of the Offer*" not being satisfied and such non-satisfaction is otherwise than due to the fault of the Offeror, the Vendors shall buy back the Sale Shares from the Offeror within 60 Business Days from the lapse of the Offer. In such event, the Vendors may trigger a general offer obligation under Rule 26 of the Takeovers Code and all relevant parties shall be required to comply with the relevant provisions of the Takeovers Code.

Settlement of Consideration

Provided that the Offer has become, or has been declared, unconditional in all respects, settlement of the consideration at the price of HK$1.40 per Offer Share payable in respect of acceptances of the Offer will be made as soon as possible but in any event within seven Business Days of the later of the date on which the Offer becomes, or is declared, unconditional in all respects and the date of receipt of a duly completed and valid Form of Acceptance.

Further, if the Adjusted Net Profit for FY 2012 achieves HK$190 million or more, then a total sum of HK$0.30 per Offer Share shall be payable within seven Business Days after the release of the 2012 annual results announcement of Winteam.

Overseas Shareholders

The Offer will be in respect of securities of a company incorporated in Hong Kong and will be subject to the procedural and disclosure requirements of Hong Kong.

The making and the implementation of the Offer to Overseas Shareholders may be subject to the laws of the relevant jurisdictions in which such Overseas Shareholders are located. The Overseas Shareholders should inform themselves about and observe any applicable legal or regulatory requirements. It is the responsibility of each Overseas Shareholder who wishes to accept the Offer to satisfy himself/herself/itself as to the full observance of the laws and regulations of all relevant jurisdictions in connection therewith, including, but not limited to the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required and the compliance with all necessary formalities, regulatory and/or legal requirements. Such Overseas Shareholders shall be fully responsible for the payment of any transfer or other taxes and duties due by such Overseas Shareholders in respect of the relevant jurisdictions. The Overseas Shareholders are recommended to seek professional advice on deciding whether or not to accept the Offer.

WARNING: Any acceptance by any Shareholder will be deemed to constitute a representation and warranty from such Shareholder to the Offeror that the local laws and requirements have been complied with. Shareholders who are in doubt as to the action they should take should consult their licensed securities dealers or registered institutions in securities, bank managers, solicitors, professional accountants or other professional advisers.

Taxation

You are advised to consult your own professional advisers if you are in any doubt as to the tax implications of your acceptance of the Offer. It is emphasised that none of the Offeror, CNPGC, Winteam, Citigroup, Optima Capital or any of their respective directors or agents and any person involved in the Offer accepts responsibility for any tax effects or liabilities of any person or persons as a result of their acceptances of the Offer.

Additional Information

Your attention is drawn to the expected timetable on page ii of this Composite Document, the letter from the Board of Winteam on pages 23 to 33 of this Composite Document, the letter from the Independent Board Committee on pages 34 to 35 of this Composite Document, the letter from the Joint Independent Financial Advisers on pages 36 to 61 of this Composite Document in relation to their respective recommendation and advice with respect to the Offer and the additional information set out in the appendices to this Composite Document.

Yours faithfully,
For and on behalf of
Citigroup Global Markets Asia Limited
Ling Zhang
Managing Director

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

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

Non-Executive Director:
Mr. DU Richeng

Executive Directors:
Mr. XU Tiefeng, *Chairman*
Mr. YANG Bin, *Managing Director*
Mr. SITU Min, *Chief Financial Officer*

Independent Non-Executive Directors:
Mr. LO Wing Yat
Mr. PANG Fu Keung
Mr. WANG Bo
Mr. ZHANG Jianhui

Registered Office:
Rooms 2801-2805
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

5 February 2013

To the Independent Shareholders

Dear Sir or Madam,

VOLUNTARY CONDITIONAL CASH OFFER BY CITIGROUP GLOBAL MARKETS ASIA LIMITED FOR AND ON BEHALF OF SINOPHARM GROUP HONGKONG CO., LIMITED, AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF CHINA NATIONAL PHARMACEUTICAL GROUP CORPORATION, TO ACQUIRE ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF WINTEAM PHARMACEUTICAL GROUP LIMITED (OTHER THAN THE LOCK-UP SHARES AND THOSE SHARES ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY SINOPHARM GROUP HONGKONG CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

It was announced on 31 August 2012 that the Offeror, Mr. Yang, Mr. Xu, Sureplan, Extra Benefit and Profit Channel entered into the S&P Agreement pursuant to which the Vendors have agreed to sell 354,898,750 Shares to the Offeror. It was further announced on 29 January 2013 that Completion took place on the same date and thus the Pre-condition has been satisfied. Upon the satisfaction of the Pre-condition, Citigroup, for and on behalf of the Offeror, is making a voluntary conditional cash offer to acquire all the issued Shares (other than the Lock-up Shares and those Shares already owned by or agreed to be acquired by the Offeror and parties acting in concert with it).

This letter forms part of this Composite Document. The purpose of this letter is to provide you with, among other things, information relating to the Offer and the Group.

THE OFFER

The terms of the Offer summarised below are set out in detail in the letter from Citigroup contained in this Composite Document and Appendix I to this Composite Document as well as the Form of Acceptance. You are recommended to refer to them for further details.

Principal terms of the Offer

Citigroup is making a voluntary conditional cash offer for and on behalf of the Offeror to acquire all of the issued Shares (other than the Lock-up Shares and those Shares already owned by or agreed to be acquired by the Offeror and parties acting in concert with it) on the following terms:

For every Offer Share .... **a minimum of HK$1.40 and a maximum of HK$1.70, in cash**

The Offer will be extended to all Independent Shareholders in accordance with the Takeovers Code (other than Mr. Yang in relation to the Lock-up Shares and the Offeror and any parties acting in concert with it). The Offer Shares to be acquired under the Offer shall be fully paid and shall be acquired free from all Encumbrances of any nature and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

The Offer Price is the same as the price per Sale Share payable by the Offeror under the S&P Agreement with the payment schedule as follows:

(i) HK$1.40 per Offer Share payable in cash in respect of acceptances of the Offer will be made as soon as possible, but in any event within seven Business Days of the date of receipt of a duly completed and valid acceptance of the Offer, or of the date on which the Offer becomes or is declared unconditional in all respects, whichever is the later;

(ii) if the Adjusted Net Profit for FY 2012 is HK$190 million or more, an additional amount of HK$0.30 per Offer Share shall be payable to all the accepting Shareholders within seven Business Days after the release of the 2012 annual results announcement of Winteam. For the avoidance of doubt, if the Adjusted Net Profit for FY 2012 is less than HK$190 million, no further payment shall be made by the Offeror for the Offer Shares.

The "**Adjusted Net Profit**" referred to above shall mean the Audited Net Profit after deduction of the profits and gains arising from the Adjusted Items (or addition of any losses arising from the Adjusted Items) of Winteam in the consolidated financial statements of the Group prepared in accordance with the Hong Kong Financial Reporting Standards. "**Adjusted**

Items" means any profits or losses that arise from events or transactions that are clearly distinct from the ordinary operating activities of Winteam or albeit the ordinary operating activities of Winteam but are unusual and infrequent in nature and therefore are not expected to recur frequently or regularly, and the inclusion of which would cause users of the financial statements to draw misleading conclusions from an analysis on the net profit. The events or transactions which shall be treated as the Adjusted Items are set out below:

- non-operating profits and losses;
- government subsidy or refund (including tax exemption and deduction enjoyed by any member of the Group);
- disposal gains or losses of long-term assets such as long-term equity investment, fixed assets, construction-in-progress and intangible assets;
- reversal of impairment provision made in the previous years;
- gains or losses of short-term investment;
- debt restructuring gains;
- gains arising from transactions traded at non-arm's length basis;
- retrospective adjustment to the net profit during the previous period as a result of changes in the accounting policy and estimate changes;
- gains arising from the fact that the cost incurred by Winteam in acquiring the investment in subsidiaries, associated enterprises and joint venture enterprises is less than its entitlement to the fair value of identifiable net assets of the investee(s) when acquiring the investment;
- gains or losses from barter transactions;
- gains or losses arising from contingent matters unrelated to the normal operating activities of Winteam;
- gains or losses from changes in the fair value arising from ownership of financial assets and financial liabilities held for trading purposes other than valid hedging operations related to the normal operating activities of Winteam; and
- investment income arising from the disposal of the financial assets and financial liabilities held for trading purpose and financial assets available for sale.

Any gains or losses arising from a transaction or event falling within the list of Adjusted Items will be deducted or added (as the case may be) from the accounts of the Group in determining its Adjusted Net Profit. The Adjusted Net Profit will be calculated on the basis of the definition set out above. The Adjusted Net Profit will be set out in the 2012 annual results announcement of Winteam so that the Shareholders (including Shareholders who have tendered acceptances under the Offer) will be notified as to whether the Adjusted Net Profit will have been met and an announcement will also be published.

Conditions of the Offer

The Offer will be conditional on the satisfaction of the following conditions:

(a) valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of such number of Shares which, together with Shares acquired or agreed to be acquired before or during the Offer, would result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights in Winteam in accordance with the Takeovers Code ("**Acceptance Condition**");

(b) the Shares remaining listed and traded on the Stock Exchange up to the Closing Date save for any suspension(s) of trading in the Shares of less than 14 days as a result of the Offer and no indication being received on or before the Closing Date from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange is or is likely to be withdrawn;

(c) the representations and warranties of the Vendors contained in the Irrevocable Undertakings remaining true and accurate and not misleading from the time of execution of the Irrevocable Undertakings to the date the Acceptance Condition is fulfilled, and being valid as if such representations and warranties had been made and given on such dates;

(d) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Offer remaining in full force and effect without material variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no material and adverse requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Offer or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Offer becomes or is declared to be unconditional in all respects;

(e) all necessary consents which may be required for the implementation of the Offer under any existing contractual obligations of Winteam and any member of the Group being obtained or waived by the relevant party(ies) and such consents remaining in full force and effect without material variation;

(f) no Relevant Authority in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order) that would make the Offer or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Offer or its implementation in accordance with its terms);

(g) since the date of the Announcement, there having been no change, effect, fact, event or circumstance which has had or would reasonably be expected to have a material adverse effect on, or to cause a material adverse change in, the general operations, management, financial position, business, prospects, conditions (whether financial, operational, legal or otherwise), earnings, solvency, shareholders' equity or results of operations of the Group taken as a whole, whether or not arising in the ordinary course of business; and

(h) there having been no frustrating action taken by Winteam or any member of the Group since the date of the Announcement, unless with the consent of the Offeror.

The Offeror reserves the right to waive any of the above conditions (save for item (a)) either in whole or in part, either generally or in respect of any particular matter. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the conditions (other than the Acceptance Condition) as a basis for not proceeding with the Offer if the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offeror in the context of the Offer. Winteam has no right to waive any of the Conditions.

Extension of the Offer Period

If the Offer has not been declared or has not become unconditional as to acceptances on or before the 60th day after the posting of this Composite Document, and/or the Offer has not been declared or has not become unconditional in all respects on or before the 81st day after the posting of this Composite Document, the Offer will lapse unless the Offer is extended with the consent of the Executive in accordance with the Takeovers Code.

If the conditions of the Offer are satisfied (or if permissible, waived), Shareholders will be notified by an announcement in accordance with the Takeovers Code and the Listing Rules.

Effect of accepting the Offer

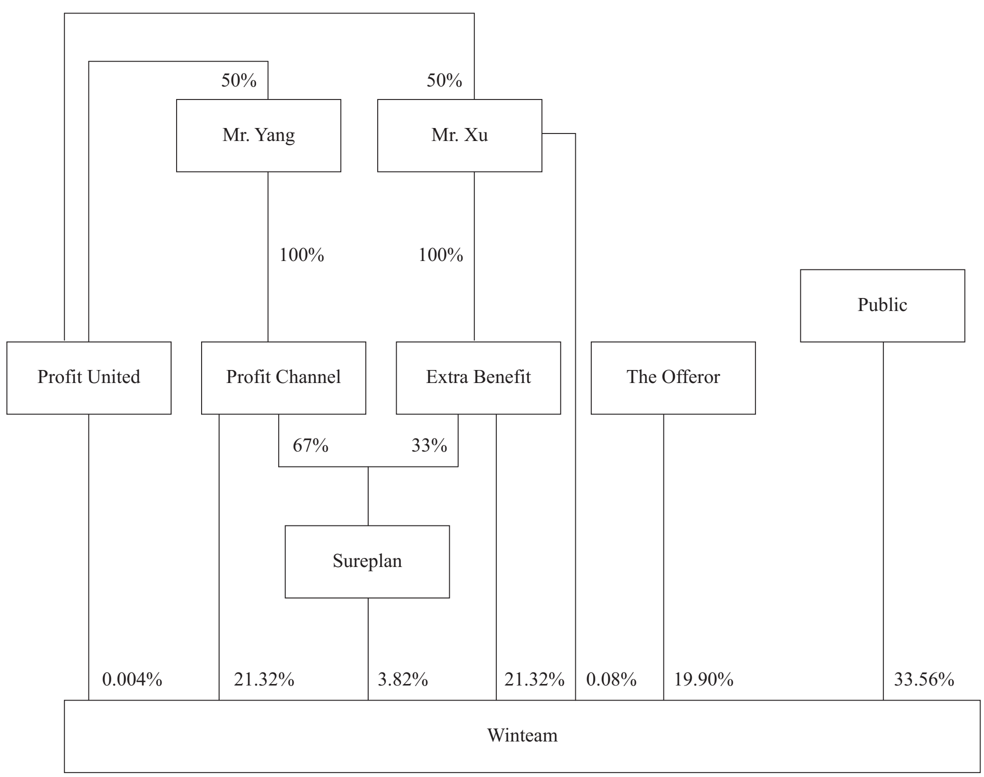
By accepting the Offer, Shareholders will sell their Offer Shares to the Offeror free from all Encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

The procedures for acceptance and settlement of the Offer and further terms of the Offer are set out in Appendix I to this Composite Document.

WARNING: Shareholders and/or potential investors of Winteam should note that completion of the Offer is subject to the conditions being fulfilled and therefore the Offer may or may not become unconditional and be completed. Shareholders and/or potential investors of Winteam should therefore exercise caution when dealing in the securities of Winteam. Persons who are in doubt as to the action they should take should consult their licensed securities dealers or registered institutions in securities, bank managers, solicitors, professional accountants or other professional advisers.

SHAREHOLDING STRUCTURE OF WINTEAM

The shareholding chart of Winteam as at the Latest Practicable Date is set out below:



The shareholding structure of Winteam (i) upon Completion but before the Offer (assuming that there is no change in the issued share capital of Winteam); (ii) after the Offer (assuming that only the Committed Shareholders tendered (or procured) acceptance of the Offer under the Irrevocable Undertakings); and (iii) immediately after the close of the Offer (assuming the Committed Shareholders and all public Shareholders tendered (or procured) acceptance of the Offer) are as follows:

	Upon Completion but before the Offer		**Immediately after the close of the Offer (assuming that only the Committed Shareholders tendered (or procured) acceptance of the Offer pursuant to the Irrevocable Undertakings)**		**Immediately after the close of the Offer (assuming the Committed Shareholders and all public Shareholders tendered (or procured) acceptance of the Offer**	
	Number of Shares	*Approximate Shareholding %*	*Number of Shares*	*Approximate Shareholding %*	*Number of Shares*	*Approximately Shareholding %*
The Committed Shareholders	830,010,584	46.54 *(Note 1 & 2)*	267,511,621	15.00 *(Note 3)*	267,511,621	15.00 *(Note 3)*
The Offeror and parties acting in concert with it	354,898,750	19.90	917,397,713	51.44	1,515,899,186	85.00
Public Shareholders	598,501,473	33.56	598,501,473	33.56	–	– *(Note 4)*
Total	1,783,410,807	100.00	1,783,410,807	100.00	1,783,410,807	100.00

Notes:

1. As at the Latest Practicable Date, 830,010,584 Shares are directly owned as to:

   (i) 68,178,172 Shares by Sureplan (representing approximately 3.82% of the issued share capital of Winteam);

   (ii) 380,145,443 Shares by Profit Channel (representing approximately 21.32% of the issued share capital of Winteam);

   (iii) 380,145,443 Shares by Extra Benefit (representing approximately 21.32% of the issued share capital of Winteam);

   (iv) 71,526 Shares by Profit United (representing approximately 0.004% of the issued share capital of Winteam); and

   (v) 1,470,000 Shares by Mr. Xu (representing approximately 0.08% of the issued share capital of Winteam).

   Sureplan is owned as to 67% by Profit Channel and 33% by Extra Benefit, each of which is in turn wholly owned by Mr. Yang and Mr. Xu, respectively. Profit United is owned as to 50% by Mr. Yang and 50% by Mr. Xu.

2. The 830,010,584 Shares (representing approximately 46.54% of the issued share capital of Winteam as at the Latest Practicable Date) include the Lock-up Shares of 267,511,621 Shares, being approximately 15% of the issued Shares of Winteam as at the Latest Practicable Date.

3. Upon Completion and close of the Offer (taking into account the Irrevocable Undertakings), Mr. Yang will, through Profit Channel, continue to hold 267,511,621 Shares, representing approximately 15% of the issued share capital of Winteam as at the Latest Practicable Date. Please refer to the paragraph headed "*Lock-up Shares*" below for further details.

4. For illustrative purposes only, in the event that the Committed Shareholders and all public Shareholders tendered (or procured) acceptance of the Offer, the Shares in public hands upon the close of the Offer will fall below the minimum prescribed percentage applicable to Winteam under the Listing Rules, being 25%. As stated in the letter from Citigroup in this Composite Document, the directors of the Offeror and the new directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offer to ensure that sufficient public float is maintained for the Shares.

Irrevocable Undertakings

On 31 August 2012, each of Mr. Yang, Mr. Xu, Sureplan, Profit Channel, Extra Benefit and Profit United executed the Irrevocable Undertakings in favour of the Offeror, pursuant to which each of the Committed Shareholders has undertaken, *inter alia*, to accept, or procure the acceptance of, the Offer in respect of an aggregate of 562,498,963 Shares (representing approximately 31.54% of the issued share capital of Winteam as at the Latest Practicable Date), not later than three Business Days after the despatch of this Composite Document. The table below sets out the composition of the Shares that the Committed Shareholders have agreed to sell under the Irrevocable Undertakings:

Name	**Number of Shares**	**Approximate percentage of the issued share capital of Winteam as at the Latest Practicable Date**
Sureplan	68,178,172	3.822%
Profit Channel	112,633,822	6.3156%
Extra Benefit	380,145,443	21.3156%
Mr. Xu	1,470,000	0.0824%
Profit United	71,526	0.004%
Total	562,498,963	31.54%

The Irrevocable Undertakings also provide that, before the Offer closes, lapses or is withdrawn, each of the Committed Shareholders shall not, among other things, directly or indirectly, sell, transfer, charge, encumber, grant any option over or otherwise dispose of any direct or indirect interest in its/his Shares, nor will any of them accept any other offer in respect of any of its/his Shares, nor will any of them enter into any agreement or any arrangement to do any of the above acts.

As the Pre-condition has been satisfied, the Offeror shall acquire from the Committed Shareholders a total of 562,498,963 Shares pursuant to the Irrevocable Undertakings for a minimum aggregate consideration of approximately HK$787,498,548 (based on the minimum Offer Price of HK$1.40 per Offer Share) and a maximum aggregate consideration of approximately HK$956,248,237 (based on the maximum Offer Price of HK$1.70 per Offer Share) in cash.

The Irrevocable Undertakings and the obligations of the Committed Shareholders thereunder shall lapse and terminate on the date on which the Offer lapses or is withdrawn.

The Irrevocable Undertakings will, however, remain binding even if a higher offer is made for the Shares by or on behalf of a party or parties other than the Offeror.

Lock-up Shares

Upon Completion and close of the Offer (taking into account the Irrevocable Undertakings), Mr. Yang will, through Profit Channel, continue to hold 267,511,621 Shares, representing approximately 15% of the issued share capital of Winteam as at the Latest Practicable Date.

Mr. Yang and Profit Channel have undertaken, *inter alia*, in the S&P Agreement and the Irrevocable Undertakings that unless with the prior written consent of the Offeror, he/it will not dispose of any part of the Lock-up Shares or enter into any agreement or arrangement which has the same or similar effect during the First 12 Months and will not dispose of 50% or more of the Lock-up Shares or enter into any agreement or arrangement which has the same or similar effect during the Second 12 Months. Mr. Yang has agreed and undertaken that, the above restriction shall also apply to the disposal of any part of the shares held by him in Profit Channel or the entry into of any agreement or arrangement by him in respect of the shares in Profit Channel which has the same or similar effect. For the avoidance of doubt, the Offeror will not give its prior written consent to such disposal of any part of the Lock-up Shares or the entry into of any agreement or arrangement which has the same or similar effect during the period from the execution of the S&P Agreement until the Offer has completed, expired or been withdrawn. As a result of the restrictions above, Profit Channel will not be able to tender the Lock-up Shares in acceptance of the Offer.

The lock-up arrangement is a commercial agreement between the Offeror and Mr. Yang which has been reached after arm's length negotiation. As the parties consider that it would be in the best interest of Winteam and its Shareholders to have the continuing service and contributions of Mr. Yang after Completion, the lock-up arrangement will ensure Mr. Yang will retain minority but meaningful stake in Winteam, which will facilitate a smooth transition after the completion of the Offer and the stable and continuous development of the business and operations of the Group.

INFORMATION ON THE GROUP

Winteam is an investment holding company incorporated in Hong Kong with limited liability and, through its subsidiaries, is principally engaged in research and development, production and sale of pharmaceutical products in the PRC.

The audited consolidated net profits before taxation of Winteam for the financial year ended 31 December 2010 and for the financial year ended 31 December 2011 amounted to approximately HK$115 million and approximately HK$94 million, respectively. The audited consolidated net profits after taxation of Winteam for the financial year ended 31 December 2010 and for the financial year ended 31 December 2011 amounted to approximately HK$86 million and approximately HK$74 million, respectively. The audited equity attributable to Shareholders of Winteam as at 31 December 2011 was approximately HK$949 million.

As disclosed in November 2012 Profit Alert, based on the preliminary assessment by the Group's management of the unaudited management accounts of the Group for the ten months ended 31 October 2012, the Group is expected to record a significant increase in net profit for the year ended 31 December 2012 (the "Forecast") as compared to that of the previous year ended 31 December 2011. Based on information currently available, the profit increase is expected to be mainly attributable to (i) the steady growth in sales of the Group; (ii) effective cost control over sales and marketing expenses through the continuous integration of end-market sales resources; and (iii) the decrease in cost of raw materials as a result of the decline in price of Chinese herbal materials commonly used by the Group.

The statements in the November 2012 Profit Alert is regarded as a profit forecast under Rule 10 of the Takeovers Code and Winteam is required to comply with the reporting requirement set out in Rule 10.4 of the Takeovers Code with respect of the November 2012 Profit Alert. KPMG, the auditors of Winteam, is of the opinion that, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled in accordance with the bases stated by the Directors and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group in Winteam's published annual report for the year ended 31 December 2011. Optima Capital, the financial adviser to Winteam, is satisfied that the statements in the November 2012 Profit Alert have been made by the Directors with due care and consideration. Your attention is drawn to the reports issued by KPMG and Optima Capital on the November 2012 Profit Alert set out in Appendix IV and Appendix V to this Composite Document respectively.

Upon Completion and the Offer having become or been declared unconditional in all respects, Winteam will become a subsidiary of CNPGC and the financial results and financial position of the Group will be consolidated in the financial statements of CNPGC.

INFORMATION ABOUT THE OFFEROR AND ITS INTENTION IN RELATION TO THE GROUP

Your attention is drawn to the section headed "*GENERAL INFORMATION*" in the letter from Citigroup set out in this Composite Document for information on the Offeror and its intentions regarding the Group.

The Board notes the intention of the Offeror in relation to the Group, and is willing to render co-operation with the Offeror and would continue to act in the best interests of the Group and the Shareholders as a whole.

RECOMMENDATION

The Independent Board Committee comprising the non-executive Director and all the independent non-executive Directors (other than Mr. Zhang Jianhui who is also a director of CNPGC) has been established to advise the Independent Shareholders in respect of the Offer, in particular as to whether the Offer is, or is not, fair and reasonable and as to its acceptance.

The Joint Independent Financial Advisers have been appointed by Winteam after approval by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the Offer and in particular as to whether the Offer is, or is not, fair and reasonable and as to its acceptance.

Your attention is drawn to the letter of recommendation from the Independent Board Committee set out on pages 34 to 35 of this Composite Document and the letter of advice from the Joint Independent Financial Advisers set out on pages 36 to 61 of this Composite Document, which contains, among other things, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Offer and the principal factors considered by it in arriving at its advice.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from Citigroup set out in this Composite Document and the accompanying Form of Acceptance which contain further details of the Offer and the procedures for acceptance of the Offer.

Your attention is also drawn to the additional information set out in the appendices to this Composite Document.

Yours faithfully,
By Order of the Board
Winteam Pharmaceutical Group Limited
XU Tiefeng
Chairman

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

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

5 February 2013

To the Independent Shareholders

Dear Sir or Madam,

VOLUNTARY CONDITIONAL CASH OFFER BY CITIGROUP GLOBAL MARKETS ASIA LIMITED FOR AND ON BEHALF OF SINOPHARM GROUP HONGKONG CO., LIMITED, AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF CHINA NATIONAL PHARMACEUTICAL GROUP CORPORATION, TO ACQUIRE ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF WINTEAM PHARMACEUTICAL GROUP LIMITED (OTHER THAN THE LOCK-UP SHARES AND THOSE SHARES ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY SINOPHARM GROUP HONGKONG CO., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

We refer to the Composite Document dated 5 February 2013 jointly issued by the Offeror, CNPGC and Winteam, of which this letter forms part. Terms defined in this Composite Document shall bear the same meanings when used herein unless the context requires otherwise.

We have been appointed to constitute the Independent Board Committee to consider the terms of the Offer and to advise you as to whether, in our opinion, the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and as to its acceptance. Guotai Junan Capital Limited and Goldin Financial Limited have been appointed as the Joint Independent Financial Advisers to advise us and the Independent Shareholders in this respect. Details of their advice and the principal factors and reasons taken into consideration in arriving at their recommendation are set out in the letter from the Joint Independent Financial Advisers set out on pages 36 to 61 of this Composite Document.

We also wish to draw your attention to the letter from the Board of Winteam, the letter from Citigroup and the additional information set out in the appendices to this Composite Document.

Taking into account the terms of the Offer and the independent advice from the Joint Independent Financial Advisers, we consider that the terms of the Offer (including the Minimum Offer Price) are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to accept the Offer.

Yours faithfully,
The Independent Board Committee

Mr. LO Wing Yat	**Mr. PANG Fu Keung**	**Mr. WANG Bo**	**Mr. DU Richeng**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Non-executive Director*

The following is the text of the letter of advice from Guotai Junan Capital Limited and Goldin Financial Limited, the Joint Independent Financial Advisers, which has been prepared for the purpose of incorporation into this Composite Document, setting out their advice to the Independent Board Committee and the Independent Shareholders in connection with the Offer.

國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Guotai Junan Capital Limited
27/F., Low Block,
Grand Millennium Plaza,
181 Queen's Road Central,
Hong Kong

高銀融資有限公司
GOLDIN FINANCIAL LIMITED

Goldin Financial Limited
23/F., Two International Finance Centre
8 Finance Street
Central
Hong Kong

5 February 2013

To the Independent Board Committee
and the Independent Shareholders,

Dear Sirs,

VOLUNTARY CONDITIONAL CASH OFFER BY CITIGROUP GLOBAL MARKETS ASIA LIMITED FOR AND ON BEHALF OF SINOPHARM GROUP HONGKONG CO., LIMITED, AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF CHINA NATIONAL PHARMACEUTICAL GROUP CORPORATION, TO ACQUIRE ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF WINTEAM PHARMACEUTICAL GROUP LIMITED (OTHER THAN THE LOCK-UP SHARES AND THOSE SHARES ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY SINOPHARM GROUP HONGKONG Co., LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

We refer to our appointment as the Joint Independent Financial Advisers to the Independent Board Committee and the Independent Shareholders with respect to the terms of the Offer, details of which are set out in the Composite Document jointly issued by the Offeror and Winteam to the Shareholders dated 5 February 2013, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

On 31 August 2012, the Offeror and Winteam jointly announced that, on 31 August 2012, the Offeror, the Vendors and the Guarantors entered into the S&P Agreement pursuant to which the Offeror has agreed to acquire and the Vendors have agreed to sell 354,898,750 Shares, at a minimum consideration of an aggregate of HK$496,858,250 (equivalent to HK$1.40 per Sale Share) and a maximum consideration of an aggregate of HK$603,327,875 (equivalent to HK$1.70 per Sale Share). The maximum consideration of HK$1.70 per Sale Share is subject to the targeted Adjusted Net Profit being achieved by the Group in FY 2012, and will be settled in cash in the following manner: (i) a total sum of HK$496,858,250 will be paid to Sureplan on the Completion Date (representing HK$1.40 per Sale Share); and (ii) if the Adjusted Net Profit for FY 2012 is HK$190 million or more, then a sum equivalent to the product of HK$0.30 x 354,898,750 Sale Shares (being HK$106,469,625) shall be payable to Sureplan within seven Business Days after the release of the 2012 annual results announcement of Winteam. For the avoidance of doubt, if the Adjusted Net Profit for FY 2012 is less than HK$190 million, no further payment shall be payable by the Offeror to the Vendors. Completion took place on 29 January 2013.

Following Completion, the Offeror and parties acting in concert with it are interested in 354,898,750 Shares, representing approximately 19.90% of the issued share capital of Winteam as at the Latest Practicable Date. Citigroup, on behalf of the Offeror and pursuant to the Takeovers Code, is making a voluntary conditional cash offer to acquire all of the issued Shares (other than the Lock-up Shares and those Shares already owned by or agreed to be acquired by the Offeror and parties acting in concert with it) on the following terms:

For every Offer Share . . . . a minimum of HK$1.40 and a maximum of HK$1.70, in cash

In accordance with the Takeovers Code, the Offer will be extended to all Independent Shareholders (other than Mr. Yang in relation to the Lock-up Shares and the Offeror and any parties acting in concert with it). Further details of the terms of the Offer, including the procedures for acceptance and settlement of the Offer, are set out in the Letter from Citigroup and Appendix I to the Composite Document.

Pursuant to Rule 2.8 of the Takeovers Code, Winteam is required to establish an independent committee of the Board to give a recommendation to the Independent Shareholders on the Offer and that such independent committee should comprise all the non-executive Directors who have no direct or indirect interest in the Offer other than as a Shareholder. Mr. Zhang Jianhui, who is also a director of CNPGC, the ultimate holding company of the Offeror, is not included in the Independent Board Committee. Accordingly, the Independent Board Committee comprising the non-executive Director and all the independent non-executive Directors (other than Mr. Zhang Jianhui), namely Mr. Lo Wing Yat, Mr. Pang Fu Keung, Mr. Wang Bo and Mr. Du Richeng, has been established to advise the Independent Shareholders whether the terms of the Offer are fair and reasonable and as to its acceptance. We, Guotai Junan Capital Limited and Goldin Financial Limited, have been appointed by the Independent Board Committee as the Joint Independent Financial Advisers to provide the Independent Board Committee and the Independent Shareholders with an independent opinion as to whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and to give a recommendation whether the Independent Shareholders should accept the Offer.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the statements, information and representations contained or referred to in the Composite Document and the information provided and representations made to us by the Directors and/or management of the Group. We have assumed that all the statements, information, and any representations contained or referred to in the Composite Document and all information provided and representations made by the Directors and/or management of the Group for which they are solely responsible, are true, accurate and complete as at the time they were provided and made as at the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to date throughout the offer period (as defined under the Takeovers Code). The Directors and/or the management of the Group have confirmed that, having made all reasonable enquiries, and to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Composite Document, including this letter, incorrect or misleading.

We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent verification of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position or prospects of the Group or the Offeror and the parties acting in concert with it. Our review and analysis were based upon, among others, the information provided by Winteam including the annual reports of Winteam for each of the financial year ended 31 December 2011 (the "2011 Annual Report") and 31 December 2010 (the "2010 Annual Report"), the interim report of Winteam for the six months ended 30 June 2012 (the "2012 Interim Report"), the Composite Document and certain published information of the Group.

We have not considered the tax implications, if any, on the Independent Shareholders of their acceptances or non-acceptances of the Offer since these are particular to their own individual circumstances. In particular, the Independent Shareholders who are residents outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position with regard to the Offer and, if in any doubt should consult their own professional advisers.

Independent Shareholders are advised to read carefully the procedures for accepting the Offer, details of which are set out in Appendix I to the Composite Document and the accompanying Form of Acceptance. Independent Shareholders are strongly advised that the decision to realise or to continue to hold their investments in the Shares is subject to individual circumstances and investment objectives.

TERMS OF THE OFFER

1. The Offer

The terms set out below are summarised from the "Letter from Citigroup" contained in the Composite Document. Independent Shareholders are encouraged to read the relevant section in full.

The Offer is being made by Citigroup, on behalf of the Offeror and pursuant to the Takeovers Code, for all of the issued Shares (other than the Lock-up Shares and those Shares already owned by or agreed to be acquired by the Offeror and parties acting in concert with it) on the following terms:

For every Offer Share . . . . a minimum of HK$1.40 and a maximum of HK$1.70, in cash

The Offer Price is the same as the price per Sale Share payable by the Offeror under the S&P Agreement with the payment schedule as follows:

(i) HK$1.40 per Offer Share payable in cash in respect of acceptances of the Offer will be made as soon as possible, but in any event within seven Business Days of the date of receipt of a duly completed and valid acceptance of the Offer, or of the date on which the Offer becomes or is declared unconditional in all respects, whichever is the later;

(ii) if the Adjusted Net Profit for FY 2012 is HK$190 million or more, an additional amount of HK$0.30 per Offer Share shall be payable to all the accepting Shareholders within seven Business Days after the release of the 2012 annual results announcement of Winteam. For the avoidance of doubt, if the Adjusted Net Profit for FY 2012 is less than HK$190 million, no further payment shall be made by the Offeror for the Offer Shares.

As at the Latest Practicable Date, there were 1,783,410,807 Shares in issue and Winteam had no outstanding convertible securities, warrants, options and derivatives in respect of the Shares.

2. Condition of the Offer

The Offer is conditional upon valid acceptances having been received (and where permitted, not withdrawn) on or before 4:00 p.m. on the Closing Date in respect of the Shares, which together with the Shares acquired or agreed to be acquired by the Offeror and parties acting in concert with it, constituting more than 50% of the voting rights of Winteam in accordance with the Takeovers Code. On 29 January 2013, the S&P Agreement was completed. Following Completion, the Offeror and parties acting in concert with it owned an aggregate of 354,898,750 issued Shares, representing approximately 19.90% of the total issued Shares as at the Latest Practicable Date. In addition, as disclosed in the Announcement, on 31 August 2012, each of Mr. Yang, Mr. Xu, Sureplan, Profit Channel, Extra Benefit and Profit United executed the Irrevocable Undertakings in favour of the Offeror, pursuant to which each of the Committed Shareholders has undertaken, *inter alia*, to accept, or procure the acceptance of, the Offer in respect of an aggregate of 562,498,963 Shares (representing approximately 31.54% of the issued share capital of Winteam as at the date of the Announcement and the Latest Practicable Date), not later than three Business Days after the despatch of the Composite Document. Accordingly, upon the acceptances of the Offer in respect of Shares subject to the Irrevocable Undertakings, the Offeror and parties acting in concert with it would be interested in at least an aggregate of 917,397,713 Shares, representing approximately of 51.44% of the total issued Shares as at the Latest Practicable Date. In this light, it is expected that the Offer would eventually become unconditional in all respects before the close of the Offer.

Further details of the Offer are set out in the "Letter from Citigroup" and Appendix I to the Composite Document.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the terms of the Offer, we have considered the following principal factors and reasons:

1. Background of the Offer

As disclosed in the Announcement, on 31 August 2012, the Offeror entered into the S&P Agreement with the Vendors and the Guarantors, pursuant to which the Offeror has conditionally agreed to purchase and the Vendors have conditionally agreed to sell or procure the sale of the Sale Shares for a minimum consideration of an aggregate of HK$496,858,250 (equivalent to HK$1.40 per Sale Share) and a maximum consideration of an aggregate of HK$603,327,875 (equivalent to HK$1.70 per Sale Share). The Sale Shares represent approximately 19.90% of the entire issued share capital of Winteam as at the date of the Announcement and the Latest Practicable Date.

The Sale Shares were sold free from any Encumbrances and together with all rights which are at the date of the S&P Agreement or may at any time thereafter become attaching to them, other than the 2012 Interim Dividends.

Upon Completion and close of the Offer (taking into account the Irrevocable Undertakings), Mr. Yang will, through Profit Channel, continue to hold 267,511,621 Shares, representing approximately 15% of the issued share capital of Winteam as at the Latest Practicable Date. Mr. Yang and Profit Channel have undertaken, inter alia, in the S&P Agreement and the Irrevocable Undertakings that unless with the prior written consent of the Offeror, he/it will not dispose of any part of the Lock-up Shares or enter into any agreement or arrangement which has the same or similar effect during the First 12 Months and will not dispose of 50% or more of the Lock-up Shares or enter into any agreement or arrangement which has the same or similar effect during the Second 12 Months.

As stated in the "Letter from Citigroup" as contained in the Composite Document, the lock-up arrangement is a commercial agreement between the Offeror and Mr. Yang which has been reached after arm's length negotiation. As the parties consider that it would be in the best interest of Winteam and its Shareholders to have the continuing service and contributions of Mr. Yang after completion of the Offer, the lock-up arrangement will ensure Mr. Yang will retain minority but meaningful stake in Winteam, which will facilitate a smooth transition after the completion of the Offer and the stable and continuous development of the business and operations of the Group. Further details of the lock-up arrangement are set out in the "Letter from Citigroup" as contained in the Composite Document.

2. Business, financial performance and prospects of the Group

2.1 Business and background information of the Group

Winteam is an investment holding company incorporated in Hong Kong with limited liability and through its subsidiaries is principally engaged in research and development, production and sale of pharmaceutical products in the PRC.

The Group commenced engaging in the pharmaceutical business since late 2006. In the past six years, the Group has delivered satisfactory results and has developed a number of well-known TCM brand names (e.g. De Zhong and Feng Liao Xing). According to the 2012 Interim Report, the Group has a total of 475 products and product specifications, 32 of which are national exclusive products, while 3 are State's protected TCM.

2.2 Financial performance of the Group

A summary of the financial information of the Group are set out below as extracted from the 2012 Interim Report, the 2011 Annual Report and the 2010 Annual Report. Further details of the financial information of the Group are set out in Appendix II to the Composite Document.

	For the year ended 31 December			For the six months ended 30 June	
	2011	**2010**	**2009**	**2012**	**2011**
	(Audited)	*(Audited)*	*(Audited)*	*(Unaudited)*	*(Unaudited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	1,015,935	939,178	670,175	589,565	508,397
Gross profit	548,406	523,904	322,696	314,540	280,366
Gross profit margin	54.0%	55.8%	48.2%	53.4%	55.1%
Profit for the year/period	73,708	86,079	68,226	79,556	37,143
Profit margin	7.3%	9.2%	10.2%	13.5%	7.3%
Profit for the year/period attributable to equity Shareholders	72,072	60,925	44,054	77,967	36,480

2010 compared to 2009

As stated in the 2010 Annual Report, the Group recorded an increase in turnover from approximately HK$670.18 million in the year 2009 to approximately HK$939.18 million in the year 2010 (representing an increase of approximately 40.14%). It was mainly attributable to the Group's successful strategy in focusing on the medicines which have substantial market and the advantages from state policies. The Group's gross profit margin increased from approximately 48.15% in the year 2009 to approximately 55.78% in the year 2010. It was mainly because, following completion of the Group's acquisition of the entire equity interests in Foshan Nanhai Pharmaceutical Group Medicinal Material Co. Ltd. ("Nanhai Pharmaceutical") in late 2009, Nanhai Pharmaceutical served as the Group's central procurement platform of the traditional Chinese medicinal materials and effectively reduced the costs of procurement through bulk purchases. The profit for the year attributable to equity Shareholders increased from approximately HK$44.05 million in the year 2009 to approximately HK$60.93 million in the year 2010 (representing an increase of approximately 38.32%), mainly because of the aforesaid cost saving measures and the increase in sales of patented TCM products.

2011 compared to 2010

As stated in the 2011 Annual Report, the Group recorded an increase in turnover from approximately HK$939.18 million in the year 2010 to approximately HK$1,015.94 million in the year 2011 (representing an increase of approximately 8.17%). The increase in turnover was mainly attributable to the Group's successful strategy in expanding products coverage in primary health care institutions and formation of partnerships with strategic distributors and drug chains to increase the Group's OTC retail market coverage and penetration. In November 2011, the Group completed the acquisition of 100% equity interest in Foshan Nanhai Yikang Pharmaceutical Co., Ltd. ("Nanhai Yikang"). Nanhai Yikang is principally engaged in wholesale of Chinese herbal medicine tablets, Chinese patent medicine, chemical medicine, antibiotic medicine, biochemical medicine, biological products (other than vaccine), protein anabolic agents, peptide hormones; wholesale of medical devices; wholesales of health food; wholesale and retail of pre-packaged foodstuffs; sale of disinfection supplies, cosmetics, daily necessities and health appliances. The acquisition of Nanhai Yikang allowed Winteam to make use of Nanhai Yikang as an integrated sales platform for Winteam's major products manufactured by its various subsidiaries.

However, the Group's gross profit margin decreased from approximately 55.8% in 2010 to approximately 54.0% in 2011, due to the significant price hike in TCM materials which exerted pressure on the cost of sales. As a result, profit from operations of the Group decreased from approximately HK$119.1 million in 2010 to approximately HK$102.1 million in 2011. Profit for the year attributable to equity Shareholders increased from approximately HK$60.93 million in the year 2010 to approximately HK$72.07 million in the year 2011 (representing an increase of approximately 18.28%), mainly because of the successful acquisition of additional equity interests in and hence the consolidation of the results of the two companies, namely Foshan Dezhong Pharmaceutical Co., Ltd. and Foshan Feng Liao Xing Pharmaceutical Co., Ltd..

The six months ended 30 June 2012 compared to the six months ended 30 June 2011

As stated in the 2012 Interim Report, the Group recorded an increase in turnover from approximately HK$508.40 million for the six months ended 30 June 2011 to approximately HK$589.57 million for the six months ended 30 June 2012 (representing an increase of approximately 15.97%) mainly because of the Group's successful expansion of the sales network in primary health care institutions, as well as the establishment of partnerships with major chain pharmacy which has increased the Group's coverage in OTC retail market. Besides, following completion of the acquisition of the entire equity interests in Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales", previously named as Nanhai Yikang) by the Group in November 2011, the Group started to consolidate the results of Winteam Sales. The profit for the period attributable to equity Shareholders increased from approximately HK$36.48 million for the six months ended 30 June 2011 to approximately HK$77.97 million for the six months ended 30 June 2012 (representing an increase of approximately 113.73%) mainly because of the growth in turnover during the period, the effective reinforcement of operating cost control, as well as the improvement in operational efficiency through products and technologies innovation, and optimisation of resource allocation.

Positive profit alert for the year ended 31 December 2012

On 28 November 2012, Winteam published the November 2012 Profit Alert which included the statement (the "Statement") made by the Directors that, based on the preliminary assessment by the Group's management of the unaudited management accounts of the Group for the ten months ended 31 October 2012, the Group is expected to record a significant increase in net profit for the year ended 31 December 2012 as compared to that of the previous year ended 31 December 2011. As stated in the November 2012 Profit Alert, based on information then available to the Group's management, the increase in profit is expected to be mainly attributable to (i) the steady growth in sales of the Group; (ii) the effective cost control over sales and marketing expenses through the continuous integration of end-market sales resources; and (iii) the decrease in cost of raw materials as a result of the decline in price of Chinese herbal materials commonly used by the Group.

As stated in Appendix IV to the Composite Document, KPMG, the auditors of Winteam, is of the opinion that so far as the accounting policies and calculations are concerned, the profit forecast which has been prepared to enable the Directors to issue the Statement, has been properly compiled in accordance with the bases stated by the Directors as set out in the Memorandum of the Board of Directors on the Profit Forecast for the year ended 31 December 2012 and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in Winteam's published annual report for the year ended 31 December 2011. Furthermore, as stated in Appendix V to the Composite Document, Optima Capital is of the opinion that the Statement, for which the Directors are solely responsible, have been made after due care and consideration.

As mentioned in the Letter from Citigroup as contained in the Composite Document, the Offer Price is determined at HK$1.40 per Offer Share (the "Minimum Offer Price"). If the Adjusted Net Profit for FY 2012 is HK$190 million (the "Higher Benchmark") or more, the Offer Price would be adjusted upward to HK$1.70 per Offer Share (the "Maximum Offer Price"). For the year ended 31 December 2011, net profit after tax attributable to the equity Shareholders amounted to approximately HK$72.1 million. If the Adjusted Net Profit reaches HK$190 million or more, the Group's net profit of 2012 would represent a growth of at least 163.5% as compared to the net profit in 2011. According to the 2012 Interim Report, the Group recorded net profit after tax attributable to the Shareholders of approximately HK$78.0 million for the six months ended 30 June 2012, representing about 41.1% of the Higher Benchmark.

Although the Group is expected to record a "significant increase" in net profit for the year ended 31 December 2012 as stated in the November 2012 Profit Alert, Independent Shareholders should bear in mind that there is neither quantitative indication nor guarantee of the actual amount of profit for the year ended 31 December 2012 in the November 2012 Profit Alert or in the Composite Document. Accordingly, the additional HK$0.3 per Offer Share contemplated in the Maximum Offer Price would remain as an uncertainty before the publication of the 2012 annual results announcement of Winteam. It is expected that the 2012 annual results of Winteam would be announced after the close of the Offer unless the Offeror extends the Offer in accordance with the Takeovers Code.

2.3 Financial position

Set out below is the consolidated statement of financial position of the Group as at 31 December 2009, 2010 and 2011 and as at 30 June 2012, as extracted from the annual reports and interim report of Winteam of the relevant year/period.

	For the year ended 31 December			For the six months ended 30 June
	2011	**2010**	**2009**	**2012**
	(Audited)	*(Audited)*	*(Audited)*	*(Unaudited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Fixed assets	581,603	483,607	361,491	615,828
Intangible assets	101,646	115,174	135,127	95,594
Goodwill	208,644	192,578	186,197	207,509
Other financial assets	8,601	9,840	5,828	9,538
Deferred tax assets	12,744	12,612	6,045	12,515
	913,238	813,811	694,688	940,984
Current assets				
Other financial assets	81,411	31,003	–	109,115
Inventories	233,935	168,973	115,041	221,035
Trade and other receivables	346,891	211,502	159,710	326,289
Deposits with banks	4,919	60,875	22,033	104,586
Cash and cash equivalents	42,354	120,012	211,462	69,632
	709,510	592,365	508,246	830,657
Current liabilities				
Trade and other payables	240,798	361,291	169,366	246,333
Bank loans	340,570	109,294	84,042	496,582
Current taxation	12,251	13,466	8,493	10,995
Current portion of deferred government grants	3,230	5,038	6,283	1,651
	596,849	489,089	268,184	755,561
Net current assets	112,661	103,276	240,062	75,096
Total assets less current liabilities	1,025,899	917,087	934,750	1,016,080

	For the year ended 31 December 2011	2010	2009	For the six months ended 30 June 2012
	(Audited)	*(Audited)*	*(Audited)*	*(Unaudited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities				
Deferred tax liabilities	52,097	58,312	55,261	54,786
Deferred government grants	9,487	9,591	7,625	11,993
	61,584	67,903	62,886	66,779
Net assets	964,315	849,184	871,864	949,301
Capital and reserves				
Share capital	178,341	178,341	162,841	178,341
Reserves	770,397	657,318	523,273	753,863
Total equity attributable to equity Shareholders	948,738	835,659	686,114	932,204
Non-controlling interests	15,577	13,525	185,750	17,097
Total equity	964,315	849,184	871,864	949,301

As at 30 June 2012, the consolidated net asset value of the Group attributable to the equity Shareholders amounted to approximately HK$932.2 million, representing a slight decrease of approximately 1.7% from HK$948.7 million as at 31 December 2011. As at 30 June 2012, total assets amounted to approximately HK$1,771.6 million. Non-current assets amounted to approximately HK$941.0 million as at 30 June 2012, primarily consisted of fixed assets of approximately HK$615.8 million (representing the production facilities of the Group); intangible assets of approximately HK$95.6 million (representing production rights, trademarks, distribution network and customer relationship); and goodwill of approximately HK$207.5 million (as arisen from the various acquisitions of equity interests in a number of subsidiaries of the Group). Current assets, on the other hand, amounted to approximately HK$830.7 million as at 30 June 2012, primarily consisted of trade and other receivables of approximately HK$326.3 million; inventories of approximately HK$221.0 million; and other financial assets (representing available-for-sale equity securities (including securities listed in the PRC and unlisted equity securities)) of approximately HK$109.1 million.

As at 30 June 2012, total liabilities amounted to approximately HK$822.3 million. Non-current liabilities comprised of deferred tax liabilities and deferred government grants of approximately HK$54.8 million and approximately HK$12.0 million respectively. Current liabilities mainly consisted of bank loans of approximately HK$496.6 million and trade and other payables of approximately HK$246.3 million respectively.

2.4 Business prospects of the Group

As stated in the 2012 Interim Report, Winteam foresees that, in the short run, it would face pricing pressure and increasing costs of operation such as cost of raw material, salary, energy expenses and finance costs. The implementation of the new Pharmacopoeia and new GMP (Good Manufacturing Practice) has also increased the costs for reconstructing and managing the Group's production lines. Nevertheless, Winteam believes that in the medium to long run, the change in population structure and spectrum of disease will drive up the demand for drugs. 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. Furthermore, standardisation and modernisation of Chinese medicine would also drive the growth of Chinese medicine market.

According to <中醫藥事業發展“十二五”規劃> ("The Twelfth-five Years Plan for Chinese Medicine Industry Development") published by the State Administration of Traditional Chinese Medicine of the PRC, during the last five years plan regime, the gross industry value of TCM increased from RMB119.2 billion in 2005 to RMB317.2 billion in 2010, representing a compound annual growth rate of approximately 22%. The authority expects the gross industry value of TCM would continue to grow and reach RMB559.0 billion in 2015 representing a compound annual growth rate of approximately 12%. In "The Twelfth-five Years Plan for Chinese Medicine Industry Development", the PRC government sets the directions of policies for the years 2011 to 2015, which include, among others, increasing TCM services coverage within the country, further technological innovation of TCM, and raising the quality and standard of TCM and professional TCM personnel. Based on the above, it appears to us that the Group would face both opportunities and challenges ahead in the sense that while the TCM industry as a whole would be benefited from the government policy and the market demand for TCM products and services would be stimulated, on the other hand, due to the growing demand for quality and innovation of TCM, market players would inevitably face competition in terms of quality and cost pressure in the aspects of production, marketing, research and development.

As discussed in the paragraph headed "2.2 Financial performance of the Group" above, the Group recorded steady growth in revenue and profit during 2010, 2011 and the first half of 2012, and is expected to record a significant increase in net profit for the year ended 31 December 2012. In particular, we noted that the revenue increase in 2010, 2011 and the first half of 2012 had been contributed partly by several times of merger and acquisitions. Besides, the increase in profit in 2012 was also attributable to the reduction in selling and distribution costs and decrease in cost of raw materials. We are of the view that the cost of raw materials usually fluctuates depending on market situation from time to time and may not maintain at a low level in the long run. Furthermore, as discussed above, in light of the opportunities and challenges that lie ahead of the Group amid the continuous development of the TCM industry, marketing and other operating cost may not be able to maintain at a low level in the long run as market players would face competition in terms of quality and cost pressure in the aspects of production, marketing, research and development. Accordingly, in our view, while the TCM industry as a whole has a positive prospect, whether the Group can sustain a continuous growth would depend on a number of factors, including, among other things, market price of products and materials, market competition landscape and whether acquisition opportunities arise.

3. Information on the Offeror and the intention of the Offeror in relation to Winteam

3.1 Information on CNPGC and the Offeror

The Offeror is an investment holding company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of CNPGC. CNPGC is a state-owned enterprise established in the PRC. It is the largest pharmaceutical and healthcare group administered directly by the State-owned Assets Supervision and Administration Commission of the State Council. Its core businesses are pharmaceutical distribution, pharmaceutical scientific research and manufacture of medical and biotech products.

3.2 Business and operations of the Group

As stated in the "Letter from Citigroup" as contained in Composite Document, other than the certain changes to the composition of the Board as described in the section headed "Proposed changes to composition of the Board" set out in the Letter from Citigroup, the Offeror does not intend to institute any major changes to Winteam's current business and operations (including any redeployment of assets or major employee changes within the Group). However, the Offeror will conduct a review on the overall business of the Group and will keep Shareholders and investors informed by making further announcement(s) as and when appropriate in accordance with the requirements of applicable law, including but not limited to the Takeovers Code and the Listing Rules. As at the Latest Practicable Date, the Offeror has conducted an internal review of the business opportunities available to the CNPGC Group and considers some of these opportunities to be synergistic with that of the Group. Following the review of the overall business of the Group, the Offeror may consider recommending to the Board any of such opportunities, as well as any other opportunities that may arise in the market from time to time that it considers to be value-enhancing to Shareholders and/or otherwise in the best interests of the Group.

3.3 Management of the Group

Each of Mr. Xu Tiefeng, Mr. Situ Min, Mr. Du Richeng, Mr. Lo Wing Yat, Mr. Pang Fu Keung, Mr. Wang Bo and Mr. Zhang Jianhui had, prior to Completion, tendered his resignation as a director of Winteam and (where appropriate) its subsidiaries. Their resignation will take effect from the first Closing Date in accordance with the Takeovers Code. Each of Mr. Wu Xian and Mr. Lu Jun has been appointed as an executive Director, each of Mr. She Lulin, Mr. Liu Cunzhou and Mr. Zhao Dongji has been appointed as a non-executive Director and each of Mr. Zhou Bajun, Mr. Xie Rong and Mr. Fang Shuting has been appointed as an independent Director in each case with effect after the despatch of the Composite Document in accordance with the Takeovers Code. Biographies of the new Directors are set out in the joint announcements issued by CNPGC, the Offeror and Winteam on 29 January 2013 and 4 February 2013. The Offeror has also undertaken to the Vendors in the S&P Agreement that it will, to the extent permitted under applicable laws and memorandum and articles of association of Winteam, vote in favour of the continuing appointment of Mr. Yang as a Director of Winteam for a period of three years from the Completion Date provided that Mr. Yang holds not less than 10% of the total issue Shares of Winteam.

3.4 Maintenance of the listing status of Winteam

The Offeror intends to maintain the listing of the Shares on the Stock Exchange after the close of the Offer. The directors of the Offeror and the new directors to be appointed to the Board by the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps including, among others, the placing of Shares by the Offeror or the issue of new Shares by Winteam, as soon as possible following the close of the Offer to ensure that a sufficient public float is maintained for the Shares.

4. Offer Price compared to Share price

The Minimum Offer Price of HK$1.4 per Offer Share represents:

(i) a discount of approximately 3.4% to the closing price of HK$1.45 per Share as quoted on the Stock Exchange on 30 August 2012, being the Last Trading Day;

(ii) a discount of approximately 2.9% to the average closing price of the Shares as quoted on the Stock Exchange for the last five consecutive full Trading Days up to and including the Last Trading Day, being approximately HK$1.442 per Share;

(iii) a discount of approximately 1.3% to the average closing price of the Shares as quoted on the Stock Exchange for the last 30 consecutive full Trading Days up to and including the Last Trading Day, being approximately HK$1.419 per Share;

(iv) a discount of approximately 15.7% to the closing price of the Shares as quoted on the Stock Exchange on the Latest Practicable Date, being approximately HK$1.66 per Share;

(v) a premium of approximately 167.8% over the unaudited consolidated equity per Share attributable to the Shareholders of approximately HK$0.5227 per Share as at 30 June 2012; and

(vi) a premium of approximately 163.2% over the audited consolidated equity per Share attributable to the Shareholders of approximately HK$0.53198 per Share as at 31 December 2011.

The Maximum Offer Price of HK$1.70 per Offer Share represents:

(i) a premium of approximately 17.2% over the closing price of HK$1.45 per Share as quoted on the Stock Exchange on 30 August 2012, being the Last Trading Day;

(ii) a premium of approximately 17.9% over the average closing price of the Shares as quoted on the Stock Exchange for the last five consecutive full trading days up to and including the Last Trading Day, being approximately HK$1.442 per Share;

(iii) a premium of approximately 19.8% over the average closing price of the Shares as quoted on the Stock Exchange for the last 30 consecutive full trading days up to and including the Last Trading Day, being approximately HK$1.419 per Share;

(iv) a premium of approximately 2.4% over the average closing price of the Shares as quoted on the Stock Exchange on the Latest Practicable Date, being approximately HK$1.66 per Share;

(v) a premium of approximately 225.2% over the unaudited consolidated equity per Share attributable to the Shareholders of approximately HK$0.5227 per Share as at 30 June 2012; and

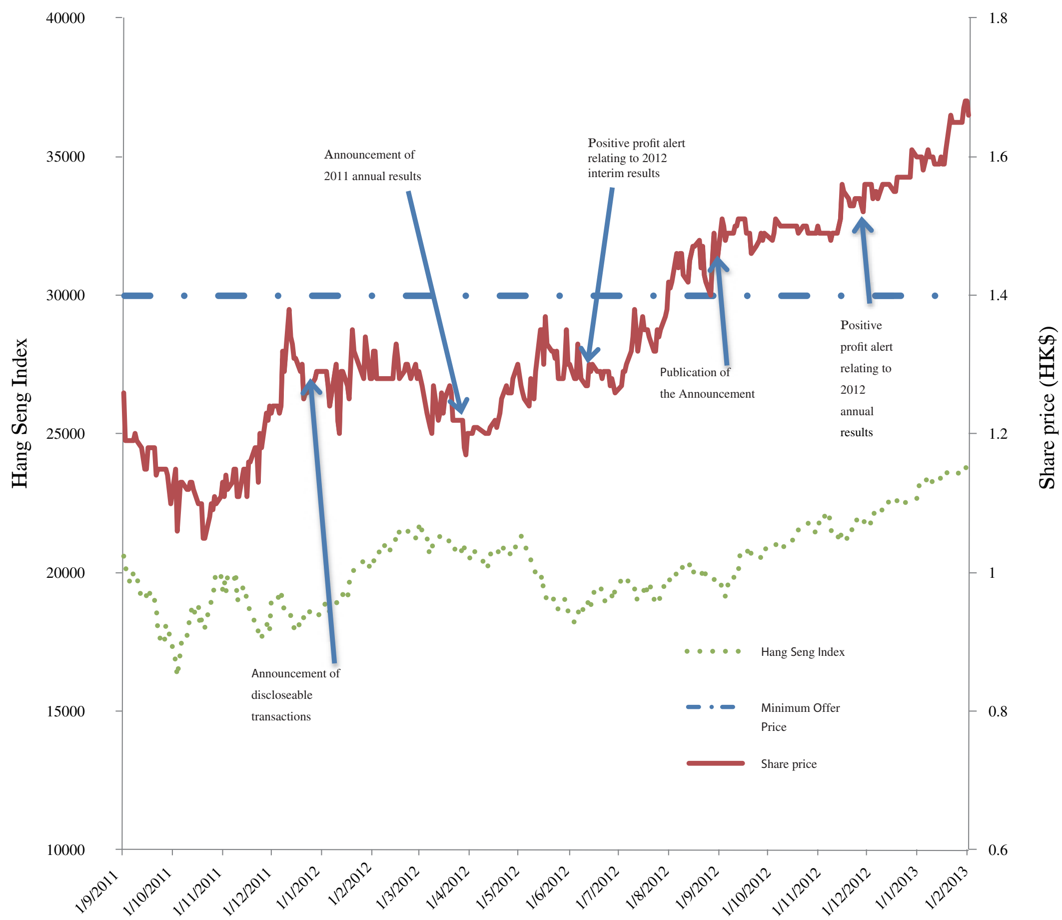
(vi) a premium of approximately 219.6% over the audited consolidated equity per Share attributable to the Shareholders of approximately HK$0.53198 per Share as at 31 December 2011.

5. Trading performance of the Shares

5.1 Historical price performance of the Shares

The following chart sets out the daily closing prices of the Shares on the Stock Exchange for the period from 1 September 2011 (being the first trading day of the 12-month period ending on the Last Trading Day) up to and including the Latest Practicable Date (the "Review Period").

Closing price of the Shares during the Review Period



Source: The website of the Stock Exchange (www.hkex.com.hk) and Bloomberg (www.bloomberg.com)

Note: Trading in the Shares was suspended on 23 December 2011 and on 31 August 2012.

On 23 December 2011, Winteam announced certain discloseable transactions in relation to the investment in 51% of the registered capital of and the provision of loan to Guizhou Zhongtai Biological Technology Company Limited which is principally engaged in research and development, production and sales of plasma-based biopharmaceutical products in the PRC. Following the announcement of such discloseable transactions, the closing Share price increased slightly by approximately 1.6% from HK$1.26 on 22 December 2011 to HK$1.28 on the trading day after, and fluctuated within a range between HK$1.20 to HK$1.35 until 23 March 2012 when the 2011 annual results of the Group was announced.

On 23 March 2012, 2011 annual results of the Group was announced. Profit attributable to equity Shareholders increased by approximately 18.3%, mainly because of the increase in equity holdings in certain subsidiaries of the Group. After the release of the 2011 annual results announcement, there was no immediate significant Share price movement and the closing Share price maintained at HK$1.22 during 23 to 27 March 2012, and further dropped to HK$1.17 on 29 March 2012. Nevertheless, the closing Share price subsequently increased gradually and reached HK$1.37 on 17 May 2012 despite the fact that there was no public announcement or corporate action made by Winteam and there was no significant movement of Hang Seng Index or change in stock market atmosphere.

On 10 July 2012, Winteam announced a positive profit alert concerning the interim results of the Group for the six months ended 30 June 2012. According to such announcement, the Board expected a significant increase in net profit of the Group for the six months ended 30 June 2012 as brought by (i) the steady growth in sales of the Group; (ii) effective cost control over sales and marketing expenses; and (iii) the decrease in cost of raw materials. Following the release of the positive profit alert, the closing Share price increased by approximately 3.0% from HK$1.34 on 10 July 2012 to HK$1.38 on 11 July 2012, and continued to rise gradually and reached HK$1.49 on 29 August 2012.

After the close of business on 30 August 2012, interim results announcement of the Group was published. Profit attributable to equity shareholders of Winteam for the six months ended 30 June 2012 amounted to approximately HK$78 million, representing an increase of approximately 113.7% as compared to the corresponding period in 2011.

On 31 August 2012, the Announcement was published. Following the issue of the Announcement, the closing Share price increased from HK$1.45 on 30 August 2012 to HK$1.51 on 3 September 2012. On 28 November 2012, Winteam published the November 2012 Profit Alert concerning the annual results of the Group for the year ended 31 December 2012, the closing Share price increased from HK$1.52 on 28 November 2012 to HK$1.56 on the trading day after. It is noted that the closing Share price fluctuated in the range between HK$1.45 and HK$1.68 since the date of the Announcement and up to the Latest Practicable Date.

As shown in chart above, the Share price did not demonstrate strong correlation with Hang Seng Index in general. Following the Announcement and up to the Latest Practicable Date, although both the Share price and Hang Seng Index demonstrated a moderate rising trend and the closing Share price was traded above the Minimum Offer Price, it seems to us that the rising trend of the Share price which is above the Minimum Offer Price during such period is mainly due to the announcement of the Offer reflecting the market reaction to the Offer. Given the historical Share price performance, we consider that the current Share price is supported by the Offer.

It is noted that the Minimum Offer Price represents a premium over the Share price during 12 months out of 17 months in the Review Period. During the Review Period, the lowest closing price of the Shares was HK$1.05 on 20 October 2011 and 21 October 2011, and the highest closing price of the Shares was HK$1.68 on 30 and 31 January 2013. During the Review Period, the average closing price of the Shares was approximately HK$1.34. The Minimum Offer Price represents a premium of approximately 33.33% over the lowest closing price of the Shares during the Review Period and a premium of approximately 4.48% over such average closing price of the Shares during the Review Period.

Independent Shareholders who wish to realise their investment in the Shares are reminded that they should carefully and closely monitor the market price of the Shares during the Offer Period and consider selling their Shares in the open market during the Offer Period, rather than accepting the Offer, if the net proceeds from the sales of such Shares in the open market would exceed the net amount receivable under the Offer. However, we consider that the Offer provides an alternative exit to the Independent Shareholders to realise their investment in Winteam at the Offer Price without exerting a downward pressure on the price of the Shares when disposing of a large number of Shares in the open market taking into account the low liquidity of the Shares as discussed under the section headed "5.2 Liquidity of the Shares" below.

Independent Shareholders should note that the additional HK$0.3 per Offer Share pursuant to the Maximum Offer Price of HK$1.7 per Offer Share is subject to the annual results of the Group for the year ended 31 December 2012 which is currently expected to be announced after the close of the Offer unless the Offeror extends the Offer in accordance with the Takeovers Code. The accepting Shareholders may or may not receive this additional HK$0.3 per Offer Share. There is no guarantee that the Adjusted Net Profit for FY 2012 would meet the targeted level of HK$190 million.

Despite that the closing Share price was traded above the Minimum Offer Price following the Announcement and up to the Latest Practicable Date, given that (i) the Minimum Offer Price represents a premium over the closing price of the Shares during 12 months out of 17 months in the Review Period; (ii) the Minimum Offer Price represents a premium of approximately 4.48% over the average closing price of the Share during the Review Period; (iii) the Minimum Offer Price represents a premium of approximately 167.8% over the unaudited consolidated equity per Share attributable to the Shareholders of approximately HK$0.5227 as at 30 June 2012; (iv) given the thin trading volume of the Shares as discussed in the paragraph headed "5.2 Liquidity of the Shares" below, the Offer provides an alternative exit to the Independent Shareholders to realise their investment in Winteam at the Offer Price without exerting a downward pressure on the price of the Shares when disposing of a large number of Shares in the open market; and (v) the rising trend of the Share price which was traded above the Minimum Offer Price following the Announcement and up to the Latest Practicable Date is mainly due to the announcement of the Offer reflecting the market reaction to the Offer, we are of the view that the Minimum Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

5.2 Liquidity of the Shares

The following table sets out the trading volume of the Shares during the Review Period:

Historical trading volume of the Shares

Month	**Total trading volume** *(no. of Shares)*	**No. of trading days**	**Average daily trading volume** *(no. of Shares)*	**Percentage of average daily trading volume to no. of outstanding Shares** *(Approximate %)* *(Note 1)*	**Percentage of average daily trading volume to no. of Shares held by the public** *(Approximate %)* *(Note 2)*
Sept-2011	7,049,500	21	335,690	0.02	0.06
Oct-2011	5,477,500	20	273,875	0.02	0.05
Nov-2011	6,840,031	22	310,910	0.02	0.05
Dec-2011	11,708,000	19	616,210	0.03	0.10
Jan-2012	7,898,000	18	438,777	0.02	0.07
Feb-2012	11,648,000	21	554,666	0.03	0.09
Mar-2012	14,814,750	22	673,397	0.04	0.11
Apr-2012	12,320,000	18	684,444	0.04	0.11
May-2012	24,542,000	22	1,115,545	0.06	0.19
Jun-2012	10,876,000	21	517,904	0.03	0.09
Jul-2012	17,928,000	21	853,714	0.05	0.14
Aug-2012	31,846,000	22	1,447,545	0.08	0.24
Sept-2012	64,522,000	20	3,226,100	0.18	0.54
Oct-2012	22,381,750	20	1,119,087	0.06	0.19
Nov-2012	32,463,294	22	1,475,604	0.08	0.25
Dec-2012	27,125,920	19	1,427,680	0.08	0.24
Jan-2013	432,707,893	22	19,668,540	1.10	3.29
Feb-2013 (Up to the Latest Practicable Date)	2,800,521	1	2,800,521	0.16	0.47

Source: The website of the Stock Exchange (www.hkex.com.hk)

Notes:

(1) Based on the 1,783,410,807 Shares in issue as at the Latest Practicable Date.

(2) Based on the 598,501,473 Shares held by the public as at the Latest Practicable Date.

As illustrated in the table above, during the Review Period, we noted that the average daily trading volume of the Shares as a percentage of the total number of issued Shares as at the Latest Practicable Date ranged from approximately 0.02% to approximately 1.10% while the average daily trading volume of the Shares as a percentage of the total number of the Shares held by the public as at the Latest Practicable Date ranged from approximately 0.05% to approximately 3.29%. Based on the above, the trading volume of the Shares during the Review Period was very thin. Although it is noted that there had been a slight increase in trading volume during September 2012 (which was the month following the publication of the Announcement), save for the completion of the transaction of 354,898,750 Shares under the S&P Agreement on 29 January 2013, trading volume reduced again subsequently during the period in October 2012 and up to the Latest Practicable Date to the level prior to publication of the Announcement.

Given the consistently low liquidity, it may be difficult for the Independent Shareholders to dispose of a large number of the Shares in the open market without exerting a downward pressure on the price of the Shares. As such, we are of the view that the Offer provides an alternative exit to the Independent Shareholders to realise their investment in the Shares.

6. Comparable companies

The price-to-earning multiple ("P/E Ratio") is a widely used and accepted method to value a company with recurrent income base and we adopted to use the P/E Ratio in evaluating Winteam. In order to assess the fairness and reasonableness of the Offer Price, we have conducted researches from the public domain and have identified sixteen companies, being an exhaustive list, which (i) are listed on the Stock Exchange; (ii) are principally engaged in the manufacture and sale of Chinese and/or western medicine and pharmaceutical products (accounted for more than 90% of their turnovers for their respective latest financial year); (iii) had more than 50% of their revenue originating from the PRC and/or Hong Kong; (iv) are profit-making in their latest financial year; and (v) had a market capitalisation of less than HK$3,000 million as at the Last Trading Day, and compared their P/E Ratios to that of Winteam as implied by the Offer Price. Based on the aforesaid selection criteria, we consider the selected companies represent fair and representative samples considering that the (i) principal business; (ii) geographic source of revenue; and (iii) market capitalization of the selected companies are similar to that of Winteam, i.e. principally engaged in the manufacture and sale of Chinese and/or western medicine and pharmaceutical products in the PRC, the P/E Ratios of which could reflect how the market values companies taking part in such industry, and could provide a general reference when assessing the fairness of the Offer Price. The list of the selected companies and their respective P/E Ratios, which is exhaustive, are set out below:

Comparison with selected companies

Company name	Stock code	Principal business	Market capitalisation *(Note 1)* *(1)* *(HK$ million)*	Net profit after tax *(Note 2&3)* *(2)* *(HK$ million)*	P/E Ratio *(3)=(1)/(2)* *(times)*
Northeast Tiger Pharmaceutical Co. Ltd	8197	Manufacturing and sale of Chinese medicine products in the PRC	76.91	9.62	8.00
Essex Bio-Technology Ltd	1061	Manufacture and sale of biopharmaceutical products for the treatment and healing of surface wounds and eye wounds	373.02	33.20	11.23

Company name	**Stock code**	**Principal business**	**Market capitalisation** *(Note 1)* *(1)* *(HK$ million)*	**Net profit after tax** *(Note 2&3)* *(2)* *(HK$ million)*	**P/E Ratio** *(3)=(1)/(2)* *(times)*
Jilin Province Huinan Changlong Bio-pharmacy Co. Ltd.	8049	Manufacture and distribution of biochemical medicines in the PRC under the brand names of Changlong and Shendi	425.79	62.25	6.84
China Grand Pharmaceutical and Healthcare Holdings Ltd.	512	Manufacture and sales of pharmaceutical products in the PRC	441.46	86.67	5.09
Pak Fah Yeow International Ltd.	239	Manufacture and sale of Hoe Hin Brand of products, treasury and property investment	625.88	46.23	13.54
Wuyi International Pharmaceutical Co. Ltd.	1889	Development, manufacturing, marketing and sales of pharmaceutical products	632.62	69.56	9.09
Bloomage BioTechnology Corporation Ltd.	963	Production and sale of bio-chemical products	748.80	88.83	8.43
Shenzhen Neptunus Interlong Bio-Technique Co. Ltd.	8329	Research and development ("R&D") of modern biological technology and the provision of R&D services, production and sales of medicine in the PRC	805.44	36.03	22.36
Shandong Xinhua Pharmaceutical Co. Ltd.	719	Development, production and sale of pharmaceutical raw materials, preparations, chemical products and other products and commerce circulations	814.02	95.37	8.54
Lansen Pharmaceutical Holdings Ltd.	503	Manufacturing and trading of pharmaceutical products	830.00	96.59	8.59
Tianda Pharmaceuticals Ltd.	455	Manufacture and sales of pharmaceutical and biotechnology products, mining and energy, packaging and printing business	916.36	43.97	20.84

Company name	Stock code	Principal business	Market capitalisation *(Note 1)* *(1)* *(HK$ million)*	Net profit after tax *(Note 2&3)* *(2)* *(HK$ million)*	P/E Ratio *(3)=(1)/(2)* *(times)*
Extrawell Pharmaceutical Holdings Ltd	858	Marketing and distribution of pharmaceutical products in the PRC; development, manufacturing and sales of pharmaceutical products in the PRC; commercial exploitation and development of genomerelated technology; and development and commercialisation of oral insulin products	1,110.65	15.94	69.69
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co. Ltd.	8231	R&D and commercialization of innovative drugs	1,270.90	39.60	32.10
Dawnrays Pharmaceutical (Holdings) Ltd.	2348	Development, manufacture and sale of non-patented pharmaceutical medicines including intermediate pharmaceutical, bulk medicines and finished drugs	1,319.99	178.96	7.38
Lee's Pharmaceutical Holdings Ltd.	950	Development, manufacturing and sales of pharmaceutical products	2,379.22	84.02	28.32
Winteam Pharmaceutical Group Ltd.	570	Research and development, production and sale of pharmaceutical products in the PRC	2,585.95	73.71	35.08
				Maximum	69.69
				Minimum	5.09
				Mean	18.44
				Median	10.16
P/E Ratio represented by the Maximum Offer Price of HK$1.7 *(Note 4)*					42.08
P/E Ratio represented by the Minimum Offer Price of HK$1.4 *(Note 4)*					34.65

Source: The website of the Stock Exchange (www.hkex.com.hk)

Notes:

(1) Based on the respective closing share prices on the Last Trading Day and the number of shares in issue as at 31 August 2012 (being the date of the Announcement).

(2) Based on the latest financial data as published in the respective annual reports by the Latest Practicable Date.

(3) Figures in RMB and US$ have been converted into HK$ using the approximate exchange rates of RMB1 to HK$1.223 and US$1 to HK$7.756 respectively.

(4) The maximum and minimum P/E Ratio of the Offer is calculated based on the maximum and minimum Offer Price of HK$1.7 and HK$1.4 respectively over the earnings per share of approximately HK$0.0404 for the year ended 31 December 2011 as stated in the 2011 annual report of Winteam.

As shown in the table above, the P/E Ratios of the selected companies ranged from approximately 5.09 times to approximately 69.69 times, with a mean and a median of approximately 18.44 times and approximately 10.16 times, respectively. The P/E Ratios of approximately 42.08 times and approximately 34.65 times as implied by the maximum and minimum Offer Price respectively fall within the range and is higher than the mean and the median of the P/E Ratios of the selected companies, representing a premium of approximately 128.20% and approximately 87.91% over the mean of the P/E Ratios of the selected companies respectively.

Based on the above, we consider that the Minimum Offer Price represents a reasonable premium over the earnings per share of Winteam, over the average closing price of the Shares during the Review Period and over the average P/E Ratio of the abovementioned selected companies. We are of the view that the Minimum Offer Price is favourable so far as the Independent Shareholders are concerned.

OPINION AND RECOMMENDATION

Having considered the principal factors discussed above and, in particular the following,

(i) the Minimum Offer Price represents a premium over the closing price of the Shares during 12 months out of 17 months in the Review Period;

(ii) the Minimum Offer Price represents a premium of approximately 167.8% over the unaudited consolidated equity per Share attributable to the Shareholders of approximately HK$0.5227 as at 30 June 2012;

(iii) the P/E Ratio as represented by the Minimum Offer Price is higher than the mean and median P/E Ratios of the comparable companies;

(iv) as discussed in the paragraphs headed "2.4 Business prospects of the Group" above, although the Group recorded steady growth in revenue and profit in recent years, whether the Group would sustain growth in the future would depend on a number of factors. In this light, given that the Minimum Offer Price compare reasonably against the trend of historical Share price, the unaudited consolidated equity per Share attributable to the Shareholders as at 30 June 2012, and the P/E ratio of the comparable companies as summarised in points (i), (ii) and (iii) above, we consider that the Minimum Offer Price has given a good value for the Shares;

(v) the overall liquidity of the Shares was relatively low during the Review Period, and the Independent Shareholders who intend to dispose of a large number of Shares may not be able to do so without exerting a downward pressure on the price of the Shares, whereas the Offer provides an alternative exit to the Independent Shareholders to realise their investment in Winteam at least at the Minimum Offer Price; and

(vi) as set out in the Composite Document, despite the fact that Mr. Yang is expected to retain in the Board for a period of three years, there would still be substantial changes to the composition of the Board after the despatch of the Composite Document. The biographies of the new Directors are stated in the joint announcements of CNPGC, the Offeror and Winteam on 29 January 2013 and 4 February 2013. It is noted that the new Directors are experienced in the TCM industry. Nevertheless, the new Directors are new to the Group after all, and it is uncertain as to how they would manage the business operation and development of the Group. In this light, we consider that the Offer represents an alternative opportunity for the Independent Shareholders, in particular those who are not confident in the proposed new Board or the prospects of the TCM industry, to realise their investment in Winteam,

we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the Minimum Offer Price is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we recommend the Independent Shareholders, to accept the Offer.

The accepting Shareholders would get an additional return of HK$0.3 per Offer Share in the event that the Adjusted Net Profit reaches HK$190 million or more and that the Offer Price is adjusted upward to HK$1.70 per Offer Share. Nevertheless. Independent Shareholders should bear in mind that such HK$0.3 per Offer Share is a possibility only. Although Winteam has published the November 2012 Profit Alert, there is no quantitative indication or guarantee of the actual amount of the Adjusted Net Profit.

We also note from the Letter from Citigroup, that the Offeror is an investment holding company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of CNPGC. CNPGC is a state-owned enterprise established in the PRC. It is the largest pharmaceutical and healthcare group administered directly by the State-owned Assets Supervision and Administration Commission of the State Council. As stated in the paragraph headed "Reason for the Offer" in the Letter from Citigroup, CNPGC hopes to increase Winteam's sales through its expertise in financial management, operation management, strategy and human resources and information management. We consider that it is possible that the Group may be able to capitalise on the pharmaceutical related experience, network and background of the Offeror to continue to develop prosperously in the future. Nevertheless, the value which could be created (if any), and the time and efforts required for creating value for the Group and the Shareholders are uncertain. In addition, based on our analysis as summarised in points (i) to (vi) above, on the balance, we maintain our view that the terms of the Offer (including the Minimum Offer Price) are fair and reasonable.

Besides, in view of the recent increase in trading price of the Shares after the Announcement, we recommend the Independent Shareholders who would like to realise part or all of their investments in Winteam to closely monitor the market price of the Shares during period when the Offer is open for acceptance.

In the event that the market price of the Shares exceeds the Maximum Offer Price of HK$1.70 during the period when the Offer is open for acceptance and the net proceeds from sale of Shares in the market (being the proceeds net of the transaction cost taking into account the possible downward pressure on the selling price of the Shares due to the thin liquidity of the Shares) exceed the net amount receivable under the Offer even if the Adjusted Net Profit could meet the Higher Benchmark of HK$190 million, the Independent Shareholders should consider selling their Shares in the market instead of accepting the Offer.

In the event that the market price of the Shares exceeds the Minimum Offer Price of HK$1.40 but is below the Maximum Offer Price of HK$1.70 during the period when the Offer is open for acceptance and the net proceeds from sale of Shares in the market (being the proceeds net of the transaction cost taking into account the possible downward pressure on the selling price of the Shares due to the thin liquidity of the Shares) exceed the net amount receivable under the Offer if the Offer Price is determined at the minimum level of HK$1.40 per Offer Share, the Independent Shareholders should also consider selling their Shares in the market instead of accepting the Offer because it is uncertain as to whether the Adjusted Net Profit would reach HK$190 million (and therefore the Offer Price would be determined at HK$1.70 per Offer Share).

Given the thin trading volume of the Shares, any realisation of significant number of Shares in the market might exert downward pressure on the market price of the Shares. For those Independent Shareholders who may not be able to realise a higher return from selling of the Shares in the open market, they are recommended to accept the Offer which provides them with a reasonable exit to realise their investments.

Independent Shareholders are also strongly advised that their decision to realise or to hold their investments in the Shares depends on their own individual circumstances and investment objectives as well as their assessment on the overall development and prospects of the TCM industry as well as that of the Group. For those Independent Shareholders who wish to retain part or all or their shareholdings in Winteam should note that, it is the intention of the Offeror to maintain the listing status of Winteam, and not to institute any major changes to Winteam's current business and operations. The Offeror will also conduct a review on the overall business of the Group and may consider recommending to the Board any business opportunities available to the CNPGC Group that are considered to be synergistic with that of the Group, as well as any other opportunities that may arise in the market from time to time that it considers to be value-enhancing to Shareholders and/or otherwise in the best interests of the Group.

Independent Shareholders who wish to accept the Offer are recommended to read carefully the procedures for accepting the Offer as detailed in the section headed "Further terms of the Offer" in Appendix I to the Composite Document, and also the accompanying Form of Acceptance.

Yours faithfully,
For and on behalf of

Guotai Junan Capital Limited	**Goldin Financial Limited**
Wilson Lo	**Billy Tang**
Executive director	*Director*

1. PROCEDURES FOR ACCEPTANCE OF THE OFFER

(a) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Offer, you must send the accompanying Form of Acceptance duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar, by post or by hand, marked "**Winteam Pharmaceutical Group Limited Share Offer**" on the envelope.

(b) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Share(s) is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer, you must either:

(i) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the accompanying Form of Acceptance duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar in an envelope marked "**Winteam Pharmaceutical Group Limited Share Offer**";

(ii) arrange for the Share(s) to be registered in your name by Winteam through the Registrar and send the accompanying Form of Acceptance duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar in an envelope marked "**Winteam Pharmaceutical Group Limited Share Offer**";

(iii) if your Share(s) have been lodged with your licensed securities dealer (or other registered dealer in securities)/custodian bank through CCASS, instruct your licensed securities dealer (or other registered dealer in securities or custodian bank) to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited. In order to meet the deadline set out by HKSCC Nominees Limited, you should check with your licensed securities dealer (or other registered dealer in securities or custodian bank) for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer (or other registered dealer in securities or custodian bank) as required by them; or

(iv) if your Share(s) have been lodged with your investor participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set out by HKSCC Nominees Limited.

(c) If the Share certificate(s) and/or transfer receipt(s) and/or, any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Share(s) is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Offer, the accompanying Form of Acceptance should nevertheless be completed and delivered in an envelope marked "**Winteam Pharmaceutical Group Limited Share Offer**" to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s), you should also write to the Registrar for a form of letter of indemnity which, when completed in accordance with the instructions given therein, should be returned to the Registrar.

(d) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your Share certificate(s) and you wish to accept the Offer, you should nevertheless complete the Form of Acceptance and deliver it in an envelope marked "**Winteam Pharmaceutical Group Limited Share Offer**" to the Registrar together with the transfer receipt(s) duly signed by you. Such action will be deemed to be an irrevocable instruction and authority to each of the Citigroup and/or the Offeror and/or any of their respective agent(s) to collect from Winteam or the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such Share certificate(s) to the Registrar and to authorise and instruct the Registrar to hold such Share certificate(s), subject to the terms and conditions of the Offer, as if it was/they were delivered to the Registrar with the Form of Acceptance.

(e) Acceptance of the Offer will be treated as valid only if the completed Form of Acceptance is received by the Registrar by not later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in compliance with the requirements of the Takeovers Code, and is:

(i) accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those Share certificate(s) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Share(s) in blank or in your favour executed by the registered holder) in order to establish your right to become the registered holder of the relevant Share(s); or

(ii) from a registered Shareholder of Share(s) or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to Share(s) which are not taken into account under another sub-paragraph of this paragraph (e)); or

(iii) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

(f) No acknowledgement of receipt for any Form(s) of Acceptance, Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

2. SETTLEMENT

(a) Provided that the Form of Acceptance and the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order in all respects and have been received by the Registrar by no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code, a cheque for the amount representing the cash consideration of HK$1.40 per Offer Share due to each accepting Independent Shareholder in respect of the Offer Share(s) tendered by him/her/it, less the seller's ad valorem stamp duty payable by him/her/it, will be despatched to each accepting Independent Shareholder by ordinary post at his/her/its own risk as soon as possible but in any event within seven Business Days of the date of the receipt by the Registrar of a complete and valid acceptance of the Offer, or of the date on which the Offer becomes or is declared unconditional in all respects, whichever is the later.

(b) If the Adjusted Net Profit for FY 2012 is HK$190 million or more, a cheque for the amount representing an additional amount of HK$0.30 per Offer Share will be despatched to each accepting Independent Shareholder by ordinary post at his/her/its own risk as soon as possible but in any event within seven Business Days after the release of the 2012 annual results announcement of Winteam. For the avoidance of doubt, if the Adjusted Net Profit for FY 2012 is less than HK$190 million, no further payment shall be made by the Offeror for the Offer Shares.

(c) Settlement of the Consideration to which any Independent Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Independent Shareholder. No fractions of a cent will be payable and the amount of cash consideration payable to any accepting Independent Shareholder will be rounded down to the nearest cent.

3. ACCEPTANCE PERIOD AND REVISIONS

(a) The Offer is made on Tuesday, 5 February 2013, being the date of posting of this composite Document, and is capable of acceptance on and from that date and will remain open for acceptance until 4:00 p.m. on the Closing Date, unless extended or revised in accordance with the Takeovers Code. The Offer will be conditional on the satisfaction of Conditions.

(b) The Offeror reserves the right to revise or extend the Offer in accordance with the Takeovers Code.

(c) If the Offer is extended or revised, the announcement of such extension or revision will state the next Closing Date and Offer will remain open for acceptance for a period of not less than 14 days from the posting of the written notification of the extension or revision to the Independent Shareholders and, unless previously extended or revised, shall be closed on the subsequent Closing Date. If the Offeror revises the terms of the Offer, all Independent Shareholders, whether or not they have already accepted the Offer, will be entitled to accept the revised Offer under the revised terms. The benefit of any revision of the Offer will be available to any Independent Shareholder who has previously accepted the Offer. The execution by or on behalf of any Independent Shareholder who has previously accepted the Offer shall be deemed to constitute acceptance of the revised Offer unless such Independent Shareholder becomes entitled to withdraw his/her/its acceptance and duly does so.

(d) In order to constitute a valid acceptance, acceptances must be received by the Registrar in accordance with the instructions printed on the Form of Acceptance by no later than 4:00 p.m. on the Closing Date, unless the Offer is extended or revised.

(e) If the Closing Date of the Offer is extended, any reference in this Composite Document and in the Form of Acceptance to the closing date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offer as so extended.

4. ANNOUNCEMENTS

(a) By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror shall inform the Executive and the Stock Exchange of its intentions in relation to the revision, extension, expiry or unconditionality of the Offer. The Offeror shall publish an announcement in accordance with the Listing Rules on the Stock Exchange's website by 7:00 p.m. on the Closing Date (or such later time and/or date as the Executive may agree), stating the results of the Offer and whether the Offer had been revised or extended, has expired or has become or been declared unconditional (and, in such case, whether as to acceptances or in all respects). The announcement shall state the following:

(i) the total number of Shares and rights over Shares for which acceptances of the Offer have been received;

(ii) the total number of Shares and rights over Shares held, controlled or directed by the Offeror or parties acting in concert with it before the Offer Period;

(iii) the total number of Shares and rights over Shares acquired or agreed to be acquired during the Offer Period by the Offeror or any parties acting in concert with it; and

(iv) details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in Winteam which the Offeror or any person acting in concert with it has borrowed or lent, save for any borrowed shares which have been either on-lent or sold.

(b) The announcement must specify the percentages of the issued share capital of Winteam and the percentages of voting rights of Winteam represented by these numbers.

(c) In computing the total number of Offer Shares represented by acceptances, for announcement purposes, acceptances which are in all respects in complete and good order and that have been received by the Registrar no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offer, shall be included.

(d) As required under the Takeovers Code and the Listing Rules, all announcements in relation to the Offer must be made in accordance with the requirements of the Listing Rules.

5. NOMINEE REGISTRATION

(a) To ensure the equality of treatment of all Independent Shareholders, registered Independent Shareholders who hold the Offer Share(s) as nominees on behalf of more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of Share(s) whose investments are registered in the names of nominees to accept the Offer, it is essential that they provide instructions of their intentions to the Offer to their respective nominees.

(b) Documents and remittances sent to Independent Shareholders by post will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to Independent Shareholders at their addresses as they appear in the register of members of Winteam, and, in the case of joint Independent Shareholders, to the Independent Shareholder whose name appears first in the register of members of Winteam. None of the Offeror, CNPGC, Winteam, Citigroup, the Registrar or any of their respective directors or any other person involved in the Offer will be responsible for any loss or delay in transmission or any other liability that may arise as a result thereof.

6. RIGHT OF WITHDRAWAL

(a) The Offer is conditional upon fulfilment of the Conditions set out in the letter from Citigroup in this Composite Document. Acceptance of the Offer tendered by Independent Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in the following paragraph or in compliance with Rule 17 of the Takeovers Code, which provides that an accepting Independent Shareholder shall be entitled to withdraw his/her/its consent within 21 days from the Closing Date if the Offer has not by then become unconditional as to acceptance. An accepting Independent Shareholder may withdraw his/her/its acceptance by lodging a notice in writing signed by such Independent Shareholder (or his/her/its agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Registrar.

(b) Under Rule 19.2 of the Takeovers Code, if the Offeror is unable to comply with any of the requirements of making announcements relating to the Offer set out in section 4 of this Appendix, the Executive may require that the Independent Shareholders who have tendered acceptances to the Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.

(c) Upon the withdrawal of acceptance by an Independent Shareholder, the Offeror shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Share(s) lodged with the Form of Acceptance to such Independent Shareholder.

7. SHARES

Acceptance of the Offer by any Independent Shareholder will be deemed to constitute a warranty by such Independent Shareholder that:

(a) the Shares sold by such Independent Shareholder will be free from all Encumbrances of any nature and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

(b) acceptance of the Offer tendered shall be irrevocable and cannot be withdrawn, except in the circumstances as set out the Takeovers Code.

(c) such Independent Shareholder are permitted under all applicable laws and regulations to receive and accept the Offer, and any revision thereof, and such acceptances shall be valid and binding in accordance with all applicable laws and regulations. Any such Independent Shareholder will be responsible for any such issue, transfer and other applicable taxes or other governmental payments payable by them.

8. HONG KONG STAMP DUTY

(a) In Hong Kong, seller's ad valorem stamp duty arising in connection with acceptances of the Offer will be payable by the relevant Shareholders at a rate of 0.1% of: (i) the market value of the Offer Shares; or (ii) the Consideration payable by the Offeror in respect of the relevant acceptances of the Offer, whichever is higher, and will be deducted from the cash amount payable by the Offeror on behalf of the relevant Shareholders accepting the Offer.

(b) **In the present case, ad valorem stamp duty will be levied and paid upfront by each Shareholder who accepts the Offer on the basis of the maximum consideration of HK$1.70 per Offer Share, irrespective of whether the Adjusted Net Profit FY 2012 is achieved and whether the additional amount of HK$0.30 per Offer Share is payable. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of the relevant Shareholders accepting the Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptances of the Offer and the transfers of the Offer Shares in accordance with the Stamp Duty Ordinance. There will be no refund of the stamp duty paid upfront on the HK$0.30 per Offer Share if the Adjusted Net Profit for FY 2012 is not achieved or met**.

9. GENERAL

(a) All communications, notices, Form of Acceptance, Share certificate(s), transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to settle the Consideration payable under the Offer to be delivered by or sent to or from the Independent Shareholders will be delivered by or sent to or from them, or their designated agents, by post at their own risk, and neither the Offeror, CNPGC, Winteam, Citigroup, and any of their respective directors or agents nor the Registrar accepts any liability for any loss or delay in postage or any other liabilities that may arise as a result thereof.

(b) The provisions set out in the accompanying Form of Acceptance form part of the terms of the Offer.

(c) The accidental omission to despatch this Composite Document and/or the Form of Acceptance or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.

(d) The Offer is, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong. Execution of a Form of Acceptance by or on behalf of a Shareholder will constitute such Shareholder's agreement that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute which may arise in connection with the Offer.

(e) Due execution of the Form of Acceptance will constitute an authority to the Offeror, Citigroup or such person or persons as the Offeror may direct to complete, amend and execute any document on behalf of the person or persons accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as it may direct, the Offer Share(s) in respect of which such person or persons has/have accepted the Offer.

(f) References to the Offer in this Composite Document and in the accompanying Form of Acceptance shall include any extension and/or revision thereof.

(g) The making of the Offer to the Overseas Shareholders may be prohibited or affected by the laws of the relevant jurisdictions. The Overseas Shareholders should inform themselves about and observe any applicable legal or regulatory requirements. It is the responsibility of each Overseas Shareholder who wishes to accept the Offer to satisfy himself/herself/itself as to the full observance of the laws and regulations of all relevant jurisdictions in connection therewith, including, but not limited to the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required and the compliance with all necessary formalities, regulatory and/or legal requirements. Such Overseas Shareholders shall be fully responsible for the payment of any transfer or other taxes and duties due by such Overseas Shareholders in respect of the relevant jurisdictions. The Overseas Shareholders are recommended to seek professional advice on deciding whether or not to accept the Offer.

(h) Subject to the Takeovers Code, the Offeror reserves the right to notify any matter (including the making of the Offer) to all or any Independent Shareholders with registered address(es) outside Hong Kong or whom the Offeror or Citigroup knows to be nominees, trustees or custodians for such persons by announcement in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any such Independent Shareholders to receive or see such notice, and all references in this Composite Document to notice in writing shall be construed accordingly. For the avoidance of doubt, this Composite Document will be despatched to the Overseas Shareholders at their registered addresses as shown on the register of members of Winteam by ordinary post at their own risk.

(i) This Composite Document and the Form of Acceptance are written in English accompanied by a translation in Chinese. The English texts of this Composite Document and the Form of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation in case of any inconsistency.

1. FINANCIAL SUMMARY

The following is a summary of (i) the audited financial results of the Group for each of the three financial years ended 31 December 2011; (ii) the assets and liabilities of the Group as at 31 December 2009, 2010 and 2011; (iii) the unaudited financial results of the Group for the six months ended 30 June 2012; and (iv) the unaudited assets and liabilities of the Group as at 30 June 2012 as extracted from the published financial statements of the Group for the relevant years/period. The auditors of Winteam, KPMG, did not issue any qualified opinion on the financial statements of the Group for each of the three years ended 31 December 2009, 2010 and 2011. Winteam had no exceptional or extraordinary items for each of the three years ended 31 December 2009, 2010 and 2011.

(i) CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Year ended 31 December			For the six months ended 30 June
	2009	**2010**	**2011**	**2012**
	HK'000	*HK'000*	*HK'000*	*HK'000*
Continuing operation Turnover	670,175	939,178	1,015,935	589,565
Cost of sales	(347,479)	(415,274)	(467,529)	(275,025)
Gross profit	322,696	523,904	548,406	314,540
Other revenue	12,004	13,348	12,306	8,999
Other net income	1,184	9,034	625	267
Selling and distribution costs	(161,625)	(317,161)	(328,642)	(145,125)
Administrative expenses	(78,473)	(110,064)	(130,551)	(63,039)
Profit from operation	95,786	119,061	102,144	115,642
Finance costs	(5,321)	(3,831)	(7,689)	(13,921)
Profit before taxation	90,465	115,230	94,455	101,721
Income tax	(22,239)	(29,151)	(20,747)	(22,165)
Profit for the year/period	68,226	86,079	73,708	79,556
Attributable to:				
– Equity shareholders of Winteam	44,054	60,925	72,072	77,967
– Non-controlling interests	24,172	25,154	1,636	1,589
Profit/(loss) for the year	68,226	86,079	73,708	79,556
Dividends payable to equity shareholders of Winteam attributable to the year:				
Final dividend proposed after the balance sheet date	–	–	89,171	44,585
Dividend per share	–	–	5 cents	2.5 cents
Basic earnings per share				
From continuing operation:	2.82 cents	3.53 cents	4.04 cents	4.37 cents

(ii) ASSETS AND LIABILITIES

	As at 31 December			As at 30 June
	2009	**2010**	**2011**	**2012**
	HK'000	*HK'000*	*HK'000*	*HK'000*
Total assets	1,202,934	1,406,176	1,622,748	1,771,641
Total liabilities	331,070	556,992	658,433	822,340
Net assets	871,864	849,184	964,315	949,301

2. AUDITED FINANCIAL STATEMENTS

The following are the audited financial statements of the Group for the year ended 31 December 2011 reproduced from pages 44 to 114 of the annual report of Winteam for the year ended 31 December 2011. References to page numbers in this section refer to page numbers in the aforesaid annual report.

"CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	**2011** *$'000*	**2010** *$'000*
Turnover	*3(a)*	1,015,935	939,178
Cost of sales		(467,529)	(415,274)
Gross profit		548,406	523,904
Other revenue	*4*	12,306	13,348
Other net income	*4*	625	9,034
Selling and distribution costs		(328,642)	(317,161)
Administrative expenses		(130,551)	(110,064)
Profit from operations		102,144	119,061
Finance costs	*5(a)*	(7,689)	(3,831)
Profit before taxation	5	94,455	115,230
Income tax	*6*	(20,747)	(29,151)
Profit for the year		73,708	86,079
Attributable to:			
Equity shareholders of the Company		72,072	60,925
Non-controlling interests		1,636	25,154
Profit for the year		73,708	86,079
Earnings per share			
Basic and diluted	*11*	4.04 cents	3.53 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Profit for the year		73,708	86,079
Other comprehensive income for the year (after tax)			
Exchange differences on translation of financial statements of subsidiaries in the PRC		43,252	35,444
Available-for-sale securities: net movement in fair value reserve	*10*	(1,829)	1,974
		41,423	37,418
Total comprehensive income for the year		115,131	123,497
Attributable to:			
Equity shareholders of the Company		112,627	93,888
Non-controlling interests		2,504	29,609
Total comprehensive income for the year		115,131	123,497

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current assets			
Fixed assets			
– Investment properties	12	3,426	3,471
– Other property, plant and equipment	12	253,093	237,500
– Interests in leasehold land held for own use under operating leases	12	199,516	192,544
Construction in progress	13	87,861	41,745
Other receivables	19	37,707	8,347
		581,603	483,607
Intangible assets	14	101,646	115,174
Goodwill	15	208,644	192,578
Other financial assets	17	8,601	9,840
Deferred tax assets	25(b)	12,744	12,612
		913,238	813,811
Current assets			
Other financial assets	17	81,411	31,003
Inventories	18(a)	233,935	168,973
Trade and other receivables	19	346,891	211,502
Deposits with banks	20	4,919	60,875
Cash and cash equivalents	20	42,354	120,012
		709,510	592,365
Current liabilities			
Trade and other payables	21	240,798	361,291
Bank loans	22	340,570	109,294
Current taxation	25(a)	12,251	13,466
Current portion of deferred government grants	23	3,230	5,038
		596,849	489,089

	Note	2011 $'000	2010 $'000
Net current assets		112,661	103,276
Total assets less current liabilities		1,025,899	917,087
Non-current liabilities			
Deferred tax liabilities	*25(b)*	52,097	58,312
Deferred government grants	*23*	9,487	9,591
		61,584	67,903
NET ASSETS		964,315	849,184
CAPITAL AND RESERVES			
Share capital	*26(c)*	178,341	178,341
Reserves		770,397	657,318
Total equity attributable to equity shareholders of the Company		948,738	835,659
Non-controlling interests		15,577	13,525
TOTAL EQUITY		964,315	849,184

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current assets			
Investments in subsidiaries	16	710,256	710,256
Current assets			
Other receivables	19	105,730	452
Cash and cash equivalents	20	920	502
		106,650	954
Current liabilities			
Trade and other payables	21	17,393	1,920
		17,393	1,920
Net current assets/(liabilities)		89,257	(966)
NET ASSETS		799,513	709,290
CAPITAL AND RESERVES			
Share capital	26(c)	178,341	178,341
Reserves		621,172	530,949
TOTAL EQUITY		799,513	709,290

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Capital redemption reserve	Exchange reserve	Reserve fund	Fair value reserve	Other reserve note 26(j)	Retained profits	Total	Non-controlling interests	Total equity
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2010	162,841	413,264	297	44,901	22,846	1,300	–	40,665	686,114	185,750	871,864
Profit for the year	–	–	–	–	–	–	–	60,925	60,925	25,154	86,079
Other comprehensive income	–	–	–	30,989	–	1,974	–	–	32,963	4,455	37,418
Total comprehensive income for the year	–	–	–	30,989	–	1,974	–	60,925	93,888	29,609	123,497
New shares issued during the year	15,500	116,250	–	–	–	–	–	–	131,750	–	131,750
Acquisition of non-controlling interest without a change in control	–	–	–	42,252	17,634	3,294	(139,273)	–	(76,093)	(201,834)	(277,927)
Transfer to reserve fund	–	–	–	–	10,281	–	–	(10,281)	–	–	–
At 31 December 2010	178,341	529,514	297	118,142	50,761	6,568	(139,273)	91,309	835,659	13,525	849,184
At 1 January 2011	178,341	529,514	297	118,142	50,761	6,568	(139,273)	91,309	835,659	13,525	849,184
Profit for the year	–	–	–	–	–	–	–	72,072	72,072	1,636	73,708
Other comprehensive income	–	–	–	42,384	–	(1,829)	–	–	40,555	868	41,423
Total comprehensive income for the year	–	–	–	42,384	–	(1,829)	–	72,072	112,627	2,504	115,131
Acquisition of non-controlling interest without a change in control	–	–	–	547	201	14	(310)	–	452	(452)	–
Transfer to reserve fund	–	–	–	–	9,486	–	–	(9,486)	–	–	–
At 31 December 2011	178,341	529,514	297	161,073	60,448	4,753	(139,583)	153,895	948,738	15,577	964,315

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011

(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Operating activities			
Cash (used)/generated from operations		(24,880)	104,807
PRC enterprise income tax paid		(29,809)	(32,181)
Net cash (used in)/generated from operating activities		(54,689)	72,626
Investing activities			
Payment for the purchase of fixed assets		(26,756)	(28,932)
Payment for the purchase of intangible assets		(628)	(646)
Proceeds from disposal of fixed assets		–	57,333
Increase/(decrease) in deposits with banks		55,956	(38,842)
Payment for construction in progress		(77,446)	(45,678)
Payment for purchase of available-for-sale securities		(206,466)	(30,555)
Proceeds from disposal of available-for-sale securities		238,332	–
Payment for lease prepayments		–	(105,273)
Cash consideration paid for the acquisition of a subsidiaries, net of cash acquired		(6,573)	–
Cash consideration paid for acquisition of non-controlling interests		(141,022)	(134,132)
Loan to a third party		(81,411)	–
Interest received		1,452	1,879
Dividends received from unlisted equity securities		–	365
Net cash used in investing activities		(244,562)	(324,481)
Financing activities			
Proceeds from the issue of new shares		–	131,750
Proceeds from new bank loans		520,122	130,914
Repayment of bank loans		(288,846)	(105,662)
Interest paid		(13,530)	(3,831)
Net cash generated from financing activities		217,746	153,171
Net decrease in cash and cash equivalents		(81,505)	(98,684)
Cash and cash equivalents at 1 January		120,012	211,462
Effect of foreign exchange rate changes		3,847	7,234
Cash and cash equivalents at 31 December		42,354	120,012

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain financial instruments classified as available-for-sale are stated at their fair value as explained in accounting policy set out in note 1(f).

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Changes in accounting policies

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

- HKAS 24 (revised 2009), Related party disclosures
- Improvements to HKFRSs (2010)
- IFRIC 19, Extinguishing financial liabilities with equity instruments
- Amendments to IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement

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

The amendments to IFRIC 14 and IFRIC 19 have not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a defined benefit plan or debt for equity swap).

HKAS 24 (revised 2009) simplifies the definition of "related party" and removes inconsistencies, which emphasises a symmetrical view of related party transactions. The revised standard also provides limited relief from disclosure of information by government-related entities in respect of transactions with the government to which the Group is related, or transactions with other entities related to the same government. These amendments have had no material impact on the Group's financial statements.

Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. The disclosures about the Group's financial instruments in note 27 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group measure any non-controlling interests at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(p) or (q) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)).

In the Company's statement of financial position, investment in subsidiaries are stated at cost less impairment losses (see note 1(m)).

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) The Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(m)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in equity securities and other financial instruments

The Group's and the Company's policies for investments in equity securities and other financial instruments, other than investments in subsidiaries, are classified as available-for-sale securities, which are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. These investments are subsequently accounted for as follows:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(m)).

Other investments in equity securities and other financial instruments are remeasured at fair value at the end of each reporting period with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(v)(iii). When these investments are derecognised or impaired (see note 1(m)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investment are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents and trade and other receivables.

(h) Investment property

Investment properties are property held either to earn rental income or for capital appreciation. Investment properties are measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Rental income from investment properties is accounted for as described in note 1(v) (ii).

(i) Other property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(m)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, borrowing cost and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion

– Plant, machinery and equipment 10-15 years

– Motor vehicles 5-10 years

– Others 2-12 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Construction in progress

Construction in progress represents buildings and, various plant and equipment under construction and pending installation, and is stated at cost less any impairment losses (see note 1(m)). Cost comprises direct costs of construction as well as borrowing cost, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to borrowing costs, during the period of construction.

Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(k) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(x)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(m)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(m)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

–	product protection rights	over the product protection period
–	trademarks	10-50 years
–	distribution network	10 years
–	customer relationship	3 years
–	Software	3-5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(l) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(h)).

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(h)).

(m) Impairment of assets

(i) Impairment of investments in equity securities and trade and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised directly in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investment properties;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- construction in progress;
- intangible assets; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(m)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(n) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 1(m)).

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(s) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    - the same taxable entity; or

    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Note 12(b), 15 and 27 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment, and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment

If circumstances indicate that the net book value of property, plant and equipment, goodwill, intangible assets and interests in leasehold land held for own use under operating leases may not be recoverable, these assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36, Impairment of assets. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling price, material costs and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including sales volume, expected changes to selling prices and operating costs, and discount rate.

In addition, the Group estimates impairment losses for bad and doubtful debts resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the trade and other receivables balance, credit-worthiness of the debtors and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(b) Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account upgrading and improvement work performed, anticipated technological changes, and legal or similar limits on the use of assets. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Write down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of change in market condition.

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

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

	2011	**2010**
	$'000	*$'000*
Sales of pharmaceutical products		
– Pills and tablets	484,633	487,453
– Granules	130,200	78,737
– Injections	88,649	109,340
– Medicine wine	82,845	42,791
– Others	229,608	220,857
	1,015,935	939,178

Further details regarding the Group's principal activities are described below:

(b) Segment reporting

The Group manages its businesses by subsidiaries. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following six reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong")
- Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing")
- Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World")
- Shandong Luya Pharmaceutical Co., Ltd. ("Luya")
- Foshan Nanhai Pharmaceutical Group Medicinal Material Co., Ltd. ("Nanhai Pharmaceutical")
- Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales", previously known as Foshan Nanhai Yikang Pharmaceutical Co., Ltd.)

(i) Segment results, assets and liabilities

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

Segment assets include all tangible, intangible assets and current assets with the exception of investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade payables, and accruals attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below.

	Year ended 31 December 2011						
	Dezhong	**Feng Liao Xing**	**Guangdong Medi-World**	**Luya**	**Nanhai Pharmaceu-tical**	**Winteam Sales**	**Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue from external customers	346,472	235,693	313,221	85,686	202,779	11,891	1,195,742
Inter-segment revenue	(729)	(1,248)	(111)	–	(177,719)	–	(179,807)
Reportable segment revenue	345,743	234,445	313,110	85,686	25,060	11,891	1,015,935
Reportable segment profit (adjusted EBITDA)	68,533	22,101	35,919	29,240	8,870	1,322	165,985
Interest income from bank deposit	579	51	739	22	54	7	1,452
Interest expenses	2,045	546	2,908	–	2,190	–	7,689
Depreciation and amortisation for the year	24,009	9,754	15,171	8,091	66	15	57,106
Reportable segment assets	812,932	354,174	476,924	174,627	252,546	42,301	2,113,504
Additions to non-current assets during the year	85,212	8,867	13,880	2,095	527	8,188	118,769
Reportable segment liabilities	312,554	117,379	482,646	11,864	228,793	32,459	1,185,695

	Year ended 31 December 2010					
	Dezhong	Feng Liao Xing	Guangdong Medi-World	Luya	Nanhai Pharmaceu-tical	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue from external customers	340,015	183,477	260,264	106,764	152,655	1,043,175
Inter-segment revenue	–	–	–	–	(103,997)	(103,997)
Reportable segment revenue	340,015	183,477	260,264	106,764	48,658	939,178
Reportable segment profit (adjusted EBITDA)	66,154	33,629	31,524	33,042	8,014	172,363
Interest income from bank deposit	1,537	218	53	18	53	1,879
Interest expenses	265	82	3,464	3	17	3,831
Depreciation and amortisation for the year	23,715	17,939	8,362	4,109	89	54,214
Reportable segment assets	538,778	264,918	477,831	171,651	82,926	1,536,104
Additions to non-current assets during the year	48,435	4,022	115,462	14,441	350	182,710
Reportable segment liabilities	150,135	71,569	361,708	22,606	64,655	670,673

(ii) ***Reconciliations of reportable segment revenues, profit or loss, assets and liabilities***

	2011	2010
	$'000	*$'000*
Revenue		
Reportable segment revenue	1,195,742	1,043,175
Elimination of inter-segment revenue	(179,807)	(103,997)
Consolidated turnover	1,015,935	939,178
Profit		
Reportable segment profit	165,985	172,363
Elimination of inter-segment profits	(4,146)	(5,889)
Reportable segment profit derived from the Group's external customers	161,839	166,474
Other revenue and net income	12,931	22,382
Depreciation and amortisation	(57,106)	(54,214)
Finance costs	(7,689)	(3,831)
Unallocated head office and corporate expenses	(15,520)	(15,581)
Consolidated profit before taxation	94,455	115,230

	At 31 December 2011 $'000	At 31 December 2010 $'000
Assets		
Reportable segment assets	2,113,504	1,536,104
Elimination of inter-segment receivables	(601,081)	(189,273)
	1,512,423	1,346,831
Non-current financial assets	8,601	9,840
Current financial assets	81,411	31,003
Deferred tax assets	12,744	12,612
Unallocated head office and corporate assets	7,569	5,890
Consolidated total assets	1,622,748	1,406,176
Liabilities		
Reportable segment liabilities	1,185,695	670,673
Elimination of inter-segment payables	(601,081)	(189,273)
	584,614	481,400
Current tax liabilities	12,251	13,466
Deferred tax liabilities	52,097	58,312
Unallocated head office and corporate liabilities	9,471	3,814
Consolidated total liabilities	658,433	556,992

(iii) ***Geographic information***

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

4 OTHER REVENUE AND NET INCOME

	2011 $'000	2010 $'000
Other revenue		
Government grants *(note 23)*	9,432	9,835
Interest income	1,452	1,879
Rental income	1,422	1,269
Dividend income from unlisted equity securities	–	365
	12,306	13,348
Other net income		
Net (loss)/gain on disposal of fixed assets	(124)	8,797
Available-for-sale securities:		
– gain on disposal reclassified from equity *(note 10)*	854	–
Exchange loss	(6)	(19)
Others	(99)	256
	625	9,034

5 PROFIT BEFORE TAXATION

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

	2011	2010
	$'000	*$'000*
(a) Finance costs:		
Interest on bank advances and other borrowings wholly repayable within five years	13,530	3,831
Less: interest expense capitalised into construction in progress*	(5,841)	–
	7,689	3,831

* The borrowing cost have been capitalised at a rate of 5.355%-7.095% per annum (2010: Nil).

	2011	2010
(b) Staff costs:		
Salaries, wages and other benefits	132,978	103,392
Contributions to defined contribution retirement plans	15,234	13,288
	148,212	116,680

	2011	2010
(c) Other items		
Auditors' remuneration	3,014	2,107
Depreciation		
– investment properties	180	289
– assets held for use under operating leases	2,499	2,294
– other property, plant and equipment	34,059	26,895
Amortisation		
– intangible assets	20,368	24,736
Impairment losses		
– trade and other receivables	(345)	2,464
Operating lease charges: minimum lease payments	4,643	2,803
Research and development costs	41,506	37,508
Rentals receivable from investment properties	(1,422)	(1,269)
Cost of inventories# *(note 18)*	468,934	416,721

\# Cost of inventories includes $102,662,000 (2010: $96,146,000) relating to staff cost, depreciation and amortisation, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2011	2010
	$'000	*$'000*
Current tax		
PRC enterprise income tax for the year	27,935	35,746
Under-provision in respect of prior years	623	1,408
	28,558	37,154
Deferred tax		
Reversal of temporary differences	(7,811)	(8,003)
	20,747	29,151

No provision has been made for the Hong Kong Profits Tax as the Company and its Hong Kong incorporated subsidiaries sustained losses in Hong Kong for taxation purposes during the year (2010: Nil).

Pursuant to the Corporate Income Tax Law of PRC, the statutory tax rate applicable to the Group's PRC subsidiaries is 25%, except for Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing"), Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong") and Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"), which were recognised as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% in 2011 (2010: 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.

Pursuant to the Corporate Income Tax Law of the PRC 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.

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

	2011	2010
	$'000	*$'000*
Profit before taxation	94,455	115,230
Notional tax on profit before taxation, calculated at rates applicable to profit in the jurisdictions concerned	25,105	29,858
Tax effect on non-deductible expenses	3,397	3,235
Tax effect on non-taxable revenue	–	(435)
Income tax concessions	(10,012)	(10,172)
Withholding tax on undistributed profits of PRC subsidiaries	1,634	5,257
Under-provision in respect of prior year	623	1,408
Actual tax expense	20,747	29,151

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

2011

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive directors					
Yang Bin	180	1,275	501	52	2,008
Situ Min	180	650	300	40	1,170
Li Songquan	180	650	300	30	1,160
Xu Tiefeng	180	970	360	37	1,547
Independent non-executive directors					
Du Richeng	180	–	–	–	180
Pang Fu Keung	180	–	–	–	180
Lo Wing Yat	180	–	–	–	180
Wang Bo	180	–	–	–	180
Zhang Jianhui	180	–	–	–	180
	1,620	3,545	1,461	159	6,785

2010

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive directors					
Yang Bin	180	1,051	501	(7)	1,725
Situ Min	180	650	300	30	1,160
Li Songquan	180	650	300	30	1,160
Xu Tiefeng	180	754	360	36	1,330
Independent non-executive directors					
Du Richeng	180	–	–	–	180
Pang Fu Keung	180	–	–	–	180
Lo Wing Yat	180	–	–	–	180
Wang Bo	180	–	–	–	180
Zhang Jianhui	180	–	–	–	180
	1,620	3,105	1,461	89	6,275

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2010: four) are directors whose remuneration is disclosed in the above. The aggregate of the emoluments in respect of the other one (2010: one) individual was as follows:

	2011	2010
	$'000	*$'000*
Salaries and other emoluments	348	515
Retirement scheme contributions	20	19
	368	534

The emoluments of the one (2010: one) individual with highest emoluments are within the following band:

	2011	2010
	Number of individuals	*Number of individuals*
$		
Nil – 1,000,000	1	1

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of $15,477,000 (2010: loss of $15,205,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year:

	2011	2010
	$'000	*$'000*
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	(15,477)	(15,205)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	105,700	–
Company's profit/(loss) for the year *(note 26(a))*	90,223	(15,205)

10 OTHER COMPREHENSIVE INCOME

	2011	2010
	$'000	*$'000*
Available-for-sale securities	(1,298)	2,321
Gain on disposal transferred to profit or losses *(note 4)*	(854)	–
Income tax effect on the change in fair value recognised during the year	323	(347)
	(1,829)	1,974

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $72,072,000 (2010: $60,925,000) and the weighted average of 1,783,411,000 ordinary shares (2010: 1,727,868,000 ordinary shares) in issue during the year, calculated as follows:

	2011	**2010**
	'000	*'000*
Issued ordinary shares at 1 January	1,783,411	1,628,411
Effect of new shares issued	–	155,000
Weighted average number of ordinary shares at 31 December	1,783,411	1,727,868

(b) Diluted earnings per share

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

12 FIXED ASSETS

	The Group							
	Buildings	**Plant, machinery and equipment**	**Motor vehicles**	**Others**	**Sub-total**	**Investment properties**	**Interests in leasehold land held for own use under operating leases**	**Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost:								
At 1 January 2010	160,548	185,528	4,542	62,303	412,921	5,840	105,447	524,208
Additions	8,057	9,173	4,387	6,177	27,794	1,138	105,273	134,205
Transfer from construction in progress *(note 13)*	14,074	4,981	–	510	19,565	–	–	19,565
Disposals	(53,371)	(19,879)	(269)	(16,026)	(89,545)	–	(15,208)	(104,753)
Exchange adjustments	6,030	7,581	263	2,866	16,740	231	5,960	22,931
At 31 December 2010	135,338	187,384	8,923	55,830	387,475	7,209	201,472	596,156
At 1 January 2011	135,338	187,384	8,923	55,830	387,475	7,209	201,472	596,156
Additions	3,135	18,621	2,525	8,390	32,671	–	–	32,671
Acquisition of a subsidiary *(note 31)*	–	–	519	52	571	–	–	571
Transfer from construction in progress *(note 13)*	2,390	2,491	–	–	4,881	–	–	4,881
Disposals	–	(218)	–	(876)	(1,094)	–	–	(1,094)
Exchange adjustments	6,840	9,737	455	2,884	19,916	358	10,224	30,498
At 31 December 2011	147,703	218,015	12,422	66,280	444,420	7,567	211,696	663,683
Accumulated depreciation and amortisation:								
At 1 January 2010	37,761	89,883	2,933	34,992	165,569	3,297	8,247	177,113
Charge for the year	7,140	14,292	934	4,529	26,895	289	2,294	29,478
Written back on disposals	(32,507)	(6,943)	(177)	(14,453)	(54,080)	–	(2,137)	(56,217)
Exchange adjustments	2,398	6,511	134	2,548	11,591	152	524	12,267
At 31 December 2010	14,792	103,743	3,824	27,616	149,975	3,738	8,928	162,641

The Group

	Buildings	Plant, machinery and equipment	Motor vehicles	Others	Sub-total	Investment properties	Interests in leasehold land held for own use under operating leases	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2011	14,792	103,743	3,824	27,616	149,975	3,738	8,928	162,641
Charge for the year	7,305	19,836	1,384	5,534	34,059	180	2,499	36,738
Written back on disposals	–	(189)	–	(781)	(970)	–	–	(970)
Exchange adjustments	885	5,528	355	1,495	8,263	223	753	9,239
At 31 December 2011	22,982	128,918	5,563	33,864	191,327	4,141	12,180	207,648
Net book value:								
At 31 December 2011	124,721	89,097	6,859	32,416	253,093	3,426	199,516	456,035
At 31 December 2010	120,546	83,641	5,099	28,214	237,500	3,471	192,544	433,515

(a) The interests in leasehold land held for own use under operating leases and investment properties are held on medium-term leases of 50 years in the PRC. At 31 December 2011, the remaining period of the land use rights ranged from 26 years to 49 years.

(b) The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to five years, with an option to renew the lease after that date at which time all terms are renegotiated. One of the leases runs for twenty years with three months' notice for termination. Lease payments of this lease are gradually increased during the lease period to reflect market rentals. None of the leases includes contingent rentals.

The Group's total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2011	**2010**
	$'000	*$'000*
Within 1 year	553	658
After 1 year but within 5 years	–	–
	553	658

All investment properties of the Group were stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. The fair value of the investment properties as at 31 December 2011 is $15,770,000 (2010: $14,700,000) by reference to net rental income allowing for reversionary income potential. The valuations of the investment properties as at 31 December 2011 and 31 December 2010 were carried out respectively by Roma Appraisals Limited and Memfus Wong Surveyor Limited, two independent firms of professional surveyors.

(c) Certain interests in leasehold land held for own use under operating leases and buildings with carrying value of $69,278,000 were pledged as securities of bank loans of the Group as at 31 December 2011 (see note 22) (2010: $55,087,000).

(d) The Group was in the process of applying for the title certificate of certain of its interests in leasehold land with an aggregate carrying amount of $95,053,000 as at 31 December 2011 (2010: $90,561,000).

13 CONSTRUCTION IN PROGRESS

	The Group	
	2011	**2010**
	$'000	*$'000*
At 1 January	41,745	14,396
Additions	48,012	45,678
Transfer to fixed assets *(note 12)*	(4,881)	(19,565)
Exchange adjustments	2,985	1,236
At 31 December	87,861	41,745

Construction in progress mainly represents premises and equipments under construction as at 31 December 2011.

14 INTANGIBLE ASSETS

	The Group					
	Product Protection rights	**Trademarks**	**Distribution network**	**Software**	**Customer relationship**	**Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost:						
At 1 January 2010	74,275	55,119	67,007	–	–	196,401
Additions	–	345	–	301	–	646
Exchange adjustments	2,583	1,768	2,331	7	–	6,689
At 31 December 2010	76,858	57,232	69,338	308	–	203,736
At 1 January 2011	76,858	57,232	69,338	308	–	203,736
Additions	–	–	–	628	–	628
Acquisition of a subsidiary *(note 31)*	–	–	–	–	913	913
Exchange adjustments	3,813	2,840	3,439	28	5	10,125
At 31 December 2011	80,671	60,072	72,777	964	918	215,402
Accumulated amortisation and impairment loss:						
At 1 January 2010	50,087	5,045	6,142	–	–	61,274
Amortisation for the year	15,022	2,925	6,776	13	–	24,736
Exchange adjustments	2,091	88	373	–	–	2,552
At 31 December 2010	67,200	8,058	13,291	13	–	88,562
At 1 January 2011	67,200	8,058	13,291	13	–	88,562
Amortisation for the year	9,925	2,966	7,127	350	–	20,368
Exchange adjustments	3,546	463	808	9	–	4,826
At 31 December 2011	80,671	11,487	21,226	372	–	113,756
Net book value:						
At 31 December 2011	–	48,585	51,551	592	918	101,646
At 31 December 2010	9,658	49,174	56,047	295	–	115,174

The amortisation charge for the year is included in "cost of sales" in the consolidated income statement.

15 GOODWILL

	The Group	
	2011	**2010**
	$'000	*$'000*
Cost and carrying amount:		
At 1 January	192,578	186,197
Addition acquired through business combination *(note 31)*	6,614	–
Exchange adjustments	9,452	6,381
At 31 December	208,644	192,578

Goodwill acquired through business combination is allocated to the Group's cash-generating units ("CGU") identified as follows:

	The Group	
	2011	**2010**
	$'000	*$'000*
Manufacture and sale of pharmaceutical products – Dezhong	123,832	117,980
Manufacture and sale of pharmaceutical products – Feng Liao Xing	29,188	27,808
Manufacture and sale of pharmaceutical products – Guangdong Medi-World	32,017	30,634
Manufacture and sale of pharmaceutical products – Luya	13,937	13,278
Sale of pharmaceutical products – Nanhai Pharmaceutical	3,021	2,878
Sale of pharmaceutical products – Winteam Sales	6,649	–
	208,644	192,578

The recoverable amount of the CGU is determined based on value-in-use calculations. The key assumptions used in the valuations are those regarding the expected changes to selling prices and costs, and discount rates. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGU.

The Company determined the value-in-use by preparing cash flow projections of each of the CGU derived from the most recent financial forecast approved by the management covering a one-year period and extrapolated to cover a period of nine more years with an estimated increase in selling prices and costs of 4.5% (2010: 3%) and no growth in sales volume. The rates used to discount the forecast cash flows range from 12% to 14.72% (2010: 9.7%).

16 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2011	**2010**
	$'000	*$'000*
Unlisted shares, at cost	529,542	529,542
Amounts due from subsidiaries	180,714	180,714
	710,256	710,256

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be recoverable within twelve months from the Company's date of financial position and are therefore shown in the Company's statement of financial position as non-current assets. The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group at 31 December 2011.

All of these are controlled subsidiaries as defined under note 1(d) and have been consolidated into the Group's financial statements.

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held Directly	Indirectly	Principal activities
Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong") *(note (i))*	The PRC 1 November 1998	US$6,460,000	–	96.94%	Manufacture and sale of Chinese pharmaceutical products
Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing") *(note (i))*	The PRC 16 March 2000	US$7,526,100	–	98.08%	Manufacture and sale of Chinese pharmaceutical products
Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World") *(note (ii))*	The PRC 13 November 1992	US$25,060,000	–	100%	Manufacture and sale of pharmaceutical products and investment holding
Shandong Luya Pharmaceutical Co., Ltd. ("Luya") *(note (iii))*	The PRC 6 November 2000	RMB24,529,300	–	100%	Manufacture and sale of pharmaceutical products
Foshan Nanhai Pharmaceutical Group Medicinal Material Co., Ltd. ("Nanhai Pharmaceutical") *(note (iv))*	The PRC 6 March 1982	RMB5,500,000	–	100%	Trading of pharmaceutical products
Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales") *(note (iv))*	The PRC 1 August 2002	RMB600,000	–	100%	Trading of pharmaceutical products

Notes:

(i) Dezhong and Feng Liao Xing are sino-foreign equity joint ventures established in the PRC pursuant to the law of the PRC on sino-foreign equity joint ventures. Dezhong and Feng Liao Xing have joint venture periods of 50 years expiring on 30 October 2048 and 15 March 2050, respectively.

(ii) Guangdong Medi-World is a wholly foreign owned enterprise established pursuant to the Wholly Foreign-owned Enterprise Law of the PRC. Guangdong Medi-World's period of operation is 30 years expiring on 13 November 2022.

(iii) Luya is a sino-foreign equity joint venture established pursuant to the law of the PRC on sino-foreign equity joint ventures. Luya has joint venture periods of 15 years expiring on 6 November 2015.

(iv) Nanhai Pharmaceutical and Winteam Sales were established pursuant to the Company Law of the PRC.

17 OTHER FINANCIAL ASSETS

	The Group	
	2011	**2010**
	$'000	*$'000*
Non-current		
Available-for-sale equity securities		
– Listed in the PRC, at fair value	7,355	8,653
– Unlisted equity securities, at cost	1,246	1,187
	8,601	9,840
Current		
Other financial instruments, at fair value	–	31,003
Loan to a third party	81,411	–
	90,012	40,843
Market value of listed securities	7,355	8,653

Investments in unlisted equity securities do not have a quoted market price in an active market. Quoted prices in active market for similar financial assets or observable market data as significant inputs for valuation techniques are also not available. Therefore, the unlisted equity securities are stated at cost less impairment, if any, in the financial statements.

The Group advanced an interest-free loan in the amount of RMB66,000,000 (approximately $81,411,000) to Guizhou Zhongtai Biological Technology Co., Ltd. ("Guizhou Zhongtai"), an independent company. The loan is secured by a charge over the existing shareholding in Guizhou Zhongtai and repayable after the payment of the first instalment of the consideration for the investment in Guizhou Zhongtai (note 32). Neither the available-for-sale equity securities nor the loan to a third party are past due or impaired.

18 INVENTORIES

(a) Inventories in the statement of financial position comprise:

	2011	**2010**
	$'000	*$'000*
Raw materials	65,078	48,348
Work in progress	71,479	48,972
Finished goods	84,502	57,253
	221,059	154,573
Packaging materials	8,172	10,390
Low value consumables	4,704	4,010
	233,935	168,973

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2011	**2010**
	$'000	*$'000*
Carrying amount of inventories sold	467,529	415,274
Write down of inventories	1,405	1,447
	468,934	416,721

19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	*$'000*	*$'000*	*$'000*
Current				
Trade receivables	181,831	152,273	–	–
Bills receivables	150,417	46,312		
Less: allowance for doubtful debt *(note 19(b))*	(11,378)	(11,176)	–	–
	320,870	187,409	–	–
Other receivables	26,021	24,093	105,730	452
	346,891	211,502	105,730	452
Non-current				
Prepayments	37,707	8,347	–	–
	384,598	219,849	105,730	452

Non-current prepayments represent the prepayments for construction works and equipment amounted to $37,707,000 (2010: $8,347,000).

Bills receivables with carrying value of $11,349,000 (2010: Nil) were pledged as securities of bank loan of the Group as at 31 December 2011 (see note 22).

(a) Ageing analysis

Included in trade and other receivables are trade receivables with the following ageing analysis as of the end of the financial year:

	The Group	
	2011	**2010**
	$'000	*$'000*
Within 3 months of invoice date	148,465	89,265
3 to 6 months after invoice date	15,022	24,775
More than 6 months less than 12 months after invoice date	6,966	27,057
More than 12 months after invoice date	11,378	11,176
	181,831	152,273

Trade receivables are due within 30 to 90 days from the date of billing. All of the trade and bills receivables are expected to be recovered within one year. Further details on the Group's credit policy are set out in note 27(a).

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(m)(i)).

The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	The Group	
	2011	**2010**
	$'000	*$'000*
At 1 January	11,176	8,364
Impairment loss (reversed)/recognised	(345)	2,464
Exchange adjustments	547	348
At 31 December	11,378	11,176

At 31 December 2011, the Group's gross trade receivables of $11,378,000 (2010: $11,176,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts of $11,378,000 were recognised (2010: $11,176,000). The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2011	**2010**
	$'000	*$'000*
Within 3 months of invoice date	148,465	89,265
3 to 6 months after invoice date	15,022	24,775
More than 6 months less than 12 months after invoice date	6,966	27,057
	170,453	141,097

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality of the customers and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

20 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	*$'000*	*$'000*	*$'000*
Deposits with banks and other financial institutions	4,919	60,875	–	–
Cash at bank and in hand	42,354	120,012	920	502
	47,273	180,887	920	502
Less: Bank deposits with maturity beyond three months *(note 1)*	(4,919)	(60,875)	–	–
Cash and cash equivalents	42,354	120,012	920	502

Note 1: No bank deposits were pledged as securities for banking facilities (2010: $60,875,000) (see note 22).

(b) Reconciliation of profit before taxation to cash (used in)/generated from operations:

		2011	2010
		$'000	*$'000*
Operating activities			
Profit before taxation		94,455	115,230
Adjustments for:			
Depreciation and amortisation		57,106	54,214
Impairment loss on trade and other receivables	*5(c)*	(345)	2,464
Finance costs	*5(a)*	7,689	3,831
Interest income	*4*	(1,452)	(1,879)
Dividend income from unlisted equity securities	*4*	–	(365)
Loss/(gain) on disposal of fixed assets	*4*	124	(8,797)
Foreign exchange loss		1,561	19
Increase in inventories		(58,254)	(53,932)
Increase in trade and other receivables		(112,826)	(62,951)
(Decrease)/Increase in trade and other payables		(12,938)	56,973
Cash (used in)/generated from operations		(24,880)	104,807

21 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	*$'000*	*$'000*	*$'000*
Trade creditors	97,621	85,824	–	–
Other creditors and accrued charges	134,693	241,606	17,393	1,920
Advances received from customers	8,484	33,861	–	–
	240,798	361,291	17,393	1,920

Included in trade and other payables are trade creditors with the following ageing analysis as of the end of the reporting period:

	The Group	
	2011	**2010**
	$'000	*$'000*
Due within 1 month or on demand	97,621	85,824

Other creditors and accrued charges mainly include accrued staff costs and benefits, accrued sales rebates to customers and other tax payables.

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

22 BANK LOANS

The Group's bank loans were repayable as follows:

	The Group	
	2011	**2010**
	$'000	*$'000*
Within 1 year or on demand	340,570	109,294

The Group's bank loans were secured as follows:

	The Group	
	2011	**2010**
	$'000	*$'000*
Bank loans		
Secured	161,711	109,294
Unsecured	178,859	–
	340,570	109,294

Notes:

(i) The following assets were pledged as securities for bank loans:

	Carrying Value	
	At 31 December 2011	**At 31 December 2010**
	$'000	*$'000*
Interests in leasehold land and buildings *(note 12(c))*	69,278	55,087
Deposits with banks *(note 20)*	–	60,875
Bills receivables *(note 19)*	11,349	–
	80,627	115,962

Apart from the above secured assets, interest in leasehold land held by Foshan Hanyu Pharmaceutical Co., Ltd. ("Hanyu Pharmaceutical"), a company in which Mr. Yang Bin and Mr. Xu Tiefeng (note 29(b)) jointly hold 72.7% equity interest as at 31 December 2011, was pledged as security for bank loans as at 31 December 2010 and 2011.

(ii) As at 31 December 2011, no bank loan was guaranteed by Mr. Xu Tiefeng and Mr. Yang Bin. (31 December 2010: $49,358,000).

(iii) Banking facilities of $225,484,000 (31 December 2010: $47,008,000) were utilised to the extent of $185,025,000 (31 December 2010: $23,504,000). The bank loans drawn were secured by assets as set out in note 22(i).

Parts of the Group's banking facilities, amounted to $111,015,000 (2010: $23,504,000) are subject to the fulfilment of covenants relating to certain of the balance sheet ratios of the subsidiaries of the Group, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 27(b). As at 31 December 2011 none of the covenants relating to drawn down facilities had been breached (2010: Nil).

23 DEFERRED GOVERNMENT GRANTS

The Group has been awarded various government grants for technological improvements and for research and development on new and existing pharmaceutical products. Deferred government grants represent the portion of government grants that compensate the Group for expenses to be incurred in future periods. The portion of deferred government grants that will be recognised as income in the next year amounted to $3,230,000 (2010: $5,038,000) has been classified as current and the remaining portion of $9,487,000 (2010: $9,591,000) has been classified as non-current.

24 EMPLOYEES RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employee's relevant income, subject to a cap of monthly relevant income of $20,000.

Employees in the Group's PRC subsidiaries are members of the state-managed retirement scheme. The PRC subsidiaries are required to contribute a specified percentage of the payroll to the scheme. The only obligation of the Group with respect to the retirement scheme is to make the specified contributions.

The Group has no other material obligation for payment of retirement benefits beyond the annual contributions as described above.

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2011	**2010**
	$'000	*$'000*
Provision for PRC corporate income tax for the year	28,558	37,154
PRC corporate income tax paid	(29,809)	(32,181)
	(1,251)	4,973
Acquisition of a subsidiary *(note 31)*	36	–
Balance of PRC corporate income tax relating to prior year	13,466	8,493
	12,251	13,466

(b) Deferred tax assets/(liabilities) recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Intangible Assets	Depreciation allowances in excess of related depreciation	Allowance for impairment of doubtful debts	Available-for-sale securities	Withholding tax on undistributed profits of PRC subsidiaries	Others	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2010	(31,149)	(18,843)	5,347	(684)	(5,027)	1,140	(49,216)
Credited/(charged) to profit or loss	4,482	2,590	469	–	(5,257)	5,719	8,003
Credited to reserves	–	–	–	(625)	(2,738)	–	(3,363)
Exchange adjustments	(995)	(538)	198	(37)	73	175	(1,124)
At 31 December 2010	(27,662)	(16,791)	6,014	(1,346)	(12,949)	7,034	(45,700)
At 1 January 2011	(27,662)	(16,791)	6,014	(1,346)	(12,949)	7,034	(45,700)
Addition through acquisition	(228)	–	–	–	–	–	(228)
Credited/(charged) to profit or loss	4,983	1,073	(138)	–	2,682	(789)	7,811
Charged to reserves	–	–	–	323	–	–	323
Exchange adjustments	(1,916)	(186)	296	(60)	(23)	330	(1,559)
At 31 December 2011	(24,823)	(15,904)	6,172	(1,083)	(10,290)	6,575	(39,353)

Reconciliation to the consolidated statement of financial position:

	The Group	
	2011	**2010**
	$'000	*$'000*
Net deferred tax assets recognised on the consolidated statement of financial position	12,744	12,612
Net deferred tax liabilities recognized on the consolidated statement of financial position	(52,097)	(58,312)
	(39,353)	(45,700)

26 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital	Share premium	Capital redemption reserve	Retained profits	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2010	162,841	413,264	297	16,343	592,745
Loss and other comprehensive income for the year	–	–	–	(15,205)	(15,205)
New shares issued during the year	15,500	116,250	–	–	131,750
At 31 December 2010	178,341	529,514	297	1,138	709,290
At 1 January 2011	178,341	529,514	297	1,138	709,290
Profit and other comprehensive income for the year	–	–	–	90,223	90,223
At 31 December 2011	178,341	529,514	297	91,361	799,513

(b) Dividends

Dividend payable to equity shareholders of the Company attributable to the year

	2011	2010
	$'000	*$'000*
Final dividend proposed after the end of the reporting period of 5 cent per ordinary share (2010: Nil)	89,171	–

(c) Share capital

	2011		2010	
	Number of shares	Nominal value	Number of shares	Nominal value
	'000	*$'000*	*'000*	*$'000*
Authorised:				
Ordinary shares of $0.10 each	3,000,000	300,000	3,000,000	300,000
Ordinary shares, issued and fully paid:				
At 1 January	1,783,411	178,341	1,628,411	162,841
New shares issued during the year	–	–	155,000	15,500
At 31 December	1,783,411	178,341	1,783,411	178,341

The holders of ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

(d) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries with operations in the PRC. The reserve is dealt with in accordance with the accounting policy set out in note 1(w).

(f) Reserve fund

In accordance with the accounting principles and financial regulations applicable in the PRC, the PRC subsidiaries are required to transfer part of its profit after taxation to the reserve fund. The transfer amounts are determined by the subsidiary's board of directors in accordance with the articles of association and the transfers are made before profit distribution to the equity holders of the subsidiary. Reserve fund can only be used to make good losses, if any, and for increasing paid-in capital.

(g) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale equity securities held and other financial instruments at the end of the reporting period, and is dealt with in accordance with the accounting policy set out in note 1(f).

(h) Capital reserve

The capital reserve comprises the portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments.

(i) Distributability of reserves

At 31 December 2011, the aggregate amount of reserve available for distribution to equity shareholders of the Company, as calculated under the provision of section 79B of the Hong Kong Companies Ordinance, was $91,361,000 (2010: 1,138,000). After the end of the reporting period the directors proposed a final dividend of 5 cents per ordinary share (2010: Nil), amounting to $89,171,000 (2010: Nil) (note 26(b)). This dividend has not been recognised as a liability at the end of the reporting period.

(j) Other reserve

Other reserve amounted to $139,273,000 represents premium paid for acquisition of non-controlling interests in Dezhong and Feng Liao Xing and related reserves.

(k) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

During 2011, the Group's strategy, which was unchanged from 2010, is to maintain the capital in order to cover any debt position.

The adjusted debt-to-equity ratios at 31 December 2011 and 2010 are as follows:

	2011	2010
	$'000	*$'000*
Current liabilities:		
Trade and other payables	240,798	361,291
Bank loans	340,570	109,294
	581,368	470,585
Add: Proposed dividends	89,171	–
Less: Cash and cash equivalents	42,354	120,012
Adjusted net debt	628,185	350,573
Total equity	964,315	849,184
Less: Proposed dividends	89,171	–
Adjusted equity	875,144	849,184
Adjusted net debt-to-equity ratio	72%	41%

Except for covenants relating to certain of the banking facilities of the subsidiaries of the Group as disclosed in note (22), neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practises used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At 31 December 2011, the Group has no concentration of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of the asset in the consolidated statement of financial position after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period and the earliest date the Group and the Company can be required to pay:

The Group

	2011			2010		
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Trade and other payables	240,798	(240,798)	(240,798)	361,291	(361,291)	(361,291)
Bank loans	340,570	(355,390)	(355,390)	109,294	(112,333)	(112,333)
	581,368	(596,188)	(596,188)	470,585	(473,624)	(473,624)

The Company

	2011			2010		
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Trade and other payables	17,393	(17,393)	(17,393)	1,920	(1,920)	(1,920)

(c) Interest rate risk

The Group's interest rate risk arises primarily from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings at the end of the reporting period.

	2011		**2010**	
	Effective interest rate	**One year or less**	**Effective interest rate**	**One year or less**
	%	*$'000*	*%*	*$'000*
Variable rate borrowings:				
Bank loans	6.23%	340,570	5.34%	109,294

(ii) Sensitivity analysis

As at 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately $2,895,000 (2010: $929,000). Other components of equity would not be affected by the changes in interest rates.

This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest risk for financial investments in existence at those dates.

(d) Foreign currency risk

Individual companies within the Group has limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. However, as the principal subsidiaries, Dezhong, Feng Liao Xing, Guangdong Medi-World, Luya, Nanhai Pharmaceutical, and Winteam Sales mainly carried out transactions in RMB, therefore any appreciation or depreciation of HKD against RMB will affect the Group's financial position and be reflected in the exchange reserve.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale equity securities (see note 17), which are listed on the Stock Exchange of Shenzhen, the PRC. The available-for-sale investments have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The following table indicates the approximate change in the Group's equity in response to reasonably possible changes in the share price of equity securities to which the Group has significant exposure at the end of the reporting period.

	Increase/(decrease) in share price	**2011 Effect on equity**	**2010 Effect on equity**
		$'000	*$'000*
Change in market price of equity investments:			
– increase	20%	1,250	1,471
– decrease	(20%)	(1,250)	(1,471)

The sensitivity analysis has been determined assuming that the reasonably possible changes in share price of equity investments had occurred at the end of the reporting period and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent management's assessment of reasonably possible changes in the share price over the period until the next annual date of financial position. The analysis is performed on the same basis for 2010.

(f) Fair values

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	2011				2010			
	level 1	**level 2**	**level 3**	**Total**	**level 1**	**level 2**	**level 3**	**Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Assets								
Available-for-sale equity securities:								
– Listed in the PRC	7,355	–	–	7,355	8,653	–	–	8,653
– Unlisted financial instruments, at fair value	–	–	–	–	–	31,003	–	31,003
Total	7,355	–	–	7,355	8,653	31,003	–	39,656

28 COMMITMENTS

(a) Capital commitments of the Group outstanding at 31 December 2011 not provided for in the financial statements were as follows:

	The Group	
	2011	**2010**
	$'000	*$'000*
Contracted for	263,071	25,658

(b) At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2011	**2010**
	$'000	*$'000*
Within 1 year	4,800	5,892
After 1 year but within 5 years	9,083	12,168
	13,883	18,060

Operating lease payments represent rentals payable by the Group for its office premises. The lease was negotiated for an average term of two years with fixed rental. The lease did not include any contingent rentals.

29 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors as disclosed in note 8, is as follows:

	2011 *$'000*	2010 *$'000*
Short-term employee benefits	6,974	6,701
Post-employments benefits	179	108
	7,153	6,809

Total remuneration is included in "staff costs" (see note 5(b)).

(b) Other related party transactions

During the year ended 31 December 2011, the following parties were considered as related party transaction of the Group as they are under the control of key management personnel of the Group:

Name of related party	Relationship from 15 November 2010 to 30 December 2010	Relationship as at 31 December 2011
Foshan Nanhai New & Specific Pharmaceutical Co., Ltd. ("Nanhai New & Specific Pharmaceutical") *(note (i))*	Effectively 50% owned by Mr. Yang Bin and 50% owned by Mr. Xu Tiefeng, directors of the Company	Nil
Foshan Nanhai Pharmaceutical Group Pharmaceutical Co., Ltd. ("NPGP") *(note (i))*	Effectively 50% owned by Mr. Yang Bin and 50% owned by Mr. Xu Tiefeng, directors of the Company	Nil
Foshan Nanhai Yikang Pharmaceutical Co., Ltd. ("Nanhai Yikang")	Effectively 50% owned by Mr. Yang Bin and 50% owned by Mr. Xu Tiefeng directors of the Company	the Group's subsidiary
Foshan Nanhai Pharmaceutical Group Co., Ltd. ("Nanhai Pharmaceutical Group") *(note (i))*	Effectively 50% owned by Mr. Yang Bin and 50% owned by Mr. Xu Tiefeng, directors of the Company	Nil

Name of related party	Relationship as at 31 December 2010	Relationship as at 31 December 2011
Hanyu Pharmaceutical	Effectively 45.32% owned by Mr. Yang Bin and 27.34% owned by Mr. Xu Tiefeng, directors of the Company	Effectively 45.32% owned by Mr. Yang Bin and 27.34% owned by Mr. Xu Tiefeng, directors of the Company
Zhejiang Dongying Pharmaceutical Co., Ltd. ("Zhejiang Dongying")	Effectively 20% owned by Mr. Yang Bin and 20% owned by Mr. Xu Tiefeng	Effectively 20% owned by Mr. Yang Bin and 20% owned by Mr. Xu Tiefeng

Name of related party	Relationship as at 31 December 2010	Relationship as at 31 December 2011
Sino Famous Trading Limited (“Sino”)	Effectively 50% owned by Mr. Xu Tiefeng and 50% owned by Mr. Wu Chiu Kong	Effectively 50% owned by Mr. Xu Tiefeng and 50% owned by Mr. Wu Chiu Kong
Kimlong Technology Limited (“Kimlong”)	Effectively 100% owned by Mr. Yang Bin	Effectively 100% owned by Mr. Yang Bin

Note (i): The Nanhai Yikang, Nanhai New & Specific Pharmaceutical and Nanhai Medicine were disposed of by Mr. Yang Bin and Mr. Xu Tiefeng as at 30 December 2010 and ceased to be related parties of the Group since that date.

Particulars of significant transactions between the Group and the related parties are as follows:

	Year ended 31 December	
	2011	**2010**
	$’000	*$’000*
Nanhai New & Specific Pharmaceutical	–	9,405
NPGP	–	4,154
Nanhai Yikang	–	7,090
Payment on behalf of:		
Sino	2,249	–
Kimlong	1,838	–
Zhejiang Dong Ying	3,986	–
	8,073	20,649

As at 31 December 2011, the Group’s trade and other receivable balances due from related parties are as below:

	Year ended 31 December	
	2011	**2010**
	$’000	*$’000*
Nanhai New & Specific Pharmaceutical	–	2,213
NPGP	–	1,252
Nanhai Yikang	–	1,361
Zhejiang Dongying	4,071	–
Sino	2,297	–
Kimlong	1,877	–
	8,245	4,826

As at 31 December 2011, bank loans of $111,015,000 (2010: 15,278,000) were secured by interest in leasehold land held by Hanyu Pharmaceutical.

30 ACQUISITION OF NON-CONTROLLING INTERESTS

(a) Acquisition of non-controlling interest in Dezhong

In August 2011, the Group acquired an additional 0.37% interest in Dezhong through increasing the Group's paid-in capital in Dezhong for a cash consideration of RMB26,305,000 (approximately $31,816,000), among which RMB4,500,000 (approximately $5,454,000) was recognised as paid-in capital and RMB21,805,000 (approximately $26,362,000) was recognised as capital reserve. Through the capital injection, the Group increased its effective equity interest in Dezhong from 96.57% to 96.94%. The carrying amount of Dezhong's net assets in the consolidated financial statements on the date of the acquisition was $296,730,000. The Group recognized a decrease in non-controlling interest of $291,000 and an increase in reserve of $291,000.

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

	Year ended 31 December 2011 *$'000*
Equity interest in Dezhong at beginning of year	270,599
Capital injection	31,009
Effect of increase in Dezhong's equity interest	1,098
Share of comprehensive income during the year ended 31 December 2011	53,204
Equity interest in Dezhong at the end of the year	355,910

(b) Acquisition of non-controlling interest in Feng Liao Xing

In September 2011, the Group acquired an additional 0.25% interest in Feng Liao Xing through increasing the Group's paid-in capital in Feng Liao Xing for a cash consideration of RMB16,781,000 (approximately $20,448,000), among which RMB3,834,000 (approximately $4,672,000) was recognized as paid-in capital and RMB12,947,000 (approximately $15,776,000) was recognized as capital reserve. Through the capital injection, the Group increased its effective equity interest in Feng Liao Xing from 97.83% to 98.08%. The carrying amount of Feng Liao Xing's net assets in the consolidated financial statement on the date of the acquisition was $185,788,000. The Group recognized a decrease in non-controlling interest of $161,000 and an increase in reserve of $161,000.

	Year ended 31 December 2011 *$'000*
Equity interest in Feng Liao Xing at the beginning of year	171,505
Capital injection	20,145
Effect of increase in Feng Liao Xing's equity interest	464
Share of comprehensive income during the year ended 31 December 2011	19,172
Equity interest in Feng Liao Xing at the end of the year	211,286

31 ACQUISITION OF A SUBSIDIARY

Business combination

In November 2011 the Group acquired the entire equity interest of Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales", previously known as Foshan Nanhai Yikang Pharmaceutical Co., Ltd), a company principally engaged in wholesale of Chinese herbal medicine tablets, Chinese patent medicine and chemical medicine, for a consideration of RMB6,800,000 in cash (approximately $8,344,000).

Winteam Sales has contributed revenue of $11,891,000 and net profit of $984,000 for the year ended 31 December 2011. Had Winteam Sales been consolidated from 1 January 2011, Winteam Sales would contribute revenue of $113,219,000 and net profit of $9,067,000 assuming that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2011.

The acquisition had the following effect on the Group's assets and liabilities:

	Note	Pre-acquisition carrying amounts $'000	Fair value adjustments $'000	Recognised values on acquisition $'000
Property, plant and equipment	12	571	–	571
Intangible assets	14	–	913	913
Inventories		6,708	–	6,708
Trade receivables		20,560	–	20,560
Deposits, prepayments and other receivables		3,026	–	3,026
Cash and cash equivalents		1,771	–	1,771
Deferred tax liabilities	25(b)	–	(228)	(228)
Trade payables		(20,450)	–	(20,450)
Accrued expenses and other payables		(11,105)	–	(11,105)
Income tax payable	25(a)	(36)	–	(36)
Net identifiable assets and liabilities		1,045	685	1,730
Goodwill on acquisition	15			6,614
Consideration in cash:				8,344
Consideration paid in cash				8,344
Cash acquired				(1,771)
Net cash outflow				6,573

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values. In determining the fair value of customer relationship acquired, the Group applied a discount rate of 14.72% which is based on a weighted average cost of capital of 13.72% and an additional risk premium of 1% as at the valuation date using the Excess Earnings Method.

The goodwill recognised on the acquisition is attributable mainly to the synergies expected to be achieved from integrating Winteam Sales into the Group's existing pharmaceutical sales business.

32 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

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 $184 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.

In conjunction with the Investment Agreement, Guangdong Medi-World and Guizhou Zhongtai also entered into a Loan Agreement on 22 December 2011 pursuant to which Guangdong Medi-World agreed to advance a loan in the amount of RMB70 million (approximately $84 million) to Guizhou Zhongtai. The loan is interest free, secured by a charge over the existing shareholding in Guizhou Zhongtai held by Henan Xintai, and shall be utilized by Guizhou Zhongtai for repayment of the shareholder's loan owned by Guizhou Zhongtai to Henan Xintai. The loan will be repayable after the payment of the first installment of the consideration for the investment. Guangdong Medi-World had advanced loan in the amount of RMB66 million (approximately $81 million) (note 17) to Guizhou Zhongtai as at 31 December 2011.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements186, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, Income taxes – *Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 9, *Financial instruments*	1 January 2013
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements (2011)*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

34 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current year's presentation."

3. UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The following are the unaudited financial statements of the Group for the six months ended 30 June 2012 reproduced from pages 19 to 42 of the interim report of Winteam for the six months ended 30 June 2012. References to page numbers in this section refer to page numbers in the aforesaid interim report.

Based on the interim report of Winteam for the six months ended 30 June 2012, there were no extraordinary items for the six months ended 30 June 2012.

"CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012 – Unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2012	**2011**
	Note	*$'000*	*$'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

	Note	Six months ended 30 June 2012 $'000	2011 $'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	10		
– 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	11	9,538	8,601
Deferred tax assets		12,515	12,744
		940,984	913,238
Current assets			
Other financial assets	11	109,115	81,411
Inventories	12	221,035	233,935
Trade and other receivables	13	326,289	346,891
Deposits with banks	14	104,586	4,919
Cash and cash equivalents	15	69,632	42,354
		830,657	709,510
Current liabilities			
Trade and other payables	16	246,333	240,798
Bank loans	17	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

	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	*18*		
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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012 – unaudited

(Expressed in Hong Kong dollars)

	Interest attributable to equity shareholders of the Company										
	Share capital	Share premium	Capital redemption reserve	Exchange reserve	Reserve fund	Fair value reserve	Other reserve (note18(c))	Retained profits	Total	Non-controlling interests	Total equity
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2011	178,341	529,514	297	118,142	50,761	6,568	(139,273)	91,309	835,659	13,525	849,184
Changes in equity for the six months ended 30 June 2011											
Profit for the period	–	–	–	–	–	–	–	36,480	36,480	663	37,143
Other comprehensive income for the period	–	–	–	19,803	–	(2,264)	–	–	17,539	582	18,121
Total comprehensive income for the period	–	–	–	19,803	–	(2,264)	–	36,480	54,019	1,245	55,264
Transfer to reserve fund	–	–	–	–	4,347	–	–	(4,347)	–	–	–
At 30 June 2011	178,341	529,514	297	137,945	55,108	4,304	(139,273)	123,442	889,678	14,770	904,448
At 1 July 2011	178,341	529,514	297	137,945	55,108	4,304	(139,273)	123,442	889,678	14,770	904,448
Changes in equity for the six months ended 31 December 2011											
Profit for the period	–	–	–	–	–	–	–	35,592	35,592	973	36,565
Other comprehensive income for the period	–	–	–	22,581	–	435	–	–	23,016	286	23,302
Total comprehensive income for the period	–	–	–	22,581	–	435	–	35,592	58,608	1,259	59,867
Acquisition of non-controlling interest without a change in control	–	–	–	547	201	14	(310)	–	452	(452)	–
Transfer to reserve fund	–	–	–	–	5,139	–	–	(5,139)	–	–	–
At 31 December 2011	178,341	529,514	297	161,073	60,448	4,753	(139,583)	153,895	948,738	15,577	964,315

	Interest attributable to equity shareholders of the Company										
	Share capital *$'000*	Share premium *$'000*	Capital redemption reserve *$'000*	Exchange reserve *$'000*	Reserve fund *$'000*	Fair value reserve *$'000*	Other reserve (note18(c)) *$'000*	Retained profits *$'000*	Total *$'000*	Non-controlling interests *$'000*	Total equity *$'000*
At 1 January 2012	178,341	529,514	297	161,073	60,448	4,753	(139,583)	153,895	948,738	15,577	964,315
Changes in equity for the six months ended 30 June 2012											
Profit for the period	–	–	–	–	–	–	–	77,967	77,967	1,589	79,556
Other comprehensive income for the period	–	–	–	(6,153)	–	823	–	–	(5,330)	(69)	(5,399)
Total comprehensive income for the period	–	–	–	(6,153)	–	823	–	77,967	72,637	1,520	74,157
Dividend declared in respect of the previous year	–	–	–	–	–	–	–	(89,171)	(89,171)	–	(89,171)
At 30 June 2012	178,341	529,514	297	154,920	60,448	5,576	(139,583)	142,691	932,204	17,097	949,301

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2012 – Unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2012	**2011**
	Note	*$'000*	*$'000*
Cash generated from/(used in) operations		181,536	(31,689)
PRC income tax paid		(20,494)	(19,981)
Net cash generated from/(used in) operating activities		161,042	(51,670)
Net cash used in investing activities		(180,322)	(97,626)
Net cash generated from financing activities		46,850	123,891
Net increase/(decrease) in cash and cash equivalents		27,570	(25,405)
Cash and cash equivalents at 1 January		42,354	120,012
Effect of foreign exchange rate changes		(292)	3,467
Cash and cash equivalents at 30 June	*15*	69,632	98,074
Analysis of balance of cash and cash equivalents			
Bank deposits with maturity within three months		–	–
Cash at bank and in hand		69,632	98,074
		69,632	98,074

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION

The 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"). It was authorised for issue on 30 August 2012.

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.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Winteam Pharmaceutical Group Limited (the "Company") and its subsidiaries (the "Group") since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The 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. KPMG's independent review report to the Board of Directors is included on page 18.

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 March 2012.

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 $'000	2011 $'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 $'000	2011 $'000
Inventory write-down and losses net of reversals *(Note 12)*	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 $'000	2011 $'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 SEGMENT REPORTING

The Group manages its businesses by subsidiaries. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has identified the following six reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong")
- Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing")

- Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World")
- Shandong Luya Pharmaceutical Co., Ltd. ("Luya")
- Foshan Feng Liao Xing Medicinal Material & Slices Co., Ltd ("Material & Slices", previously known as Foshan Nanhai Pharmaceutical Group Medicinal Material Co., Ltd.)
- Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales")

(a) Segment results, assets and liabilities

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

Segment assets include all tangible, intangible assets and current assets with the exception of investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade payable, accruals attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration, other head office or corporate administration costs, other revenue and other net income.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and additions to non-current segment assets used by the segments in their operations.

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 2012 and 2011 is set out below.

	Dezhong Six months ended 30 June		**Feng Liao Xing Six months ended 30 June**		**Guangdong Medi-World Six months ended 30 June**		**Luya Six months ended 30 June**		**Material & Slices Six months ended 30 June**		**Winteam Sales Six months ended 30 June**		**Total Six months ended 30 June**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue from external customers	157,000	187,353	80,990	123,436	126,941	140,211	35,507	44,904	15,001	12,493	174,126	–	589,565	508,397
Inter-segment revenue	35,294	–	36,579	–	51,615	–	1,014	–	66,807	102,580	–	–	191,309	102,580
Reportable segment revenue	192,294	187,353	117,569	123,436	178,556	140,211	36,521	44,904	81,808	115,073	174,126	–	780,874	610,977
Reportable segment profit (adjusted EBITDA)	69,147	23,597	8,750	22,599	37,051	16,622	9,195	15,472	2,903	5,599	6,748	–	133,794	83,889
Interest income from bank deposit	230	157	41	30	4,381	671	8	10	–	–	10	–	4,670	868
Interest expenses	3,942	880	2,339	59	4,769	2,654	–	2	2,871	1,410	–	–	13,921	5,005
Depreciation and amortisation for the period	8,643	12,610	3,930	6,739	8,242	8,130	3,744	3,613	155	112	309	–	25,023	31,204

	Dezhong		Feng Liao Xing		Guangdong Medi-World		Luya		Material & Slices		Winteam Sales		Total	
	At 30 June 2012	At 31 December 2011	At 30 June 2012	At 31 December 2011	At 30 June 2012	At 31 December 2011	At 30 June 2012	At 31 December 2011	At 30 June 2012	At 31 December 2011	At 30 June 2012	At 31 December 2011	At 30 June 2012	At 31 December 2011
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Reportable segment assets	885,339	812,932	351,601	354,174	581,755	476,924	172,912	174,627	236,613	252,546	131,866	42,301	2,360,086	2,113,504
Additions to non-current segment assets during the period/year	50,296	85,212	3,257	8,867	3,599	13,880	752	2,095	16	527	33	8,188	57,953	118,769
Reportable segment liabilities	338,406	312,554	105,951	117,379	609,333	482,646	19,657	11,864	213,802	228,793	108,003	32,459	1,395,152	1,185,695

(b) Reconciliations of reportable segment revenues and profit

	Six months ended 30 June 2012	2011
	$'000	*$'000*
Revenue		
Reportable segment revenue	780,874	610,977
Elimination of inter-segment revenue	(191,309)	(102,580)
Consolidated turnover	589,565	508,397
Profit		
Reportable segment profit	133,794	83,889
Elimination of inter-segment profits	1,016	(3,167)
Reportable segment profit derived from the Group's external customers	134,810	80,722
Other revenue and net income	9,266	7,879
Depreciation and amortisation	(25,023)	(31,204)
Finance costs	(13,921)	(5,005)
Unallocated head office and corporate expenses	(3,411)	(8,831)
Consolidated profit before taxation	101,721	43,561

	At 30 June 2012 *$'000*	At 31 December 2011 *$'000*
Assets		
Reportable segment assets	2,360,086	2,113,504
Elimination of inter-segment receivables	(730,433)	(601,081)
	1,629,653	1,512,423
Non-current financial assets	9,538	8,601
Current financial assets	113,075	81,411
Deferred tax assets	12,515	12,744
Unallocated head office and corporate assets	6,860	7,569
Consolidated total assets	1,771,641	1,622,748
Liabilities		
Reportable segment liabilities	1,395,152	1,185,695
Elimination of inter-segment payables	(730,433)	(601,081)
	664,719	584,614
Current tax liabilities	10,995	12,251
Deferred tax liabilities	54,786	52,097
Unallocated head office and corporate liabilities	91,840	9,471
Consolidated total liabilities	822,340	658,433

(c) Geographic information

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

10 FIXED ASSETS

(a) Acquisitions and disposals

During the six months ended 30 June 2012, the Group acquired items of plant and machinery (including payments for construction in progress) with a cost of $16,038,000 (six months ended 30 June 2011: $37,674,000).

The Group was in the process of applying for the title certificate of its interest in leasehold land with an aggregate carrying amount of $94,530,000 as of 30 June 2012 (31 December 2011: $95,053,000).

Items of buildings, plant and machinery with a net book value of $428,000 were disposed of during the six months ended 30 June 2012 (six months ended 30 June 2011: $902,000), resulting in a gain on disposal of $72,000 (six months ended 30 June 2011: loss of $84,000).

(b) Pledged assets

Certain interests in leasehold land held for own use under operating leases and buildings with aggregate carrying value of $83,438,000 were pledged as securities of bank loans of the Group as at 30 June 2012 (31 December 2011: $69,278,000) (see note 17(i)).

11 OTHER FINANCIAL ASSETS

	At 30 June 2012 $'000	At 31 December 2011 $'000
Non-current		
Available-for-sale equity securities		
– Listed in the PRC, at fair value	8,298	7,355
– Unlisted equity securities, at cost	1,240	1,246
	9,538	8,601
Market value of listed securities	8,298	7,355
Current		
Loans to a third party	109,115	81,411

Investments in unlisted equity securities do not have a quoted market price in an active market. Quoted prices in active market for similar financial assets or observable market data as significant inputs for valuation techniques are also not available. Therefore, the unlisted equity securities are stated at cost less impairment, if any, in the financial statements.

The Group advanced loans of RMB89,000,000 (approximately $109,115,000) (31 December 2011: $81,411,000) to Guizhou Zhongtai Biological Technology Co., Ltd. ("Guizhou Zhongtai"), an independent company. The loan of RMB70,000,000 (approximately $86,000,000) (31 December 2011: $81,411,000) is secured by a charge over the existing shareholding in Guizhou Zhongtai, and the annual interest rate is 8.53%. Save as disclosed above, the loans of RMB19,000,000 (approximately $23,115,000) (31 December 2011: $Nil) are unsecured with the annual interest rate of 9.84%. Neither the available-for-sale equity securities nor the loans to a third party are past due or impaired.

12 INVENTORIES

During the six months ended 30 June 2012, $214,000 (six months ended 30 June 2011: $266,000) has been recognised as a reduction in the amount of inventories recognised as an expense in profit or loss, being the amount of recognition of a write-down of inventories to estimated net realisable value and net of reversals.

13 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) (see note 17(i)) were pledged as securities of bank loan of the Group as at 30 June 2012.

14 DEPOSITS WITH BANKS

Deposits with banks represent bank deposits with maturity beyond three months. Bank deposits of $104,586,000 were pledged as securities for bank loans of the Group as at 30 June 2012 (31 December 2011: Nil) (see note 17(i)).

15 CASH AND CASH EQUIVALENTS

	At 30 June 2012	**At 31 December 2011**
	$'000	*$'000*
Cash at bank and in hand	69,632	42,354

16 TRADE AND OTHER PAYABLES

	At 30 June 2012	**At 31 December 2011**
	$'000	*$'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.

17 BANK LOANS

At 30 June 2012, the Group's bank loans are repayable as follows:

	At 30 June 2012	**At 31 December 2011**
	$'000	*$'000*
Within 1 year or on demand	496,582	340,570

At 30 June 2012, the Group's bank loans are secured as follows:

	At 30 June 2012	At 31 December 2011
	$'000	*$'000*
Bank loans		
Secured	281,910	161,711
Unsecured	214,672	178,859
	496,582	340,570

Notes:

(i) The following assets were pledged as securities for bank loans:

	Carrying Value	
	At 30 June 2012	At 31 December 2011
	$'000	*$'000*
Interests in leasehold land and buildings *(Note 10(b))*	83,438	69,278
Deposits with banks *(Note 14)*	104,586	–
Bills receivable *(Note 13)*	20,425	11,349
	208,449	80,627

Apart from the above secured assets, interest in leasehold land held by Foshan Hanyu Pharmaceutical Co., Ltd. ("Hanyu Pharmaceutical"), a company in which Mr. Yang Bin and Mr. Xu Tiefeng (Note 20(a)) jointly hold 72.7% equity interest, was pledged as security for bank loans at the end of each reporting period.

(ii) Secured bank loans of $39,254,000 (31 December 2011: Nil) were guaranteed by Mr. Xu Tiefeng and Mr. Yang Bin.

(iii) Banking facilities of $882,899,000 (31 December 2011: $225,484,000) were utilised to the extent of $496,582,000 (31 December 2011: $185,025,000). The bank loan drawn were secured by assets as set out in note 17(i).

Parts of the Group's banking facilities, amounted to $122,670,000 (31 December 2011: $111,015,000) are subject to the fulfilment of covenants relating to certain of the balance sheet ratios of the subsidiaries of the Group, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2012, none of the covenants relating to drawn down facilities had been breached (31 December 2011: Nil).

18 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	–

(c) Other reserve

Other reserve amounted to $139,583,000 represents premium paid for acquisition of non-controlling interests in Dezhong and Feng Liao Xing and related reserves.

19 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	At 30 June 2012	**At 31 December 2011**
	$'000	*$'000*
Contracted for	255,167	263,071

20 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

During the six months ended 30 June 2012 and 2011, transactions with the following parties are considered to be related party transactions:

Name of related party	Relationship
Mr. Yang Bin and Mr. Xu Tiefeng	Executive directors and controlling shareholders of the Company
Hanyu Pharmaceutical	Effectively 45.32% owned by Mr. Yang Bin and 27.34% owned by Mr. Xu Tiefeng
Zhejiang Dongying Pharmaceutical Co., Ltd. ("Zhejiang Dongying")	Effectively 20% owned by Mr. Yang Bin and 20% owned by Mr. Xu Tiefeng
Sino Famous Trading Limited ("Sino")	Effectively 50% owned by Mr. Xu Tiefeng and 50% owned by Mr. Wu Chiu Kong
Kimlong Technology Limited ("Kimlong")	Effectively 100% owned by Mr. Yang Bin

Particulars of significant transactions between the Group and the related parties are as follows:

	Six months ended 30 June	
	2012	**2011**
	$'000	*$'000*
Purchase of raw materials from:		
Zhejiang Dongying	–	3,926

The Group's trade and other receivable balances due from related parties are as below:

	At 30 June 2012	At 31 December 2011
	$'000	*$'000*
Zhejiang Dongying	–	4,071
Sino	2,284	2,297
Kimlong	1,867	1,877

As at 30 June 2012, bank loans of $110,403,000 were secured by interests in leasehold land held by Hanyu Pharmaceutical. (31 December 2011: $111,015,000).

As at 30 June 2012, bank loans of $39,254,000 were guaranteed by Mr. Xu Tiefeng and Mr. Yang Bin. (31 December 2011: Nil).

(b) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2012	**2011**
	$'000	*$'000*
Short-term employee benefits	2,758	3,112
Post-employment benefits	73	61
	2,831	3,173

21 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Pursuant to a conditional investment agreement dated 22 December 2011 entered into among the Group, 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 the Group has agreed to invest in the Increased Capital of Guizhou Zhongtai for a cash consideration of RMB153 million (approximately $184 million). The Increased Capital represented 51% of the entire registered capital of Guizhou Zhongtai. The consideration will be payable by the Group by instalments. 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.

The Investment Agreement states that it will be invalid if it is not approved by the local government within three months of its signing unless the Group, Guizhou Zhongtai, and Henan Xintai have agreed in writing to extend the validity period. The Group, Guizhou Zhongtai and Henan Xintai have agreed in writing to extend the validity period of the Investment Agreement to 31 December 2012.

22 COMPARATIVE FIGURE

Certain comparative figures have been adjusted to conform to current year's presentation."

4. INDEBTEDNESS STATEMENT

At the close of business on 31 December 2012, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this Composite Document, the Group had an aggregate outstanding bank loans of approximately HK$511,103,000. As at 31 December 2012, bank loans amounting to approximately HK$313,775,000 were secured by the Group's interests in leasehold land, buildings, bank acceptance notes and deposits, interest in buildings held by Hanyu Pharmaceutical Co., Ltd. (a company in which Mr. Yang and Mr. Xu effectively hold 45.32% and 27.34% equity interests respectively) with an aggregate carrying value of approximately HK$282,886,000 and personal guarantee provided by Mr. Yang. The remaining bank loans of HK$197,328,000 were not secured.

Save as disclosed in the paragraph above and apart from intra-group liabilities and normal trade payables, the Group had no outstanding mortgages, charges, debentures or loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities at the close of the business on 31 December 2012.

5. MATERIAL CHANGES

As disclosed in the 2012 interim report of the Company, the construction work of the TCM extraction project at Gaoming District, Foshan, the PRC has commenced in October 2010. Additional bank loans were borrowed by the Group during 2012 which were mainly used for the construction cost of the Gaoming base as well as the expenditure on financial planning. These additional bank loans were secured by bank deposits in an amount similar to the bank loans. As a result of these financing arrangements, the Group's bank loan balances and deposits with banks (amounting to approximately HK$496.6 million and HK$104.6 million respectively as at 30 June 2012) increased substantially as compared to those balances as at 31 December 2011 (amounting to approximately HK$340.6 million and HK$4.9 million respectively).

As disclosed in the November 2012 Profit Alert, based on the preliminary assessment by the Group's management of the unaudited management accounts of the Group for the ten months ended 31 October 2012, the Group is expected to record a significant increase in net profit for the year ended 31 December 2012 as compared to that of the previous year ended 31 December 2011. The profit increase is expected to be mainly attributable to (i) the steady growth in sales of the Group; (ii) effective cost control over sales and marketing expenses through the continuous integration of end-market sales resources; and (iii) the decrease in cost of raw materials as a result of the decline in price of Chinese herbal materials commonly used by the Group.

Save as disclosed in the paragraphs above, as at the Latest Practicable Date, the Directors confirmed that there had been no material change in the financial or trading position or outlook of the Group subsequent to 31 December 2011, being the date to which the last published audited consolidated financial statements of the Company were made up.

The Board of Directors
Sinopharm Group Hongkong Co., Limited
1601, Emperor Group Centre
288 Hennessy Road
Wan Chai, Hong Kong

5 February 2013

In accordance with the instructions from Sinopharm Group Hongkong Co., Limited (the "**Offeror**"), we have determined the fair value range of the amount of HK$0.30 per Offer Share (hereinafter referred to as the "**Earn-out Portion**") in addition to the Offer Price of HK$1.40 per Offer Share to be paid to the qualifying shareholders of Winteam Pharmaceutical Group Limited (**"Winteam"**) who accept the Offer if the Adjusted Net Profit for FY 2012 is HK$190 million or more.

This report will be used as reference and for inclusion in the composite document dated 5 February 2013 (the "**Composite Document**") issued jointly by China National Pharmaceutical Group Corporation (**"CNPGC"**), the Offeror and Winteam in connection with the Offer. Terms defined in the Composite Document shall have the same meanings when used in this letter, unless the context otherwise requires. The findings in this report will be used for the abovementioned purpose only.

1. BASIS OF DETERMINATION

Our determination was carried out on a fair value basis. Fair value is defined as "*the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction*".

The procedures we applied included a review of the terms and conditions of the Earn-out Portion as set out in the "Letter from Citigroup" in the Composite Document and the financial and economic condition of CNPGC, the parent company of the Offeror, and the Offeror.

Instruments

The financial instrument to be valued is derived from the Offer with details as follows:

(a) Instrument: Cash Payment

(b) Offeror: Sinopharm Group Hongkong Co., Limited

(c) Maximum Number of Shares in Connection with the Earn-out: 1,515,899,186 (equal to 85.00% of the entire issued share capital of Winteam)

(d) Capital Payment: If the Adjusted Net Profit for FY 2012 is HK$190 million or more, HK$0.30 per Offer Share shall be payable to all the accepting Shareholders within seven Business Days after the release of the 2012 annual results announcement of Winteam.

Sources of Information

We have planned and performed our determination so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the fair value range of the Earn-out Portion. We believe that our methodology provides a reasonable basis for our opinion.

In our determination, the following sources of information were considered in determining the fair value range of the Earn-out Portion:

(a) the Announcement; and

(b) Bloomberg database.

2. ASSUMPTIONS AND METHODOLOGY

We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and/or the business of CNPGC and/or the Offeror. We have also assumed that there will be no material change to the financial condition of CNPGC and/or the Offeror.

Approach and Methodology

In carrying out this exercise, we have reviewed the details of the Earn-out Portion and obtained through Bloomberg financial terms of certain other transactions which we considered relevant for the valuation. In addition to the foregoing, we conducted such other analyses and examinations and considered such other information and financial, economic and market criteria as we deemed appropriate in arriving at the valuation. This report is not intended to contain forecasts of the future performance of CNPGC, the Offeror or Winteam in any form, so only the fair value range of the Earn-out Portion is provided.

The discounted cash flow method is employed in deriving the fair value range of the Earn-out Portion. The fair value range of the Earn-out Portion is estimated by computing the range of present values of the cash payments of the Earn-out Portion, discounted by the prevailing market rate of interest for similar instruments or obligations. The equation for pricing the Earn-out Portion is as follows:

$$\text{Fair Value of the Earn-out Portion} = \frac{CF_i}{(1+r)^{ti}}$$

where CF_i is the cash flow occurred at time ti;
r is the appropriate market rate for discounting the Earn-out Portion.

Assumptions

We have considered alternative methodologies to arrive at a range of discount rates to be applied to determine the fair value range of the Earn-out Portion.

First, we have considered the "short term bank loan rate" stipulated by the People's Bank of China as at the Latest Practicable Date as a market benchmark borrowing cost for PRC companies. The discount rate based on this methodology applied for the purposes of this report, as at the Latest Practicable Date, is 5.60%.

Secondly, we have derived a range of shorter term discount rates using the current yield of CNPGC's 2009 corporate bonds that mature in March 2014[1] and historical market rates of instruments with various short-term maturities for corporate credits with a similar credit status to that of CNPGC. We observed the median market rates of such instruments over the last 5 years, 7 years and 10 years. The range of discount rates based on this methodology applied for the purposes of this report, as at the Latest Practicable Date, is 3.820% to 3.896%.

We have assumed that Winteam will release its 2012 annual results on 28 March 2013 and that the Earn-out Portion, if payable, will be paid within seven Business Days of the date of release of such annual results and, in any case, no later than 11 April 2013. We have assumed, therefore, that the applicable discount period for the purposes of this report commences on the Latest Practicable Date and ends on 11 April 2013.

Limiting Conditions

(a) We express no view as to, and our opinion does not address, the relative merits of the Offer and/or whether the Adjusted Net Profit for FY 2012 is HK$190 million or more or any other amount.

(b) We are not expressing any opinion as to the likelihood that the condition triggering the Earn-out Portion will be met.

[1] 5-year term corporate bond issued by CNPGC in 2009 with annual coupon rate of 4.08%, maturing in March 2014. Bond code: 098039.

(c) We have assumed that the terms and condition of the Earn-out Portion described in the "Letter from Citigroup" in the Composite Document are complete and correct and that there are no other conditions thereto which may affect the fair value range of the Earn-out Portion. We have relied on the information available in arriving at our opinion of the fair value range of the Earn-Out Portion. This report is not intended to be, and does not constitute, a recommendation to any Shareholder as to how such Shareholder should act on any matter relating to the Offer.

(d) We assume no responsibility for changes in market conditions after the Latest Practicable Date.

(e) Except as required by law or the Takeovers and Mergers Panel of the SFC, we shall not be required to give testimony or to attend in court or to any government agency by reason of this report and with reference to the project described herein.

(f) No opinion is intended to be expressed for matters which require legal or other specialised expertise or knowledge, beyond that customarily employed by valuers.

(g) No allowance has been made in our report for any expenses or taxation, if any, which may be incurred by accepting Shareholders in respect of the Earn-Out Portion, if payable.

(h) This report has been prepared solely as reference and for inclusion in the Composite Document only and for the specific purpose to which it refers. This report is for the use only of the party to whom it is addressed and its professional advisers and no responsibility is accepted to any third party for the whole or any part of its contents and we expressly disclaim any duty or liability to any third party with respect to the contents of this report.

(i) This report may not be quoted or referred to, in whole or in part, nor may any other public reference to Citigroup Global Markets Asia Limited be made, without our prior written consent.

3. OPINION OF FAIR VALUE RANGE

Based on the results of our investigations and analyses outlined in this report, we are of the opinion that the fair value range of the Earn-out Portion in respect of each Offer Share as at the Latest Practicable Date, free from any encumbrances, is HK$0.2969 to HK$0.2979 if the Adjusted Net Profit for FY 2012 is HK$190 million or more, and HK$0.00 if the Adjusted Net Profit for FY 2012 is less than HK$190 million.

Yours faithfully,
For and on behalf of
Citigroup Global Markets Asia Limited
Ling Zhang
Managing Director

The following is the text of a letter from KPMG on the November 2012 Profit Alert prepared for inclusion in the Composite Document.

KPMG

The Directors
Winteam Pharmaceutical Group Limited
Room 2801-2805, China Insurance Group Building
141 Des Voeux Road
Central, Hong Kong

5 February 2013

Dear Sirs,

We have reviewed, in accordance with the Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants, the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit attributable to equity holders of Winteam Pharmaceutical Group Limited ("the Company") for the year ended 31 December 2012 (the "Profit Forecast"), for which the directors of the Company (the "Directors") are solely responsible. The Profit Forecast has been prepared to enable the Directors to issue the following statement set out in the announcement of the Company dated 28 November 2012:

"The board of directors of the Company wishes to inform shareholders of the Company and potential investors that based on the preliminary assessment by the Group's management of the unaudited management accounts of the Group for the ten months ended 31 October 2012, the Group is expected to record a significant increase in net profit for the year ending 31 December 2012 as compared to that of the previous year ended 31 December 2011."

The Profit Forecast has been prepared by the Directors based on the unaudited consolidated results based on management accounts of the Company and its subsidiaries (collectively referred to as "the Group") for the ten months ended 31 October 2012 and a forecast of the consolidated results of the Group for the remaining two months ended 31 December 2012.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the bases stated by the Directors as set out in the Memorandum of the Board of Directors on the Profit Forecast for the year ended 31 December 2012 and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the Company's published annual report filed with The Stock Exchange of Hong Kong Limited for the year ended 31 December 2011.

Yours faithfully,

Certified Public Accountants
Hong Kong

The following is the text of the letter from Optima Capital on the November 2012 Profit Alert prepared for inclusion in the Composite Document.

Optima Capital Limited
Suite 1501, 15/F
Jardine House
1 Connaught Place
Central
Hong Kong

5 February 2013

The Board of Directors
Winteam Pharmaceutical Group Limited

Dear Sirs,

November 2012 Profit Alert

We refer to the Composite Document issued jointly by CNPGC, the Offeror and Winteam dated 5 February 2013, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless otherwise specified.

We also refer to the statement (the "Statement") made by the Directors in the November 2012 Profit Alert that based on the preliminary assessment by the Group's management of the unaudited management accounts of the Group for the ten months ended 31 October 2012, the Group is expected to record a significant increase in net profit for the year ending 31 December 2012 (the "Forecast") as compared to that of the previous year ended 31 December 2011. We note that the Statement is regarded as a profit forecast under Rule 10 of the Takeovers Code. Details of the Statement are set out in the November 2012 Profit Alert dated 28 November 2012.

We have discussed with the Directors the bases and assumptions underlying the Statement. We have also considered the result of the review of the Forecast by KPMG, the auditors of the Company. KPMG is of the opinion that, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled in accordance with the bases stated by the Directors and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in Winteam's published annual report for the year ended 31 December 2011. The full text of the report issued by KPMG on their review is set out in Appendix IV to the Composite Document.

On the bases of the Forecast prepared by Winteam and on the basis of the review performed by KPMG, we are of the opinion that the Statement, for which the Directors are solely responsible, have been made after due care and consideration.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED
Beatrice Lung
Managing Director

RESPONSIBILITY STATEMENT

The sole director of the Offeror and the directors of CNPGC jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Group and the Vendors), and confirms, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

MARKET PRICES

Set out below are the closing prices of the Shares which are the subject of the Offer quoted on the Stock Exchange on (a) the last trading day for each of the calendar months during the Relevant Period on which trading in the Shares took place; (b) the Last Trading Date; and (c) the Latest Practicable Date:

Date	Closing price per Share *HK$*
(i) 1 February 2013, being the Latest Practicable Date	1.66
(ii) 30 August 2012, being the Last Trading Date	1.45
(iii) on the last trading day for each calendar month during the Relevant Period:	
(A) 29 February 2012	1.29
(B) 30 March 2012	1.20
(C) 30 April 2012	1.30
(D) 31 May 2012	1.30
(E) 29 June 2012	1.26
(F) 31 July 2012	1.38
(G) 30 August 2012	1.45
(H) 28 September 2012	1.49
(I) 31 October 2012	1.50
(J) 30 November 2012	1.56
(K) 31 December 2012	1.60
(L) 31 January 2013	1.68

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK$1.68 per Share (on 30 and 31 January 2013) and HK$1.17 per Share (on 29 March 2012) respectively.

SHAREHOLDINGS AND DEALINGS

As at the Latest Practicable Date,

(a) save for the Sale Shares owned by the Offeror as a result of the Acquisition, the Offeror and parties acting in concert with it (excluding exempt principal traders and exempt fund managers) did not own or control any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;

(b) none of the directors of the Offeror were interested in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;

(c) save for Mr. Yang and Profit Channel, no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between the Offeror or any parties acting in concert with it, and any other person had owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and

(d) none of the Offeror or any parties acting in concert with it (excluding exempt principal traders and exempt fund managers) had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

Save for the Sale Shares acquired by the Offeror as a result of the Acquisition, none of the Offeror or any parties acting in concert with it (excluding exempt principal traders and exempt fund managers) had dealt for value in any Shares or convertible securities, warrants, options and derivatives in respect of any Shares during the Relevant Period.

IRREVOCABLE UNDERTAKINGS

The shareholdings of the Committed Shareholders are set out in the section headed "DISCLOSURE OF INTERESTS" in Appendix VII of this Composite Document.

Save for the sale and purchase of the Sale Shares as contemplated under the S&P Agreement, the undertakings given under the Irrevocable Undertakings and the cancellation of warrants on 27 September 2012 in the aggregate nominal value of HK$90 million issued by Profit Channel and Extra Benefit to Total Champ Investments Limited on 14 October 2011, none of the Committed Shareholders had dealt for value in any Shares or convertible securities, warrants, options and derivatives in respect of any Shares during the Relevant Period.

Other than the Irrevocable Undertakings given by the Committed Shareholders, no persons, prior to the posting of this Composite Document, had irrevocably committed themselves to accept or reject the Offer.

ARRANGEMENTS IN CONNECTION WITH THE OFFER

As at the Latest Practicable Date, there was no agreement, arrangement or understanding whereby any securities to be acquired pursuant to the Offer will be transferred, charged or pledged to any other persons.

ARRANGEMENTS IN RELATION TO DEALINGS

As at the Latest Practicable Date, save for the obligations of Mr. Yang and Profit Channel not to dispose of any part of the Lock-up Shares pursuant to the S&P Agreement and the Irrevocable Undertakings as more particularly described in the section headed "*LOCK-UP SHARES*" in the letter from Citigroup set out in this Composite Document, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between any member of the CNPGC Group, the Offeror or any parties acting in concert with it, and any other person.

MISCELLANEOUS

(a) None of the existing Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Offer.

(b) The emoluments of the Offeror's directors will not be affected by the Offer or by any other associated transaction.

(c) Other than the S&P Agreement, Irrevocable Undertakings and the undertaking given by the Offeror in the S&P Agreement to vote in favour of the continuing appointment of Mr. Yang as a Director, there is no agreement, arrangement or understanding (including any compensation arrangement) between any member of the CNPGC Group, the Offeror, or the parties acting in concert with it (on the one part) and any of the Directors or Shareholders (other than the Offeror) (on the other part) which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.

(d) There is no agreement or arrangement to which CNPGC or the Offeror is a party, which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Offer.

(e) The registered office of CNPGC is at Rm. 1206 China Pharmaceutical Building, No. 20 Zhichun Road, Haidian District, Beijing, China.

(f) The registered office of the Offeror is at 1601 Emperor Group Center, 288 Hennessy Road, Wanchai, Hong Kong.

(g) The principal place of business of Citigroup is at 50th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Offeror and parties acting in concert with it), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the sole director of the Offeror and the directors of CNPGC), have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

SHARE CAPITAL OF WINTEAM

As at the Latest Practicable Date, the authorised and issued share capital of Winteam were as follows:

Authorised		*HK$*
3,000,000,000	Shares	300,000,000.00
Issued and fully paid		
1,783,410,807	Shares	178,341,080.70

All existing Shares rank equally in all respects, including in particular as to dividend, voting rights and capital.

No new Shares were issued since 31 December 2011 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date.

As at the Latest Practicable Date, Winteam had no outstanding options, warrants or convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into Shares.

DISCLOSURE OF INTERESTS

(a) Interest of Winteam in the Offeror

As at the Latest Practicable Date, Winteam did not have any interest in the shares, warrants, options, derivatives, and securities carrying conversion or subscription rights into shares of the Offeror.

(b) Interest of the Directors in the Offeror

As at the Latest Practicable Date, the Directors did not have any interest in the shares, warrants, options, derivatives, and securities carrying conversion or subscription rights into shares of the Offeror.

(c) Interests of the Directors and Committed Shareholders in Winteam

As at the Latest Practicable Date, details of the interests in the Shares held by the Directors and Committed Shareholders were set out below:

Name of Director/ Committed Shareholder	Capacity	Number of Shares	Approximate percentage of total interest to the total issued share capital of Winteam
Mr. Xu	Interest of controlled corporations	448,395,141 *(Notes 1, 2 & 4)*	25.14%
	Beneficial owner	1,470,000 *(Note 5)*	0.0824%
Mr. Yang	Interest of controlled corporations	448,395,141 *(Notes 1, 3 & 4)*	25.14%

Notes:

1. Of the 448,395,141 Shares, 68,178,172 Shares are held by Sureplan, which is 33% owned indirectly by Mr. Xu and 67% owned indirectly by Mr. Yang. Both Mr. Xu and Mr. Yang are deemed to be interested in Sureplan's interest in Winteam under the SFO. Mr. Xu and Mr. Yang both are directors of Sureplan.

   Pursuant to the Irrevocable Undertakings, Sureplan has irrevocably undertaken to, among other things, accept the Offer in respect of 68,178,172 Shares owned by it.

2. Of the 448,395,141 Shares, 380,145,443 Shares are held by Extra Benefit. Extra Benefit is wholly owned by Mr. Xu.

   Pursuant to the Irrevocable Undertakings, Extra Benefit has irrevocably undertaken to, among other things, accept the Offer in respect of 380,145,443 Shares owned by it.

3. Of the 448,395,141 Shares, 380,145,443 Shares are held by Profit Channel. Profit Channel is wholly owned by Mr. Yang.

   Pursuant to the Irrevocable Undertakings, Profit Channel has irrevocably undertaken to, among other things, accept the Offer in respect of 112,633,822 Shares owned by it.

4. Of the 448,395,141 Shares, 71,526 Shares are held by Profit United, which is 50% owned by Mr. Xu and Mr. Yang respectively.

   Pursuant to the Irrevocable Undertakings, Profit United has irrevocably undertaken to, among other things, accept the Offer in respect of 71,526 Shares owned by it.

5. Pursuant to the Irrevocable Undertakings, Mr. Xu has also irrevocably undertaken to, among other things, accept the Offer in respect of 1,470,000 Shares owned by him.

Save as disclosed in the table above, as at the Latest Practicable Date, the Directors did not have any interests in the Shares, warrants, options, derivatives, and securities carrying conversion or subscription rights into the Shares.

(d) Other Interest in Winteam

As at the Latest Practicable Date,

(i) none of the subsidiaries of Winteam, nor pensions fund of Winteam or any of Winteam's subsidiaries, nor any advisers to Winteam as specified in class (2) of the definition of "associate" under the Takeovers Code had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of Winteam; and

(ii) neither Winteam nor any Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

DEALINGS IN SECURITIES

(a) Dealing in securities of Winteam by the Directors

Save for the sale and purchase of the Sale Shares as contemplated under the S&P Agreement, the undertakings given under the Irrevocable Undertakings and the cancellation of warrants on 27 September 2012 in the aggregate nominal value of HK$90 million issued by Profit Channel and Extra Benefit to Total Champ Investments Limited on 14 October 2011, none of the Directors had dealt for value in any shares or convertible securities, warrants, options and derivatives in respect of any Shares during the Relevant Period.

(b) Dealing in securities of the Offeror by Winteam

Winteam had not dealt for value in any shares of the Offeror, convertible securities, warrants, options and derivatives in respect of any shares of the Offeror during the Relevant Period.

(c) Dealing in securities of the Offeror by the Directors

The Directors had not dealt for value in any shares of the Offeror, convertible securities, warrants, options and derivatives in respect of any shares of the Offeror during the Relevant Period.

(d) Others

During the period commencing on 31 August 2012 up to and including the Latest Practicable Date,

(i) none of the subsidiaries of Winteam, nor pension funds of Winteam or any of Winteam's subsidiaries, nor any advisers to Winteam as specified in class (2) of the definition of "associate" under the Takeovers Code had dealt for value in any Shares or other convertible securities, warrants, options or derivatives in respect of any Shares; and

(ii) no fund managers connected with Winteam who managed funds on a discretionary basis had dealt for value in any Shares or any other convertible securities, warrants, options or derivatives in respect of any Shares.

OTHER ARRANGEMENTS RELATING TO THE OFFER

As at the Latest Practicable Date,

(i) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between Winteam, or any person who was an associate of Winteam by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Takeovers Code, and any other person. The Directors were not aware of any such arrangements between any other associate of Winteam and any other person; and

(ii) no fund managers connected with Winteam had managed any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares on a discretionary basis.

ARRANGEMENTS AFFECTING AND RELATING TO DIRECTORS

As at the Latest Practicable Date:

(a) no benefit was or would be given to any Director as compensation for loss of office or otherwise in connection with the Offer;

(b) other than the S&P Agreement, Irrevocable Undertakings and the undertaking given by the Offeror in the S&P Agreement to vote in favour of the continuing appointment of Mr. Yang as a Director, no agreement or arrangement existed between any Director and any other person which was conditional or dependent upon the outcome of the Offer or otherwise connected with the Offer;

(c) other than the S&P Agreement, Irrevocable Undertakings and the undertaking given by the Offeror in the S&P Agreement to vote in favour of the continuing appointment of Mr. Yang as a Director, no material contract had been entered into by the Offeror in which any Director had a material personal interest; and

(d) other than the Committed Shareholders who were interested in an aggregate of 830,010,584 Shares, no Directors owned or controlled any interest in the Shares. Pursuant to the Irrevocable Undertakings given by the Committed Shareholders, they have undertaken to accept or procure the acceptance of the Offer in respect of an aggregate of 562,498,963 Shares held by them. The remaining 267,511,621 Shares beneficially held by Mr. Yang through Profit Channel are subject to lock-up pursuant to the Irrevocable Undertakings and therefore will not be tendered for acceptance of the Offer.

SERVICE AGREEMENTS OF DIRECTORS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with Winteam or any of its subsidiaries or associated companies which (i) (including both continuous and fixed term contracts) had been entered into or amended within 6 months before the date of the Announcement; or (ii) was a continuous contract with a notice period of 12 months or more; or (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period; or (iv) was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by Winteam or any of it subsidiaries, had been entered into by the Group after the date falling two years before the commencement of the Offer Period up to and including the Latest Practicable Date:

(a) an equity transfer agreement dated 22 November 2010 entered into between Guangdong Medi-World Pharmaceutical Co., Ltd. (廣東環球製藥有限公司) (an indirect wholly-owned subsidiary of Winteam) ("**Guangdong Medi-World**"), as purchaser, and Ms. TAN Zhen as vendor in relation to the acquisition of the capital contribution in the total amount of RMB26,824,265 in 佛山仲弘有限公司 (Foshan Zhong Hong Co., Ltd.*), (representing a 95.57% equity interest in 佛山仲弘有限公司) then legally and beneficially owned by Ms. TAN Zhen for a consideration of RMB120 million (equivalent to approximately HK$140.6 million) and the right granted by Ms. TAN Zhen to Guangdong Medi-World for Guangdong Medi-World to purchase from Ms. TAN Zhen any of the remaining minority interest in 佛山仲弘有限公司 which may be offered to sell to Ms. TAN Zhen by minority shareholders for a maximum consideration of RMB5,318,906;

(b) an equity transfer agreement dated 28 September 2011 entered into between 佛山市雅信醫藥有限公司 (Foshan Yaxin Pharmaceutical Co., Ltd*) as vendor and Guangdong Medi-World as purchaser in relation to the acquisition of the entire equity interest of 佛山市南海益康醫藥有限公司 (Foshan Nanhai Yikang Pharmaceutical Co., Ltd.*) at the consideration of RMB6.8 million (equivalent to approximately HK$8.31 million);

(c) an agreement dated 22 December 2011 entered into among Guangdong Medi-World, 貴州中泰生物科技有限公司 (Guizhou Zhongtai Biological Technology Company Limited*) ("**Guizhou Zhongtai**") and 河南欣泰藥業有限公司 (Henan Xintai Medicine Company Limited*) (the then beneficial owner of the entire registered capital of Guizhou Zhongtai), pursuant to which Guangdong Medi-World agreed to invest an amount of RMB153.0 million (equivalent to approximately HK$183.6 million) for a 51% interest in the registered capital of Guizhou Zhongtai; and

* *For identification purposes only*

(d) the loan agreement dated 22 December 2011 entered into between Guangdong Medi-World as lender and Guizhou Zhongtai as borrower in respect of the loan in the amount of RMB70.0 million (equivalent to approximately HK$84.0 million).

MATERIAL LITIGATION

As at the Latest Practicable Date, none of Winteam or any of its subsidiaries were engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against Winteam or any member of the Group.

EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given their opinions and advices which are included in this Composite Document:

Name	Qualification
Guotai Junan Capital Limited (“Guotai Junan”)	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Goldin Financial Limited (“Goldin Financial”)	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Citigroup	a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on future contracts), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the SFO
KPMG	certified public accountants
Optima Capital	a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
CCBI	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Guotai Junan, Goldin Financial, Citigroup, KPMG, Optima Capital and CCBI have given and have not withdrawn their respective written consents to the issue of this Composite Document with the inclusion of their respective opinions or letters and/or the references to their names in the form and context in which they are respectively included.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) from the date of this Composite Document until the end of the Offer Period at the registered office of Winteam in Hong Kong at Rooms 2801-2805, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong; (ii) on the website of the SFC (www.sfc.hk); and (iii) on Winteam's website (www.winteamgroup.com):

(a) the memorandum and articles of association of Winteam;

(b) the memorandum and articles of association of the Offeror;

(c) the annual reports of Winteam for the two years ended 31 December 2010 and 2011 and the interim report of Winteam for the six months ended 30 June 2012;

(d) the letter from Citigroup as set out in this Composite Document;

(e) the letter from the Board of Winteam as set out in this Composite Document;

(f) the letter from the Independent Board Committee as set out in this Composite Document;

(g) the letter from the Joint Independent Financial Advisers as set out in this Composite Document;

(h) the letter from Citigroup in relation to estimates of value of the earn-out portion as set out in Appendix III to this Composite Document;

(i) the letter from KPMG on the November 2012 Profit Alert as set out in Appendix IV to this Composite Document;

(j) the letter from Optima Capital on the November 2012 Profit Alert as set out in Appendix V to this Composite Document;

(k) the written consents referred to in the section headed "*Experts and Consents*" in this appendix;

(l) the S&P Agreement;

(m) the Irrevocable Undertakings; and

(n) the material contracts referred to in the section headed "*Material Contracts*" in this appendix.