



## **ASIApharm Group Ltd**

**Press Release – 1H2006 Results**

# **ASIAPHARM 1H2006 NET PROFIT GROWS DESPITE REGULATORY REVIEW OF CHINA'S DOMESTIC HEALTHCARE SECTOR; GROSS MARGINS CONTINUE TO RISE**

- 1H2006 net profit after tax and minority interest rises 2.8% year-on-year to RMB 41.1 million despite regulatory review of the PRC healthcare sector
- Sale of in-house drugs drives profit-margin growth; profit from operations up 8.6% as Group focuses on sale of own pharmaceutical drugs
- Steady pipeline of new products and acquisition of strategic targets will be key growth driver

<b>RMB (million)</b>	<b>1H2006</b>	<b>1H2005</b>	<b>Change</b>
<b>Total Revenue</b>	153.1	162.9	(6.0%)
<b>Net Profit after tax and minority interest</b>	41.1	40.0	2.8%
<b>EPS (RMB cts)*</b>	9.58	9.82	(2.5%)
<b>NAV (RMB cts)</b>	141.5	84.6	67.3%

\*based on the weighted average number of 429,583,082 and 407,764,900 shares respectively

**Singapore – 14 Aug 2006 – AsiaPharm Group Ltd.** (“AsiaPharm” or the “Group” or 亚洲药业集团有限公司), a leading specialty pharmaceutical group in the People’s Republic of China (“PRC”) focusing on the research and development, production and sale of natural drugs and drug delivery systems, announced today that net profit attributable to shareholders grew 2.8% to RMB 41.1 million for the first half of financial year ending 31 December 2006 (“1H2006”) compared to 1H2005, despite regulatory reviews on the PRC healthcare sector which prompted short-term slow-downs in drug purchase orders from hospitals.

Revenue for 1H2006 declined 6% to RMB 153.1 million in 1H2006 from RMB 162.9 million in 1H2005. Underlying this decline are two key factors – the regulatory review of the healthcare sector by the PRC government, and the continued drive by the Group to shift sales mix towards the lower-volume but higher-margin sales of in-house pharmaceutical products.

Targeted at keeping healthcare affordable for the general public, the PRC government has undertaken measures to curb rising prices of commonly prescribed drugs. While these measures are directed towards generic drugs, hospital orders have nonetheless slowed across the industry to adapt to changes in regulation leading to transitory decreases in pharmaceutical sales.

“The temporary downturn in the PRC healthcare sector may have resulted in lower earnings for the Group, but we believe these regulatory reviews bode well for the sector over the long run. Continued price cutting on generic drugs, encouragement to companies to develop new proprietary drugs and stricter compliance with State Food and Drug Administration (“SFDA”) GMP and GSP standards will in effect enhance the position and differentiate established drug manufacturers like AsiaPharm, who advocates good corporate governance and invest in the R&D of proprietary drugs,” Mr Liu Dianbo, Executive Chairman of AsiaPharm.

Sales of the Group’s pharmaceutical drugs continued to be its key revenue generator, contributing to 87.8% of total turnover or RMB 134.3 million, in line with the decision to focus on selling its own pharmaceutical products instead of active ingredients or distribution sales of other companies’ drugs. For 1H2006 sales of core products Sidinuo (斯迪诺) (Elcatonin for injection), Nuosen (诺森) and Lutingnuo (绿汀诺) grew 76.4%, 35.3% and 14.0% respectively. However, Maitongna (麦通纳) sales declined 15.0% for 1H2006 following the management’s decision to withdraw its 25mg formulation from the market in line with the SFDA’s

recommendation to suspend the use of 25mg dosage as a preventive measure. Other dosages of Maitongna continue to be purchased by hospitals.

Gross profits declined marginally year-on-year by RMB 1.5 million or 1.1% from RMB 123.8 million in 1H2005 to RMB 122.3 million in 1H2006 due mainly to the decrease in revenue for 2Q2006. However, despite the decline in revenue, the Group's gross margins for 1H2006 increased 3.9 percentage points to 79.9% from 76.0% in 1H2005. This follows the Group's shift in sales mix to the sale of own pharmaceutical products which yield significantly higher margins.

Complementing the change in sales mix, continued cost containment and sales reductions further reduced distribution expense by RMB 10.7 million to RMB 30.5 million in 2Q2006 from RMB 41.2 million in 2Q2005. This contributed to net profits attributable to shareholders of the Group improving 2.8% to RMB 41.1 million from RMB 40.0 million in 1H2005.

Due to increases in research and development ("R&D") expenditure for our own products, other operating costs and expenses for 1H2006 increased 37.5% to RMB 7.6 million from RMB 5.5 million a year earlier.

Earnings per share ("EPS") were down marginally to 9.58 RMB cents per share from 9.82 RMB cents in 1H2005. This follows the Group's recent issue of 80 million new shares in May 2006, which increased the weighted average number of shares to 429,583,082 shares from 407,764,900 shares for the calculation of 1H2006 EPS.

Net asset of the Group rose significantly to RMB 690.3 million in 1H2006 from RMB 345.0 million in FY2005. Contributing to this increase was an increase of RMB 341.0 million in cash and cash equivalents to RMB 411.4 million at 30 June 2006 resulting mainly from the recent placement of 80 million new shares to strategic investors. Short-term borrowings increased by RMB 38.3 million to RMB 49.1 million as of 30 June 2006 and include secured loans of RMB 41.0 million undertaken for working capital requirements of the Group's main subsidiary in PRC. Despite the increase in short term loans, AsiaPharm remains financially sound with a net cash position of RMB 362.3 million.

Net assets per share increased 67.3% to 141.5 RMB cents as at 30 June 2006 from 84.6 RMB cents as at 31 December 2005.

## **Forward Strategy**

Despite the short-term downturn in pharmaceutical sales in 2Q2006, the management of AsiaPharm remains confident about the future performance of the Group. Underlying this confidence are the following core growth strategies of the Group.

### **Continued increase in sale of pharmaceutical drugs**

Despite the downturn witnessed in the pharmaceutical industry, several of AsiaPharm's key products such as Sidinuo, Nuosen and Lutingnuo have continued to exhibit strong growth potential by outstripping the performance of the industry. The Group will continue to increase selling efforts into these products which will form the future revenue drivers of the Group.

Maitongna sales, which have been temporarily affected by withdrawal of its 25mg dosage has shown significant signs of recovery as more hospitals switch to using the 5mg/ 10mg dosages. Maitongna is expected to continue in its role as a key product for AsiaPharm and contribute to the future performance of the Group.

In addition to developing the market for its existing drugs, the Group seeks to launch an average of two new products annually over the next three years from its current developmental pipeline of over 62 drugs as part of its growth strategy. In March 2006, the Group launched its latest product *Ximingting* (希明婷), which is a substitute for Hormone Replacement Therapy in the treatment of menopause..

In 2Q2006, the Group announced the receipt of the New Drug Approvals from the SFDA for its new products Otong - Capsaicin gel (辣椒素凝胶), a pain relief gel for rheumatism targeting a PRC market of over 100 million patients, and Sailimai -Dioctahedral Smectitie Disperse Tablet (蒙托石分散片), for diarrhoea treatment which targets a domestic market worth over RMB 500 million annually. Targeted at the OTC market, Otong, Sailimai and Olai will form the Group's core OTC portfolio which will serve to drive future revenues. The Group also expects to launch an oral formulation of its core product Nuosen – Pantoprazole Pellets Capsule by FY2006.

On 30 May 2006, the Group announced the restructuring of its PRC subsidiary Luye Drug Trading, to facilitate the sale of its own drugs and to distribute imported drugs with higher

margins. This follows the Group's ongoing efforts to extending its distribution network, expanding the usage of its pharmaceutical drugs in hospitals and increasing the product penetration within the different specialisations of the 2000 hospitals it currently serves.

### International Expansion

While the domestic PRC market remains the cornerstone of the Group's revenue growth, international market expansion is playing a gradually increasing role in its growth strategies. Following its initial foray into the Vietnam and Pakistan market in 1H2006, AsiaPharm will continue to seek further alliances and collaborations with institutions, who will strengthen the Group's network within the international pharmaceutical industry and hasten the process of attaining Good Manufacturing Practice ("GMP") accreditation under the United States Food and Drug Administration ("FDA"), the Australian Therapeutic Goods Administration ("TGA") and the European Union's EMEA standards. This will facilitate the eventual manufacture and distribution of new products in the Asia Pacific region and Europe.

### Mergers and Acquisitions

In May 2006, AsiaPharm raised RMB 322.0 million via the placement of 80 million new shares to strategic investors. The proceeds of this placement will serve to fund AsiaPharm's merger and acquisition strategy. The acquisition currently in its final stages of negotiations is targeted to occur by 2006 and will serve to enhance AsiaPharm's product portfolio and widen its distribution network, allowing the Group to compete more effectively in the Chinese pharmaceutical industry, which is currently going through a consolidation phase.

"We have laid the necessary foundation for the future growth of the Group. While the momentary downslide within the industry has led to a temporary slowdown in sales, we are confident that our growth strategies will ensure that future performances of the Group will surpass its current state," added Mr Liu.

**### End ###**

*Issued on behalf of AsiaPharm Group Ltd. by WeR1 Consultants Pte Ltd*

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**About AsiaPharm Group Ltd.**

Established in 1994, we are today a leading specialty pharmaceutical group in the People's Republic of China ("PRC") focusing on the research and development, production and sale of natural drugs and drug delivery systems. Our ultra modern facility in Yantai is fully equipped with leading edge technology, fully integrated and GMP certified, enabling us to carry out all aspects of pre-clinical evaluation; from pharmaceutical to pharmacology research, drug safety evaluation and clinical trials; to the full production of our natural drugs. We currently employ more than 120 researchers and have close collaborative relationships with renowned universities and research institutions to drive our R&D efforts, enabling us to stay at the forefront of specialty pharmaceutical developments. To reach our customers, we have established an extensive distribution network of 35 sales support offices, covering 30 provinces, municipals, and autonomous regions, reaching approximately 2,000 hospitals. This is further supported by a strong network of 250 distributors and 280 sales and marketing personnel.