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武夷药业
Wuyi Pharmaceutical

WUYI INTERNATIONAL PHARMACEUTICAL COMPANY LIMITED

武夷國際藥業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1889)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

The board (the “Board”) of directors (the “Directors”) of Wuyi International Pharmaceutical Company Limited (“Wuyi Pharmaceutical” or the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to the “Group”) for the six months ended 30 June 2010, together with the comparative figures for the corresponding period in 2009.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Notes	Six months ended 30 June	
		2010	2009
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Turnover		227,000	294,959
Cost of sales		(136,503)	(167,210)
Gross profit		90,497	127,749
Other revenue		2,005	1,966
Distribution costs		(36,225)	(41,006)
Administrative and other expenses		(16,217)	(21,081)
Finance costs	4	—	(1,136)
Profit before tax	4	40,060	66,492
Income tax expense	5	(4,734)	(8,413)
Profit for the period attributable to owners of the Company		35,326	58,079
Other comprehensive income for the period		—	—
Total comprehensive income for the period		35,326	58,079
Total comprehensive income for the period and attributable to owners of the Company		35,326	58,079
Earnings per share			
– Basic and diluted	7	RMB2.1cents	RMB3.4cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	<i>Notes</i>	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		357,724	372,380
Land use rights		68,978	49,080
Intangible assets		17,645	18,838
Deposit for the acquisition of land use rights		–	17,109
Deferred tax assets		2,752	1,671
		<u>447,099</u>	<u>459,078</u>
Current assets			
Inventories		25,834	22,503
Trade and other receivables	8	81,203	139,359
Cash and cash equivalents		1,086,781	1,054,467
		<u>1,193,818</u>	<u>1,216,329</u>
Current liabilities			
Trade and other payables	9	53,001	89,029
Tax payable		2,329	5,940
		<u>55,330</u>	<u>94,969</u>
Net current assets		<u>1,138,488</u>	<u>1,121,360</u>
Total assets less current liabilities		<u>1,585,587</u>	<u>1,580,438</u>
Non-current liabilities			
Obligations under a finance lease		3	5
Deferred tax liabilities		7,633	7,812
		<u>7,636</u>	<u>7,817</u>
Net assets		<u>1,577,951</u>	<u>1,572,621</u>
Capital and reserves			
Share capital	10	17,098	17,098
Reserves		1,560,853	1,555,523
Total equity		<u>1,577,951</u>	<u>1,572,621</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands and acts as an investment holding company. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 1 February 2007. The addresses of the registered office and principal place of business of the Company are 4/F, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands and Room 2805, 28/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong respectively. The principal activities of its principal subsidiaries are the development, manufacturing, marketing and sales of pharmaceutical products.

The unaudited interim financial statements are presented in Renminbi (“RMB”) which is the same as the functional currency of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants (the “HKICPA”) has issued the following new and revised standards, amendments and interpretation that are first effective for the current accounting period of the Group.

- HKAS* 27 (Revised), Consolidated and separate financial statements
- HKAS 39 (Amendment), Financial instruments: Recognition and measurement – Eligible hedged items
- HKFRS 1 (Amendment), Additional exemptions for first-time adopters
- HKFRS 2 (Amendment), Group cash-settled share-based payment transactions
- HKFRS 3 (Revised), Business combinations
- Improvements to HKFRSs issued in 2008
- Improvements to HKFRSs issued in 2009
- HK (IFRIC**)-Int 17, Distributions of non-cash assets to owners

* HKAS represents Hong Kong Accounting Standards.

** IFRIC represents the International Financial Reporting Interpretations Committee

In terms of their application to the Group, the revised HKFRS 3 and HKAS 27 apply prospectively to acquisitions made on or after 1 January 2010, and have no significant effect on these consolidated financial statements.

The application of the other new and revised HKFRSs have had no material impact on the financial statements of the Group for the current or prior accounting periods.

The Group has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for the current accounting period.

HKFRSs (Amendments)	Third improvements to HKFRSs issued 2010 ¹
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters ³
HKAS 24 (Revised)	Related party disclosures ⁴
HKAS 32 (Amendment)	Classification of rights issues ²
HKFRS 9	Financial instruments ⁵
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a minimum funding requirement ⁴
HK(IFRIC)-Int 19	Extinguishing financial liabilities with equity instruments ³

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that the new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. SEGMENT INFORMATION

The Group determines its operating segments based on the internal reports reviewed by the Chief Executive Officer that are used to make strategic decisions.

The Group is organised into one single reporting segment in respect of the development, manufacturing, marketing and sales of pharmaceutical products primarily in the PRC. Accordingly, no segment analysis by business and geographical information is provided.

The Group's revenue from external customers is derived solely from its operations in the PRC and all material non-current assets of the Group are located in the PRC.

During the six months period ended 2010 and 2009, no revenue from transactions with a single external customer accounted for 10% or more of the Group's total revenue.

4. PROFIT BEFORE TAX

Six months ended June 30

	2010 <i>RMB'000</i> <i>(Unaudited)</i>	2009 <i>RMB'000</i> <i>(Unaudited)</i>
Profit before tax is arrived at after charging/(crediting):		
a) Finance costs		
Interest on bank advances wholly payable within five years	–	1,135
Finance charges on obligations under a finance lease	–	1
	–	1,136
b) Staff costs		
Directors' emoluments	1,604	1,525
Other staff retirement benefits scheme contributions	2,192	1,775
Other staff costs	12,903	17,498
	16,699	20,798
Less: Staff costs included in research and development costs	(420)	(458)
	16,279	20,340
c) Other items		
Depreciation of property, plant and equipment		
– owned by the Group	14,956	9,090
– held for use under a finance lease	2	2
	14,958	9,092
Less: Depreciation included in research and development costs	(402)	(393)
	14,556	8,699
Amortisation of intangible assets	1,193	1,193
Amortisation of land use rights	133	133
Exchange gain included in other revenue	(45)	–
Exchange loss included in administrative and other expenses	–	2,075
Operating lease payments in respect of rented premises	419	466
Research and development cost	874	1,091
Cost of inventories [#]	136,503	167,210
Bank interest income	(1,960)	(1,966)

Cost of inventories includes RMB16,954,000 (six months ended: 30 June 2009: RMB12,286,000) relating to staff costs and depreciation in which the amount is also included in the respective total amounts disclosed separately above.

5. INCOME TAX EXPENSES

	Six months ended June 30	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax-PRC income tax	5,994	8,413
Deferred taxation		
– Origination and reversal of temporary differences	(1,260)	–
	4,734	8,413

- a) PRC corporate income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

On 16 March 2007, the PRC promulgated the Law of the PRC on Corporate Income Tax (the “New Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate from 33% to 25% from 1 January 2008 for enterprises established in the PRC. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

Pursuant to the Income Tax Law for the Foreign Investment Enterprises and Foreign Enterprises in the PRC, Fujian Sanai Pharmaceutical Co., Ltd. (“Fujian Sanai”) and Fuzhou Sanai Pharmaceutical Co., Ltd. (“Fuzhou Sanai”), which qualified as Production Enterprises during the year 2006 and 2008 respectively, shall be entitled to exemption from PRC corporate income tax for two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC corporate income tax for the following three years.

Fujian Sanai, a wholly foreign owned enterprise, was subject to PRC corporate income tax at a rate of 25% applicable to the company on the assessable profits for the period (six months ended 30 June 2009: 25%). It was exempted from PRC corporate income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. The first year of profitable operations is the year ended 31 December 2006. Commencing from 2008, the profit generated from Fujian Sanai is subject to an income tax rate of 12.5%, being half of the corporate income tax rate applicable. Such tax exemption will expire on 31 December 2010.

Fuzhou Sanai, a wholly foreign owned enterprise, was located at economic development zones and was entitled to a preferential PRC corporate income tax rate of 15%. Pursuant to the State Council Circular on the Implementation of the Transitional Concession Policies for Corporate Income Tax (Guo Fa [2007] no. 39), enterprises eligible for preferential tax treatment shall gradually be subject to the new tax rate over a five-year transitional period until 2012. Fuzhou Sanai subject to corporate income tax rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. Fuzhou Sanai was exempted from PRC corporate income tax for the years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. The first year of profitable operations is the year ended 31 December 2008. Commencing from 2010, the profit generated from Fuzhou Sanai was subject to an income tax of 11%, being half of the corporate income tax rate applicable. Such tax exemption will expire on 31 December 2012.

Fujian Sanai Pharmaceutical Trading Co., Limited, the PRC enterprise, was subject to PRC corporate income tax at a rate of 25% applicable to the company on the assessable profits for the period (six months ended 30 June 2009: Nil).

- b) No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong for the period ended 30 June 2010 (six months ended 30 June 2009: Nil).
- c) The Group had no significant unprovided deferred tax assets or liabilities at 30 June 2010 and 2009.

6. DIVIDENDS

Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the period:

	Six months ended June 30	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous financial year, approved and paid during the interim period of HK2.0 cents per share (six months ended 30 June 2009: HK3.3 cents per share)	34,195	56,422
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
	RMB'000	RMB'000
Approximately equivalent to	29,996	49,931
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

The directors do not recommend payment of interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: HK\$Nil).

7. EARNINGS PER SHARE

a) *Basic earnings per share*

The calculation of basis earnings per share is based on the profit for the period attributable to owners of the Company of approximately RMB35,326,000 (six months ended 30 June 2009: RMB58,079,000) and the weighted average number of 1,709,772,500 shares (six months ended 30 June 2009: 1,709,772,500 shares) in issue during the interim period.

b) *Diluted earnings per share*

Diluted earnings per share is equal to basic earning per share as there were no dilutive potential ordinary shares outstanding for the two periods ended 30 June 2010 and 2009.

8. TRADE AND OTHER RECEIVABLES

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Trade receivables	81,000	138,961
Other receivables	4	—
	<hr/>	<hr/>
Loan and receivables	81,004	138,961
Deposits and prepayments	199	398
	<hr/>	<hr/>
	81,203	139,359
	<hr/> <hr/>	<hr/> <hr/>

The Group normally grants credit terms of 30 days to 60 days to its customers. The ageing analysis of trade receivables is as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
0 to 30 days	38,903	70,414
31 to 60 days	42,097	68,547
	<hr/>	<hr/>
	81,000	138,961
	<hr/> <hr/>	<hr/> <hr/>

There are no trade and other receivables that are past due or impaired for the period ended 30 June 2010 and year ended 31 December 2009.

9. TRADE AND OTHER PAYABLES

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Trade payables		
– a related company *	807	1,978
– others	<u>32,654</u>	<u>53,272</u>
	33,461	55,250
Payroll and welfare payables	734	4,047
Payable for acquisition of property, plant and equipment	3,500	8,650
Accrued charges	3,488	6,784
Other payables	5,702	4,110
Obligations under a finance lease	<u>5</u>	<u>5</u>
Financial liabilities measured at amortised cost	46,890	78,846
Other non-income tax payables	<u>6,111</u>	<u>10,183</u>
	53,001	89,029

* The related company is 福州宏宇包装工业有限公司 (Fuzhou Hongyu Packing Co., Limited), a company controlled by Mr. Lin Ou Wen who is a director and shareholder of the Company and has beneficial interest in the related company.

The ageing analysis of trade payables is as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
0 to 30 days	16,079	25,604
31 to 60 days	<u>17,382</u>	<u>29,646</u>
	33,461	55,250

10. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 30 June 2010 and 31 December 2009	3,200,000,000	32,000
Issued and fully paid:		
At 30 June 2010 and 31 December 2009	1,709,772,500	17,098
	30 June 2010 RMB'000	31 December 2009 RMB'000
Shown in the consolidated statement of financial position at 30 June 2010 and 31 December 2009	17,098	17,098

11. CAPITAL COMMITMENTS

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of		
– intangible assets	8,100	8,100
– land use right	–	2,922
– property, plant and equipment	5,600	5,600
	13,700	16,622

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Reviewing the first half of 2010, the development of the pharmaceutical industry in the People's Republic of China ("PRC" or "China") has received broader concerns from society due to the policy of health care reform promoted by the government and the competition in the industry has intensified. The challenges of the state policies and market pressure and the rising costs of raw materials have provided opportunities for the development of the enterprises, but at the same time generated pressure for their operation inevitably. Wuyi International Pharmaceutical Company Limited ("Wuyi Pharmaceutical" or the "Company", together with its subsidiaries the "Group") has suffered impact in its overall prices and sales of medicines during the period.

The commencement of mass production upon approval of a new pharmaceutical product triggers a monitoring period during which the State Food and Drug Administration of the PRC ("SFDA") will not accept registration of products of the same type and no other manufacturer is allowed to manufacture or import the new product. During the first half of 2010, the monitoring period of some products of the Group became expired, therefore other manufacturers in the market were allowed to manufacture or import the new products according to related laws and regulations in the PRC. As a result, a number of similar and even imitated products appeared in the market during the period, which affected and eroded the market share of our products and the prices of our products have to be significantly adjusted due to intensified competition. Turnover was affected inevitably in order to maintain a certain degree of market share.

During the period, the SFDA has from time to time imposed new restriction and quality requirements on medicines, including the Guidelines of Safety Re-evaluation on Chinese Medicine Injection issued in April 2010, which strictly detect the safety risks of production and quality control of Chinese medicine injection and strengthen the supervision on Chinese medicine prescription. In view of this, the society's attitude towards accepting Chinese medicine injection and its usage have been changed, which lead to a significant decline in the demand for Chinese medicine injection. Faced with the market pressure, the Group's sales of traditional Chinese medicine products were affected to a certain degree during the period.

In addition, the Group's decision to stop the production of Netilmicin Sulfate and Glucose Injectable ("硫酸奈替米星注射液") for inspection voluntarily during the period due to fluctuation in quality and the increase in depreciation expenses in cost of sales and cost of raw materials lowered the gross profit margin of the Group.

Wuyi Pharmaceutical recorded sales revenue of approximately RMB227.0 million for the six months ended 30 June 2010, representing a decrease of approximately 23.1% from the same period of last year (30 June 2009: approximately RMB295.0 million). Profit for the period was approximately RMB35.3 million, representing a decrease of 39.2% from the same period of last year (30 June 2009: approximately RMB58.1 million). The Board of Wuyi Pharmaceutical does not recommend payment of interim dividend for 2010.

1. Product Development

i. Perilla Oil Capsule

Perilla Oil Capsule, a key product of the Group, was listed in the medical insurance directory of Fujian Province of the PRC in last year and has just obtained approval from the Inner Mongolia Autonomous Region of Northeast China for listing in its medical insurance directory. It was also expected to be listed in the medical insurance directory of Shanxi Province of the PRC. Its sales were satisfactory during the period with sales revenue amounted to approximately RMB24.3 million during the six months ended 30 June 2010, representing approximately 10.7% of the total sales revenue during the period. The gross profit margin was approximately 63.6%. The product effectively controls hyperlipidemia and has more outstanding efficacy in increasing high density lipoproteins. The key customers are the middle-and-old-aged with hyperlipidemia and the key markets were located in Northeast China, Fujian, Jiangsu and Zhejiang in the PRC.

Same as last year, to enhance the popularity of our products, the Group invested in promotion and marketing through advertising in media such as television and magazines to promote the overall image and product quality during the period. On the other hand, our academic seminars also maintained their momentum as the Group introduced the unique efficacy of the product through academic promotional seminars and new medicine promotional seminars and designated marketing representatives to offer academic promotion and dosage instruction in hospitals. Therefore, sales of the products increased remarkably during the period.

ii. N(2)-L Alanyl-LGlutamine Injectable

The sales volume and price of the Group's N(2)-L Alanyl-LGlutamine Injectable (a parenteral nutrition supplement specifically for severe patients) were directly affected by generic products produced by other manufacturers as the monitoring period of the product has expired. In addition to price adjustment, the Group was also actively studying sales strategy and strived to develop sales channels for the products to cope with fierce market competition. Sales revenue for the six months ended 30 June 2010 amounted to approximately RMB26.1 million, representing approximately 11.5% of the total sales revenue of the Group during the period.

iii. Other Products

Xiangdan Injectable (specifically for cardiovascular and cerebrovascular diseases) is another saleable product of the Group. During the period, the Group continued to vigorously promote it in rural and community markets. Due to strong curative effect and low pricing, the product was well received in rural market.

The new product currently approved for launch in the market is Omeprazole Enteric-Coated Capsule (“奧美拉唑腸溶膠囊”) (specifically for inhibiting gastric acid secretion and helicobacter pylori reflux). It has currently obtained approval for production and sales from the SFDA and the Group is formulating promotional strategy and planned to launch it in the market in the second half of the year.

The drug sales agency commenced the pharmaceutical trading business in the second half of 2008. Fujian Sanai Pharmaceutical Trading Co., Ltd. (“Sanai Pharmaceutical Trading”), a subsidiary of the Group, generated turnover of approximately RMB8.0 million, representing approximately 3.5% of the total turnover, by distributing 5 to 9 new drugs during the period.

The Group will expand its drug sales agency operation through the newly established pharmaceutical trading platform, which has yet to be fully operational, by distributing products the Group does not produce, which shall complement the Group’s own products. The Group will also promote all of its products and boost the general popularity of the Group more readily by sharing the sales networks via the pharmaceutical trading platform.

2. Marketing and Sales network

The Group’s sales networks have covered 20 key provinces, cities, autonomous regions and municipalities around the whole country, mainly covering the affluent coastal cities and provinces of the eastern region and the northeastern region of China. The Group currently has 60 distributors. The Group also continued to aggressively exploit the market in rural areas, generating sale revenue of RMB23.6 million from that market during the first half of 2010, which represented approximately 10.3% of the total sales revenue. The contribution of the rural market to the Group’s operational results continued to rise.

OUTLOOKS AND FUTURE DEVELOPMENT

2010 will be a crucial year of transition since the implementation of health care reform in last year. As the new health care reform entered the phase of substantive action, a number of important policies were introduced. The strengthening of drug price management is the theme of a series of state control policies. In February, five ministries and commissions jointly launched the “Guiding Opinions on Trial Reforms in Public Hospitals” to gradually abolish the increasing income on medicine. In June, the National Development and Reform Commission (the “NDRC”) and the Ministry of Health of the PRC have successively promulgated the “Drug Price Control Measures (Draft)” (“藥品價格管理辦法(徵求意見稿)”) and the “Circular of the Ministry of Health on Further Combating Commercial Briberies in the Pharmaceutical Sales Sector” (“衛生部關於進一步深化治理醫藥購銷領域商業賄賂工作的通知”). In July, the NDRC issued a notice requiring research on drug price of medicine listing in the national health insurance directory and certain medicine with maximum retail prices. As there is greater uncertainty in the policy environment of the pharmaceutical industry, which creates doubts in subsequent drug price decrease for the industry, the business environment is more complicated.

On the other hand, as a key development direction of the new medical reform, primary health care services have developed rapidly, which became the biggest highlights of the new medical reform. Basic medicine will be promoted in the primary health care institutions run by the government, which will lead to increased use of basic medicine and growth of the pharmaceutical industry.

Factors supporting high growth in the pharmaceutical industry such as steady urbanization under the economic growth, acceleration of the population aging process and the capacity increasing effects such as extended coverage of medical insurance and increase in payment ability brought by the new medical reform have maintained the long-term growing trend of the industry.

In view of the favorable prospects, the Group will utilize its internal resource and further strengthen its cost control to cope with the long-term decrease in drug price. It will also equip itself in order to seize opportunities of the primary health care development and open up rural and urban community markets in order to boost its revenue and other economic benefits.

1. Aggressively increase penetration in the rural and community market

In the aspect of market expansion, the Group will focus on the rural market, increase the number of marketing staff in each office, and continue to make use of the nationwide distribution network of Jointown Group Co., Ltd. to distribute products in rural communities in a dozen of southern provinces in China in order to further solidify our sales network. The Group expects to significantly increase the proportion of sales in the rural market in the second half of 2010 through effective advertising and promotion programs. The Group's existing sales networks have extensively covered the rural market. We will strive to increase penetration in the rural market in the future, with focus on 2A and 2B grade county hospitals and community hospitals.

2. Enhancing new medicine research and development

For new medicine research and development, Fujian Sanai Pharmaceutical Co., Ltd. ("Fujian Sanai"), a subsidiary of the Group, entered into an agreement with Peking University's Faculty of Medicine to conduct ongoing research for new drugs. The new anti-hepatitis compound drug Liver & Gall Bladder Tablets ("複方肝膽片") co-developed has completed toxicity test and entered into the stage of efficacy testing. In addition, the Group also focuses on research work in areas involving the prevention and medication for cardiocerebrovascular diseases.

3. Implementation of strong promotional strategy

The Group spent approximately RMB28.3 million in the first half of 2010, mainly on television advertisement and academic promotion. The new product, Omeprazole Enteric-Coated Capsule, has obtained the approval for production and sales from the SFDA and the Group will emphasize that the tendering of the product in the PRC will be carried out through the Company's current sales network and the product can be delivered to hospitals upon confirmation of the tendering.

Taking into account the uncertainty of the policy in the second half of the year, under the background of forthcoming regulatory policies such as price reduction and anti-bribery, the Group is of the view that the pharmaceutical industry as a whole will enter a period of adjustment in short term. The Group will calmly respond to the challenges and maintain a sustainable and healthy development of the Company by acting prudently and minimizing the adverse effect of its policies.

FINANCIAL REVIEW

1. Turnover

During the period under review, the Group's turnover recorded approximately RMB227 million (30 June 2009: approximately RMB295 million), representing a decrease of approximately 23.1% as compared to the same period of last year. As disclosed in the 2009 Annual Report and the profit warning announcement of the Company dated 23 July 2010, as the protection period of some products has expired, some manufacturers started producing imitated products and our market shares were affected to some degree amid severe competition; and as the SFDA has from time to time imposed new restriction and quality requirements on various aspects of Chinese medicine injection, the society's attitude towards accepting Chinese medicine injection have been changed, which led to a decline in the demand for Chinese medicine injection, therefore the Group's sales of traditional Chinese medicine products were affected. As a result, turnover in the first half of 2010 decreased approximately 23.1% compared with the same period of last year.

Turnover for the first half of the year was still dominated by the Western medicines, with a turnover of approximately RMB111.4 million, representing approximately 49.1% of the overall turnover, a decrease of approximately 29.5% over the same period of last year (30 June 2009: approximately RMB158.0 million, representing approximately 53.6% of the overall turnover). As the SFDA has from time to time imposed new restriction and quality requirements on various aspects of Chinese medicine injection, turnover of the Chinese medicines amounted to approximately RMB107.6 million, representing approximately 47.4% of the overall turnover, a decrease of approximately 15.9% over the same period of last year (30 June 2009: approximately RMB128.0 million, representing approximately 43.4% of the overall turnover). The gap between the turnover of Western medicines and Chinese medicines has been further narrowed. In addition, the newly added pharmaceutical trading revenue in the second half of 2008 recorded a turnover of approximately RMB8.0 million, representing approximately 3.5% of total turnover (30 June 2009: approximately RMB9.0 million, representing approximately 3.0% of the overall turnover), a decrease of approximately 11.1% over the same period of last year.

Although our key product, the Perilla Oil Capsule, has been listed in the medical insurance directory of Fujian Province in August last year and is still in the protection period, as it has yet to be listed in the national medical insurance directory, its sales were affected to some extent. Sales during the period amounted to approximately RMB24.3 million, representing approximately 10.7% of the overall turnover, a slight decrease of approximately 8.0% over the same period of last year (30 June 2009: approximately RMB26.4 million, representing approximately 9.0% of the overall turnover).

The highest sales volume during the period was again achieved by Western medicines, N(2)-L-Alanyl-L-Glutamine Injectible, with a turnover of approximately RMB26.1 million, representing approximately 11.5% of the overall turnover (30 June 2009: approximately RMB41.5 million, representing approximately 14.1% of the overall turnover). Sales of the five top selling medicines amounted to approximately RMB98.9 million, representing approximately 43.6% of the overall turnover (30 June 2009: approximately RMB137.4 million, representing approximately 46.6% of the overall turnover).

2. Gross Profit and Gross Profit Margin

During the period under review, gross profit of the Group decreased to approximately RMB90.5 million, representing a decrease of approximately 29.1% over the same period of last year (30 June 2009: approximately RMB127.7 million). Gross profit margin decreased by approximately 3.4 percentage points to approximately 39.9% over the same period of last year (30 June 2009: approximately 43.3%). The main reasons for the decrease were due to three aspects as follows:

- 1) The higher price of raw materials and packaging materials for some products has increased the production costs as compared to the same period of last year;
- 2) In order to increase the market share, particularly for medicines in the rural market, the Group marketed quality and low price products which in general were some products with lower gross profit margin to adjust for the purchasing power of the market, the total gross profit margin was therefore reduced; and
- 3) In addition, as the SFDA has from time to time imposed new restriction and quality requirements on various aspects of Chinese medicine injection and according to the hardware management requirement of the GMP certification rules, changes have to be made to our large volume injectible, small volume injectible and tablet plants and some public facilities. Therefore, our capital expenditure for plant and equipment increased last year and the depreciation charges for the period increased to approximately RMB14.2 million, representing an increase of approximately 79.7% over the same period of last year (30 June 2009: approximately RMB7.9 million). Gross profit decreased due to higher cost of sales.

However, except that the depreciation charges increased its proportion of cost of sales, other proportion of cost of goods sold, including raw materials, packaging materials, energy and fuel costs, and direct labor cost remained essentially the same compared with the same period of last year, except that such related amount decreased with sales.

3. Profit for the Period

During the period under review, profit for the period amounted to approximately RMB35,300,000, representing a decrease of approximately 39.2% from 2009 (30 June 2009: approximately RMB58.1 million). Turnover decreased as compared with the same period of last year as the SFDA has from time to time imposed new restriction and quality requirements on various aspects of Chinese medicine injection and the society's attitude towards accepting Chinese medicine injection have been changed, which led to a decline in the demand for Chinese medicine injection, therefore consumer confidence was weakened and consumption patterns became more cautious.

In addition, distribution costs of the Group decreased approximately 11.7% to approximately RMB36.2 million (30 June 2009: approximately RMB41.0 million). During the period, the advertising and marketing expenses of our three wholly-owned subsidiaries in the PRC totalled approximately RMB28.3 million (30 June 2009: approximately RMB31.0 million). The main reasons for maintaining the advertising and marketing expenses were to increase the brand and product

awareness of “Sanai” and contribute to a wide recognition of our products by the public and patients. Advertising also helped in the exploration of new rural market and product promotion, especially the brand awareness of “Sanai” in rural market during the period. The management believed that the effects of advertising will be achieved soon.

It is the third year since our new product Perilla Oil Capsule was launched in the market. To increase the awareness and social acceptance of the product, our advertising and marketing expenses for the product during the period under review amounted to approximately RMB4.1 million (30 June 2009: approximately RMB4.1 million), which was comparable with the same period of last year and was used in television advertisement and academic promotion. The Group recruited experts of professional specialists to hold academic promotional seminars nationwide for staffing from the industry. Through the seminars, doctors and patients had a clearer understanding of the pharmacology, effect and benefits of our products.

During the period under review, the administrative and other expenses amounted to approximately RMB16.2 million (30 June 2009: approximately RMB21.1 million), representing a decrease of approximately 23.2% compared to the same period of last year. The decrease was mainly due to the implementation of cost control measures such as executive remuneration and related benefits within the Group as well as net exchange loss and decrease in non-cash expenses.

Finally, our two wholly-owned subsidiaries in the PRC still enjoyed a preferential tax arrangement of 50% reduction based on half of the 25% Corporate Income Tax rate in the PRC. Tax expenses of the Group was approximately RMB4.7 million (30 June 2009: approximately RMB8.4 million) in total and the effective tax rate was 11.8% (30 June 2009: approximately 12.7%).

4. Liquidity, Financial Resources and Capital Structure

As at 30 June 2010, the Group had cash and cash equivalents of approximately RMB1,086.8 million (31 December 2009: approximately RMB1,054.5 million). The Group continued to maintain a stable financial position with low gearing and healthy cash flows. The Group generated a net cash inflow from operating activities of approximately RMB63.6 million (for the period ended 30 June 2009: approximately RMB30.9 million). During the period under review, the Group did not use any financial instruments for hedging purpose.

The Group reviewed the capital structure by using a gearing ratio. The gearing ratio representing the total debt, which includes trade and other payables and obligations under a finance lease, of the Group divided by total equity of the Group. The debt-to-equity ratio of the Group was approximately 3.3% as at 30 June 2010 (31 December 2009: approximately 5.6%).

5. Exposure to Fluctuation in Exchange Rates

During the period under review, the Group conducted its business transactions principally in Renminbi. The Group has not experienced any material difficulties or negative impacts on its operations as a result of fluctuations in currency exchange rates. Although the Group has certain bank balances denominated in Hong Kong dollars, the Group adopts a conservative financial policy and most of its bank deposits are in Renminbi and Hong Kong dollars. As at 30 June 2010, the Group did not have any bank liabilities, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group was not exposed to any material interest and exchange risks.

6. Significant Acquisitions and Disposal of Investments

During the period under review, the Group did not have any significant acquisition and disposal of investment.

7. The Number and Remuneration of Employees

As at 30 June 2010, the Group employed approximately 473 employees (31 December 2009: 474 employees). The Group determines staff remuneration in accordance with prevailing market salary scales, individual qualifications and performance. Remuneration packages including performance bonuses and entitlements to share options are reviewed on regular basis.

8. Charge on Group Assets

As at 30 June 2010, the net book value of furniture, fixtures and equipment of approximately RMB36.4 million (31 December 2009: approximately RMB38.5million) includes an amount of approximately RMB7,000 (31 December 2009: approximately RMB9,000) in respect of asset held under a finance lease.

9. Contingent Liabilities

As at 30 June 2010, the Group did not have any contingent liabilities (31 December 2009: Nil).

10. Capital Expenditure

During the period under review, capital expenditure of the Group for property, plant and equipment amounted to approximately RMB302,000. (31 December 2009: approximately RMB89.1 million)

11. Capital Commitments

As at 30 June 2010, the Group had capital expenditure contracted for but not provided in the financial statements amounted to approximately RMB13.7 million (31 December 2009: approximately RMB16.6 million).

12. Use of Proceeds

The net proceeds raised from the initial public offering after deducting relevant share issue expenses and the general working capital amounted to approximately RMB683.0 million.

For the year ended 31 December 2007, the Company applied approximately RMB230.0 million and approximately RMB114.7 million to the capital injection in our two major subsidiaries in the PRC Fujian Sanai and Fuzhou Sanai respectively in the PRC. The capital injected to these two subsidiaries is intended to be used in the construction and expansion of new plants and production lines in Fuzhou and Jianyang. An amount of approximately HK\$62.0 million had been used for repayment of an interest-free shareholder's loan for the acquisition of a 40% interest in Fuzhou Sanai from Mr. Lin Ou Wen.

For the year ended 31 December 2008, the Group spent approximately RMB37.0 million for promotion of our brand through advertisement in some major national TV channels in the PRC. In addition, approximately RMB113.1 million had been utilized in the construction and acquisition of manufacturing equipment in Jiangyang factory.

For the year ended 31 December 2009, the Group has spent approximately RMB60.7 million for the promotion of our brand through advertisement in some major national TV channels in the PRC. In addition, approximately RMB41.4 million had been utilized in the construction and acquisition of manufacturing equipment in Jiangyang factory.

For the six months ended 30 June 2010, the Group has continuously spent approximately RMB1.3 million for promotion of our brand through advertisement in some major national TV channels in the PRC.

The remaining balance of proceeds was placed in short term deposits with licensed commercial banks in the PRC.

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2010. Accordingly, no closure of the Register of Members of the Company is proposed.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") as the Company's own code for securities transactions by its Directors. In addition, the Company has made specific enquiries of all Directors and each Director confirms that during the six months ended 30 June 2010, they have fully complied with the required standards as set out in the Model Code.

At no time during the first six months of 2010 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules and appointed three independent non-executive Directors including one with financial management expertise, details of their biographies were set out in the 2009 Annual Report of the Company.

SHARE OPTION SCHEME

The Company's share option scheme was adopted on 8 January 2007 by the way of passing resolutions by all the shareholders of the Company. For the six months ended 30 June 2010, no share option has been granted under the share option scheme.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed shares during the six months ended 30 June 2010.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieve a high standard of corporate governance practice, such that the interests of our shareholders, customers, employees as well as the long term development of the Company can be safeguarded.

The Company has complied with the Code Provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2010 ensuring that are up to the requirements as being diligent, accountable and professional.

In the opinion of the Board, the Company has complied with the Code since listing of the shares of the Company on 1 February 2007 except for deviation from provision A.2.1 in respect of the roles of chairman and chief executive officer ("CEO") of the Company. The Board considered that vesting the roles of Chairman and the CEO in the same person facilitates the execution of the Company's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise. There are three independent non-executive Directors in the Board, all of them possess adequate independence and therefore the Board considers the Company has achieved balance of and provided sufficient protection to its interests.

REMUNERATION COMMITTEE

The remuneration committee comprises the three Independent Non-executive Directors and one Executive Directors, is responsible for reviewing and determining the appropriate remuneration policies of the Directors and senior management and making recommendations to the Board from time to time.

NOMINATION COMMITTEE

The nomination committee comprises the three Independent Non-executive Directors and two Executive Directors, is responsible for determining the criteria for identifying candidates suitably qualified, reviewing nominations for the appointment of Directors to the Board and making recommendations to the Board regarding any proposed changes.

AUDIT COMMITTEE

The audit committee comprises the three Independent Non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters, including the review of the unaudited interim results for the six months ended 30 June 2010.

REVIEW OF ACCOUNTS

Disclose of financial information in this announcement complies with Appendix 16 to the Listing Rules. The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2010 in conjunction with the Company's external auditor in accordance with the Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Equity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Group has agreed with the auditor as to the contents of this announcement.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The 2010 interim report will be dispatched to the shareholders of the Company as well as made available on our Company's website at www.wuyi-pharma.com and the Stock Exchange's website at www.hkexnews.hk.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises 3 Executive Directors, namely Mr. Lin Ou Wen (Chairman), Mr. Lin Qing Ping and Mr. Xu Chao Hui, 2 Non-executive Directors, namely Mr. Tang Bin and Mr. John Yang Wang, and 3 Independent Non-executive Directors, namely Mr. Liu Jun, Mr. Lam Yat Cheong and Mr. Du Jian.

ACKNOWLEDGEMENT

I would like to offer the Board's sincere gratitude to the management team and all other employees for their hard work and dedication. Their excellence and commitment are of vital importance in enhancing the Company's sustainability.

Finally, I would like to take this opportunity to thank our shareholders and all other stakeholders for their continuous support and confidence in us.

By Order of the Board
Wuyi International Pharmaceutical Company Limited
Lin Ou Wen
Chairman and Chief Executive Officer

Hong Kong, 30 August 2010