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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

FINANCIAL HIGHLIGHTS

Turnover increased by 22.1% to RMB660.7 million

Gross profit increased by 24.5% to RMB334.2 million

Profit attributable to equity holders increased by 127.1% to RMB272.1 million

Earnings per share increased from RMB11.0 cents to RMB16.3 cents

Recommended final dividend of HK$3.8 cents per share

ANNUAL RESULTS

The board ("the Board") of directors (the "Directors") of Wuyi International Pharmaceutical Company Limited ("Wuyi Pharmaceutical" or the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to the "Group") for the year ended 31 December 2007, together with the comparative figures of the year ended 31 December 2006 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	NOTES	**2007** **RMB'000**	2006 RMB'000
Turnover		**660,661**	541,320
Cost of goods sold		**(326,453)**	(272,827)
Gross profit		**334,208**	268,493
Other income		**19,850**	2,233
Distribution expenses		**(12,265)**	(11,679)
Administrative and other expenses		**(66,972)**	(38,432)
Fair value change on convertible bonds		**–**	(63,890)
Interest on bank borrowings wholly repayable within five years		**(2,535)**	(2,704)
Profit before taxation	*5*	**272,286**	154,021
Taxation	*6*	**(170)**	(34,630)
Profit for the year		**272,116**	119,391
Attributable to			
– equity holders of the Company		**272,116**	119,774
– minority interests		**–**	(383)
		272,116	119,391
Dividends paid	*7*	**–**	84,120
Earnings per share			
– Basic	*8*	**RMB16.3 cents**	RMB11.0 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment		145,869	132,619
Land use rights		11,410	11,664
Intangible assets		23,610	24,207
Deposit made on acquisition of land use right		7,275	–
		188,164	168,490
Current assets			
Inventories		23,810	21,573
Trade and other receivables	9	146,339	137,388
Bank balances and cash		1,102,450	199,765
		1,272,599	358,726
Current liabilities			
Trade and other payables	10	83,528	82,571
Amount due to a director		–	62,400
Other financial liability		–	140,400
Taxation		868	–
Short-term bank loans		35,000	43,000
		119,396	328,371
Net current assets		1,153,203	30,355
Total assets less current liabilities		1,341,367	198,845
Non-current liabilities			
Obligations under a finance lease		15	–
Deferred taxation		3,889	4,587
		3,904	4,587
Net assets		1,337,463	194,258
Capital and reserves			
Share capital	11	17,098	12,800
Reserves		1,320,365	181,458
Equity attributable to equity holders of the Company		1,337,463	194,258
Minority interests		–	–
Total equity		1,337,463	194,258

NOTES TO THE 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 principal activities of the Group are engaged in the development, manufacturing, marketing and sales of pharmaceutical products.

The principal place of business of the Company is Suite 2805, 28/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The consolidated financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the group entities.

2. GROUP RESTRUCTURING AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Under a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange (the "Group Reorganisation"), the Company has become the ultimate holding company of the Group on 27 October 2006.

Details of the Group Reorganisation are set out in the paragraph headed "The Reorganisation" in Appendix VI to the prospectus dated 22 January 2007 issued by the Company.

The principal steps of the Group Reorganisation, which involved the exchange of shares, were as follows:

(a) Wuyi International Pharmaceutical Investment Company Limited ("Wuyi BVI") acquired the entire equity interest of 福建三愛藥業有限公司 (Fujian Sanai Pharmaceutical Co., Ltd.) ("Fujian Sanai"), the former holding company of the Group and Cyberstop Profits Limited ("Cyberstop"), for a consideration of RMB128,083,000; and

(b) the shares of the Company were then issued and allotted to the existing shareholders of Wuyi BVI in exchange for the shares in Wuyi BVI.

The Group resulting from the above mentioned Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger accounting for common control combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as if the group structure under the Group Reorganisation had been in existence throughout the year ended 31 December 2006 or since their respective date of incorporation whichever is the shorter period.

The consolidated income statement which is prepared in accordance with the principles of merger accounting, for each of the year ended 31 December 2006 include the results and cash flows of the Company and its subsidiaries as if the group structure upon the completion of the Group Reorganisation had been in existence throughout 2006 or since their respective date of incorporation where this is a shorter period.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

In the current year, the Group has applied, for the first time, the following new Standard, Amendment and Interpretations ("INT"s) (collectively "new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC)-Int 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of embedded derivatives
HK(IFRIC)-Int 10	Interim financial reporting and impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

4. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

The Group's operation is regarded as a single segment, being an enterprise engaged in research and development, manufacturing and trading of pharmaceutical products. During the year, all the Group's sales are made in Mainland China (the "PRC"). Accordingly, no segment analysis of business and geographical segments is presented for the year.

5. PROFIT BEFORE TAXATION

	2007	2006
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**4,874**	527
Other staff's retirement benefits scheme contributions	**2,256**	1,679
Other staff costs	**19,015**	13,814
	26,145	16,020
Less: Staff costs included in research and development costs	**(780)**	(454)
	25,365	15,566
Depreciation of property, plant and equipment		
– owned by the Group	**6,205**	4,178
– held under a finance lease	**5**	–
	6,210	4,178
Less: Depreciation included in research and development costs	**(376)**	(266)
	5,834	3,912
Amortisation of intangible assets	**597**	–
Auditor's remuneration	**1,658**	1,550
Exchange loss	**13,492**	–
Loss on disposal of property, plant and equipment	**–**	15
Operating lease rentals in respect of		
– land use rights	**254**	252
– rented premises	**958**	358
Research and development costs	**1,476**	1,179
Write-down of inventories included in cost of goods sold	**–**	388
and after crediting:		
Exchange gain	**–**	1,646
Interest income	**19,850**	587

6. TAXATION

	2007	2006
	RMB'000	*RMB'000*
PRC income tax	**(868)**	(32,122)
Deferred taxation		
– current year	**(763)**	(2,508)
– effect of change in tax rate	**1,461**	–
	(170)	(34,630)

PRC 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 Enterprise 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 will change the tax rate from current rate of 33% to 25% from 1 January 2008 for subsidiaries 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, certain Group's PRC subsidiaries, which were qualified as Production Enterprises during the year 2006, shall be entitled to exemption from PRC 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 income tax for the following three years.

The charge for the year is reconciled to profit before taxation as follows:

	2007		2006	
	RMB'000	*%*	*RMB'000*	*%*
Profit before taxation	**272,286**		154,021	
Tax at the applicable income tax rate	**(89,854)**	**(33.0)**	(50,827)	(33.0)
Tax effect of expenses not deductible for tax purposes	**(26,964)**	**(9.9)**	(28,116)	(18.3)
Tax effect of income not taxable for tax purposes	**14,780**	**5.4**	–	–
Effect of tax exemption granted to a subsidiary	**100,250**	**36.8**	44,145	28.7
Tax effect of deemed taxable income in the PRC	**–**	**–**	(117)	(0.1)
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**1,461**	**0.5**	–	–
Others	**157**	**0.1**	285	0.2
Tax charge and effective tax rate for the year	**(170)**	**(0.1)**	(34,630)	(22.5)

7. DIVIDENDS

Final dividend of HK$3.8 cents per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

The dividends paid in 2006 represented dividends distributed by Fujian Sanai to its then shareholders before the completion of the Group Reorganisation.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the Company of RMB272,116,000 (2006: RMB119,774,000) and on the weighted average number of 1,672,539,521 shares (2006: 1,091,261,370 shares in issue throughout the year on the assumption that the Group Reorganisation has been effective on 1 January 2006).

No diluted earnings per share is presented in 2006 as the assumed conversion of the Group's convertible bonds since their issuance would result in an increase in profit per share.

9. TRADE AND OTHER RECEIVABLES

	2007	2006
	RMB'000	*RMB'000*
Trade receivables	**145,879**	135,012
Other receivables	**460**	2,376
	146,339	137,388

The Group normally grants credit terms of 30 days to 60 days to its customers. The following is an aged analysis of trade receivables at the balance sheet date:

	2007	2006
	RMB'000	*RMB'000*
Age		
0 to 30 days	**74,104**	69,294
31 to 60 days	**71,775**	65,718
	145,879	135,012

There are no trade and other receivables past due or impaired.

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality.

10. TRADE AND OTHER PAYABLES

	2007	2006
	RMB'000	*RMB'000*
Trade payables		
– a related company*	**2,546**	1,205
– others	**60,574**	56,642
	63,120	57,847
Other tax payables	**10,738**	10,056
Accrued charges	**6,147**	9,894
Payroll and welfare payables	**798**	415
Payable for acquisition of property, plant and equipment	**–**	2,704
Obligations under a finance lease	**4**	–
Others	**2,721**	1,655
	83,528	82,571

* The related company is 福州宏宇包裝工業有限公司 (Fuzhou Hongyu Packing Co., Ltd.) ("Fuzhou Hongyu"), 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 following is an aged analysis of trade payables at the balance sheet date:

	2007	2006
	RMB'000	*RMB'000*
Age		
0 to 30 days	**35,357**	32,668
31 to 60 days	**27,763**	25,179
	63,120	57,847

11. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
On incorporation	**38,000,000**	380
Increase in authorised share capital	**3,162,000,000**	31,620
At 31 December 2006 and 31 December 2007	**3,200,000,000**	32,000
Issued and fully paid:		
Issue of shares	**6**	–
Issue of shares pursuant to the Group Reorganisation	**1,049,599,994**	10,496
Issue of shares on conversion of Convertible Bonds	**230,400,000**	2,304
At 31 December 2006	**1,280,000,000**	12,800
Issue of shares under the public offering	**429,772,500**	4,298
At 31 December 2007	**1,709,772,500**	17,098

	2007	2006
	RMB'000	*RMB'000*
Shown in the consolidated balance sheet as	**17,098**	12,800

The movements in the Company's issued share capital during the year ended 31 December 2007 are as follows:

(a) On 1 February 2007, 363,000,000 ordinary shares of HK$0.01 each of the Company were issued at a price of HK$1.80 per share by way of placing and public offer. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange.

(b) On 5 February 2007, an over-allotment option was exercised and a further 66,772,500 shares of HK$0.01 each were issued at a price of HK$1.80 per share.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

12. CAPITAL COMMITMENTS

	2007	2006
	RMB'000	*RMB'000*
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of		
– intangible assets	**–**	8,100
– land use rights	**59,022**	–
	59,022	8,100

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Wuyi Pharmaceutical achieved satisfactory business performance during 2007. Turnover increased by 22.1% as compared to last year, amounting to RMB660.7 million (2006: RMB541.3 million). On the other hand, one of the Company's wholly-owned subsidiaries in the PRC, Fujian Sanai, continued to enjoy income tax exemption in 2007, contributing to an increase of 127.1% to RMB272.1 million (2006: RMB119.8 million) in profit attributable to equity holders of the Company. In accordance with the dividend policy stated in the prospectus of the Company dated 22 January 2007, a minimum of 25% of the net profit, after deduction of the PRC statutory reserve, is to be distributed as dividend by the Company for the financial year 2007. In view of the satisfactory results, the Board has recommended the payment of a final dividend of HK$3.8 cents per share (amounting to a total dividend of approximately RMB60.0 million) with a dividend payout ratio of 28.5% after deduction of the PRC Statutory Reserve Fund of approximately RMB61.5 million.

The Company's management considers the satisfactory performance in the financial year 2007 was due to the following favourable factors:

(I) The PRC pharmaceutical market continued to do well

(1) Medical expenses

With the steady growth of the PRC economy, people's living standard has improved. With more people joining medical insurance schemes, supported in particular by the continuous improvement in the new rural cooperative medical system, resulted in continuous increase in financial input in the medical sector by the government. Therefore, medical pharmaceuticals expenses are obviously on the rise, notably the demand for high quality pharmaceuticals, which brings positive support to the Group's satisfactory results.

(2) Market regulation

The PRC government implements strict regulations, including the combat with counterfeiting and anti-substandard drugs, on the pharmaceutical market. The Company's operation has always complied with the law and received compliments from departments concerned. The strict implementation of the policy by the government has resulted in the elimination of the weak in the market, which in turn benefits the development of the Company.

(3) Developing the rural medical market

The increased effort of the PRC government in improving rural residents' medical insurance schemes brought about the demand for pharmaceutical products in rural areas. The Company sees the business opportunities in the rural market and the second and third line cities, and will strengthen the distribution network in rural and urban areas through collaboration with the Country's biggest pharmaceutical distribution company, Jointown Group Co., Ltd. (九洲通集團公司) ("Jointown"). Currently, the sales coverage of the Group has already extended to the western region such as Xinjiang.

(II) Satisfactory business performance

(1) Sales of pharmaceutical products

The Group has a wide diversity of products, including 28 kinds of Chinese and Western medicines for relieving respiratory, cardiovascular and gastrointestinal symptoms, infectious diseases and cancers. During 2007, the Group added 3 Chinese medical products including Yi Qing Ke Li (一清顆粒), Compound Male Fern Rhizome and Aspirin Tablets (複方貫眾阿司匹林) and Fufang Danggui Injectibles (複方當歸注射液), which contributed approximately RMB15.0 million to the Group's turnover, representing approximately 2.3% of the overall turnover.

(2) Contributions by production and sales of raw materials

Since February 2007, the Group has conducted in-house production of N(2)-L-Alany-L-Glutamine (丙谷二肽原粉), the raw material powder needed for N(2)-L-Alany-L-Glutamine Injectibles (諾賽肽注射液). Apart from serving as supply for the production of the respective injectibles, the raw material is also sold externally. Between February and December 2007, this raw material contributed RMB37.2 million to the Group's turnover with a gross margin of approximately 5.6%.

As the Group can produce raw materials in-house, reducing the outsourcing costs and contributed to a further lowering of the production cost of N(2)-L-Alany-L-Glutamine Injectibles, the gross profit margin of this product was raised significantly to 70.0% from 51.4% before.

OUTLOOKS AND FUTURE DEVELOPMENT

The Company's management is optimistic about the prospect of the PRC pharmaceutical market and will further develop the business based on the following four approaches.

(I) Expanding the production and sales of a variety of pharmaceutical products

In November 2007, the State Food and Drug Administration granted approval to Fujian Sanai, a wholly-owned subsidiary of the Company, to resume production and sales of Yuxingcao Injectibles (2ml). Fujian Sanai is among the three enterprises in the PRC which have obtained approval to produce Yuxingcao Injectibles. The Group will expand the production and sales of the product to cope with market demand. The profit margin of Yuxingcao Injectibles is relatively high and the Company anticipates the product will bring new source of sales revenue for the Group in 2008. This will further enhance the overall turnover of the Group.

In addition, the Group has already obtained approval for the production and sales of its major product Perilla Oil Capsule from the State Food and Drug Administration in 2007 and the product has been introduced to the market in January 2008. The Group has launched promotional activities for the product and will strengthen promotion through Fujian Sanai's sales network, sales team and our clients.

Perilla Oil Capsule is a Category II New Drug in the PRC which is not constrained by the Country's pricing regulations, thus, Fujian Sanai can determine the pricing. Leveraging on the scientific and technological strengths, Fujian Sanai produces products with higher quality but at lower production cost. Compared to other competitors in the market, Fujian Sanai is significantly at a better position. The product pricing power of Fujian Sanai is also relatively higher, allowing a particular product to generate better profit. The Company anticipates the subsequent sales of Perilla Oil Capsule will achieve satisfactory growth.

(II) Research and development on new products

Fujian Sanai, signed an agreement with the Peking University (Peking University's Faculty of Medicine) to jointly set up a Research Laboratory on 10 July 2007. The Peking University will assign Faculty of Medicine experts to conduct researches. Upon obtaining successful research results, Fujian Sanai has the right to share the research outcome and enjoy the exclusive license on production.

Regarding Chinese medicine, Fujian Sanai has reached agreements with the Peking University's Faculty of Medicine on research projects on several types of new products, among which the progress of Liver and Gall Bladder Tablets (複方肝胆片) with combined prescription for curing liver diseases is relatively fast. Fujian Sanai has applied for licenses of the medical prescription and usage.

As for Western pharmaceuticals, Fujian Sanai is conducting a joint research project with Bozhong Medical Drugs Research Centre (博中醫藥研究中心) located in Fuzhou on Ambroxol and Clenbuterol Oral Solution (氨溴特羅口服液), a pharmaceutical product for cough relieving and phlegm clearing. The Company believes research and development on new products will further enhance the competitiveness of the Group in the market.

(III) Enhance production capacity

Fujian Sanai signed an agreement with the government of Jianyang Municipality of Fujian on 20 July 2007 to acquire 230 mu (approximately 153,410 square metres) of land for overall planning of plant construction. The new plant of Phase One will have an area of approximately 60,000 square metres, which will be 5 times the area of Fujian Sanai's existing preparation production plant. After the new production line commences production, the production capacity will treble the existing capacity and meet the Group's development needs in the coming year.

(IV) Exploration of new markets

With the strong effort of the PRC government in rural medical reform, the Company anticipates the market demand for medical pharmaceutical products will continue to increase. Given the immense growth potential of the market, the Group will further explore the sales network in rural area and the second and third line cities. The Company anticipates revenues from the rural market will progressively increase and share a larger proportion in the Group's turnover.

FINANCIAL REVIEW

(I) Turnover

Turnover of the Group increased by 22.1% to approximately RMB660.7 million for the year ended 2007 from approximately RMB541.3 million for the year ended 2006, with momentum from (1) continued launch of new products and (2) increase in number of promotion and distribution agents in rural areas.

(1) Continued launch of new products

The continued launch of new products is one of the important operational strategies of the Company. For the period of the second half of 2006 and in 2007, 8 types of new pharmaceutical products were launched, among them, 3 new pharmaceutical products from more than 100 approved pharmaceutical numbers since June 2007 were selected. These 8 types of new pharmaceutical products created significant benefits in 2007, recorded approximately RMB60.9 million in turnover, presenting approximately 9.2% of total turnover.

Furthermore, the Group started in-house production and distribution of N(2)-L-Alanyl-L-Glutamine, the raw material powder (丙谷二肽原粉) in the first half of 2007. Such in-house production of this raw material powder not only reduced production cost of N(2)-L-Alanyl-L-Glutamine Injectibles, added margin to gross profit, but also increased turnover of the Group in the result period for an amount of approximately RMB37.2 million, presenting approximately 5.6% of total turnover, from external sales of such raw material powder.

(2) Increase in number of promotion and distributors in rural areas

Fujian Sanai cooperated with Jointown, the largest logistics company in China for delivery of medicines, to develop distribution in the rural market. In addition, the Group engaged 9 new distributors, thus increased its number of distributors to 57. Such new distributors added circa approximately RMB72.3 million to the turnover of the Company, presenting 10.9% of total turnover. As reform of the state medical system moved forward, people covered by medical insurance increased, the Group then strives, to develop the rural market with its brand advantages, and enhanced promotion efforts, so as to achieve increasing annual sales for the Group.

Turnover in 2007 was dominant by Western medicines, with a turnover volume of approximately RMB424.5 million, presenting approximately 64.3% of total turnover, an increase of approximately 28.2% over last year (2006: approximately RMB331.2 million, presenting approximately 61.2% of total turnover). Turnover of Chinese medicines amounted to approximately RMB236.2 million, presenting approximately 35.7% of total turnover, an increase of approximately 12.4% over last year (2006: approximately RMB210.1 million, presenting approximately 38.8% of total turnover). The highest sales volume was again achieved by Western medicine, N(2)-L-Alanyl-L-Glutamine Injectible, with a turnover volume of approximately RMB107.3 million, presenting approximately 16.2% of total turnover (2006: approximately RMB97.3 million, presenting approximately 18.0% of total turnover). Sales volume of the 5 most saleable medicines amounted to approximately RMB359.9 million, presenting approximately 54.5% of total turnover (2006: approximately RMB299.0 million, presenting approximately 55.2% of total turnover).

(II) Gross Profit and Gross Profit Margin

Gross profit increased by 24.5% to approximately RMB334.2 million for the year ended 2007 from approximately RMB268.5 million in the year ended 2006. Gross profit margin increased approximately 1 percentage points to 50.6% in the year ended 2007 compared to 49.6% for the year ended 2006. Related cost of goods sold ratios, including raw material, packaging material, energy and fuel costs, direct labor cost, remained essentially the same compared within these two years, except that such related amount increased in 2006 with sales volume.

The increases in gross profit and gross profit margin were mainly attributable to the Company's consistent strategy in business development. The Group strived to expand its distribution network in 2007, with number of distributors increased to 57, sales volume was also effectively increased. On the other hand, the Group launched new products for a sustainable increase in sales volume, and such optimization of product structure brought contributions in gross profit, with production of medicines with high return and high effect.

Ratios of internal supply of raw materials for Western and Chinese medicine

In 2006, internal supply of raw materials for Western and Chinese medicine accounted for 14.0% of total medicine, such ratio increased to 23.3% in 2007, mainly attributable to the Group's self-production of *N(2)-L-Alanyl-L-Glutamine,* the raw material powder *(丙谷二肽原粉)*, since February 2007, thus significantly lowered cost compared with outside purchasing, and the gross margin of such most saleable product increased significantly from 51.4% to 70.0%.

(III) Profit for the Year

In 2007, Fujian Sanai, since July 2006, enjoyed an exemption of income tax of 33% under the preferential tax arrangement of exemption tax payment for the first two years and 50% relief for the following three years (taxation in 2006: approximately RMB34.6 million), thus profit attributable to equity holders for the year increased significantly by 127.1% to approximately RMB272.1 million for the year ended 2007 from approximately RMB119.8 million for the year ended 2006.

Besides contribution from income tax exemption, profit for the year increased as the proceeds from the listing of shares of the Company on the Stock Exchange on 1 February 2007 increased bank deposits and brought interest income from banks of approximately RMB19.9 million (2006: approximately RMB0.6 million).

Administrative and other expenses increased by 74.5% to approximately RMB67.0 million for the year ended 2007 from approximately RMB38.4 million for the year ended 2006, mainly attributable to approximately RMB22.2 million of professional fees and share issued expenses incurred for the Hong Kong and International offering of the Company's shares and exchange loss brought by the appreciation of RMB against Hong Kong Dollar amounted to approximately RMB13.5 million.

Finally, convertible bonds issued for the reorganization needed for the listing were fully exercised in 2006. Such non-cash, nonrecurring expense of approximately RMB63.9 million in 2006 recorded as change of fair value in convertible bonds shall no longer be necessary in 2007 consolidated income statement.

(IV) Liquidity and Financial Resources

The Group maintains a stable financial position. As at 31 December 2007, the Group had bank balances and cash of approximately RMB1,102.5 million (2006: approximately RMB199.8 million) and short-term bank loans of RMB35.0 million (2006: RMB43.0 million). All short-term bank loans were denominated in RMB and at prevailing market interest. During the year, the Group did not use any financial instruments for any hedging purpose.

The gearing ratio representing the ratio of short-term bank loans to total equity of the Group was 2.6% as at 31 December 2007 (2006: 22.1%).

(V) Exposure to fluctuation in exchange rates

For the year ended 31 December 2007, 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 all of its bank deposits are in Renminbi and Hong Kong dollars. As at 31 December 2007, 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 is not exposed to any material interest and exchange risks.

(VI) Significant Acquisitions and Disposals of Investments

For the year ended 31 December 2007, the Group did not have any significant acquisition and disposal of investment.

(VII) The Number and Remuneration of Employees

As at 31 December 2007, the Group employed approximately 387 employees (2006: 311 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.

(VIII) Charges on Group Assets

As at 31 December 2007, the net book value of furniture, fixtures and equipment of approximately RMB6.6 million (2006: approximately RMB5.9 million) includes an amount of approximately RMB18,000 (2006: Nil) in respect of assets held under financial leases.

(IX) Contingent Liabilities

As at 31 December 2007, the Group did not have any contingent liabilities (2006:Nil).

(X) Capital Expenditure

For the year ended 31 December 2007, capital expenditure of the Group for property, plant and equipment and intangible assets amounted to approximately RMB19.5 million (2006: approximately RMB50.0 million).

(XI) Capital Commitments

As at 31 December 2007, the Group had capital expenditure contracted for but not provided in the financial statements amounted to approximately RMB59.0 million (2006: approximately RMB8.1 million).

(XII) Use of Proceeds

The proceeds from the Company's issue of new shares in February 2007 as a result of initial public offering on the Main Board of the Stock Exchange, less share issue expenses, amounts to approximately RMB731.8 million (including approximately RMB115.4 million raised from the over-allotment option in February 2007).

During the year ended 2007, the Company applied approximately RMB230 million and approximately RMB114.7 million to the capital injection in our two major subsidiaries in the PRC Fujian Sanai and Fuzhou Sanai Pharmaceutical Co., Ltd. ("Fuzhou Sanai") respectively. 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. In addition, approximately HK$62 million (equivalent to approximately RMB62 million) has 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.

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

DIVIDEND

The Board resolved to propose a final dividend of HK$3.8 cents per share for the year ended 31 December 2007 to the shareholders on the register of members of the Company on 21 May 2008 which is subject to the approval by the shareholders in the forthcoming Annual General Meeting of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules"). Every Director at the time of appointment was given a copy of the Model Code. The Company confirms, having made specific enquiries with all Directors, that for the year ended 31 December 2007, its Directors complied with the requirements relating to Directors' dealing in securities as set out in the Model Code.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

All the publications of the Company, including annual reports, interim reports, circulars, notices of general meetings and results of general meeting polls (if any), are available on our Company's website at www.wuyi-pharma.com and the Stock Exchange's website at www.hkex.com.hk.

ANNUAL GENERAL MEETING

The 2008 Annual General Meeting of the Company will be held on 30 May 2008, Friday and the Notice of Annual General Meeting will be published and dispatched in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 May 2008, Thursday to 30 May 2008, Friday (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend for the year, all transfers documents, accompanied by the relevant share certificates, must be lodged with the Registrar of the Company, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than 4:30 p.m. on Wednesday, 21 May 2008.

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

During the year, neither the Company nor any of this subsidiaries purchased, sold or redeemed any of the Company’s listed Shares.

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 set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Listing Rules for the year ended 31 December 2007 ensuring that are up to the requirements as being diligent, accountable and professional.

In the opinion of the Board, the Company 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.

AUDIT COMMITTEE

The Company has established an audit committee ("the AC") with written terms of reference in compliance with the Listing Rules. The AC comprises three Independent Non-executive Directors. Each member can bring to the committee his valuable experience in reviewing financial statements and evaluating significant control and financial issues of the Company who among themselves possess a wealth of management experience in the accounting profession or commercial sectors.

The principal duties of the AC include the review and supervision of the Company's financial reporting system, financial statements and internal control procedures. The AC also monitors the appointment of the Company's internal auditors. The Company's interim result announcement and interim report for the six months ended 30 June 2007 and the annual result announcement and annual report for the year ended 31 December 2007 have been reviewed by the AC, and with recommendation to the Board for approval.

The AC shall meet at least twice a year after the Listing Date. On 27 March 2008, a meeting of the AC was held and Mr. Lam Yat Cheong (Chairman), Mr. Goh Jin Hian and Mr. Liu Jun, being all members of the AC were present at the meeting and the consolidated financial statement of the Company for the year ended 2007 were reviewed at such meeting.

The terms of reference of the AC are available for inspection on the Company's website at www.wuyi-pharma.com.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee ("the RC") with written terms of reference in compliance with the Listing Rules. The RC comprises three Independent Non-executive Directors and two Executive Directors. The Board has delegated the authority to the RC to review and recommend to the Board the compensation scheme of the Company to the Directors as well as to the senior management staff.

The main function of the RC is to assist the Board to oversee the Company's remuneration packages, bonus and other compensation payable to Directors and senior management and establish a transparent procedure for developing policy on such remuneration. The Board shall in consultation with the Chairman of the RC provide sufficient resources to the RC to enable it to discharge its duties.

The RC has conducted a meeting on 7 December 2007 with Mr. Dennis Luan Thuc Nguyen (Chairman), Mr. Lin Ou Wen, Mr. Goh Jian Hian, Mr. Lam Yat Cheong and Mr. Liu Jun, being all members of the RC, present and has assisted the Board to review the remuneration of the executive directors and senior management and approved the remuneration packages of the Executive Directors for the year 2008.

The Company has adopted a share option scheme for the senior management and employees on 8 January 2007, which serves as incentives or rewards to attract, retain and motivate staff.

The terms of reference of the RC are available for inspection on the Company's website at www.wuyi-pharma.com.

NOMINATION COMMITTEE

The Company has established a Nomination Committee ("the NC") with written terms of reference in compliance with the Listing Rules. The NC comprises three Independent Non-executive Directors and two Executive Directors.

The main functions of the NC are to review the structure, size and composition of the Board, to identify individuals who are suitably qualified to become member of the Board, to assess the independence of the Independent Non-executive Directors. Having regard to the independence and quality of nominees, the NC shall make recommendations to the Board so as to ensure that all nominations are fair and transparent. The NC is also responsible for reviewing the succession planning for Directors, in particular the Chairman and the CEO. The Board shall provide sufficient resources to the NC to enable it to discharge its duties.

Pursuant to the Company's Articles of Association, one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting ("AGM") of the Company provided that every director shall be subject to retirement at least once every three years. The retiring Directors are eligible to offer themselves for re-election.

On 7 December 2007, a NC meeting was held with Mr. Lin Ou Wen (Chairman), Mr. Lin Qing Ping, Mr. Goh Jin Hian, Mr. Lam Yat Cheong, and Mr. Liu Jun being all members of the NC, present to perform appraisal of the Directors so as to recommend to Board for re-election in the forthcoming AGM of the Company and review the independence of the Independent Non-executive Directors.

The terms of reference of the NC are available for inspection on the Company's website at www.wuyi-pharma.com.

REVIEW OF THE PRELIMINARY ANNOUNCEMENT BY AUDITOR

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31 December 2007 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF FURTHER INFORMATION

The Annual Report of the Company for the year ended 31 December 2007 containing all the applicable information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Company at www.wuyi-pharma.com and the Stock Exchange at www.hkex.com.hk in due course.

ACKNOWLEGEMENT

On behalf of the Board, I would like to take this opportunity to thanks our shareholders for their continuous support and to express our gratitude to the Board, management, our staff and relevant professional parties for their contributions and dedication.

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

Hong Kong, 31 March 2008

As at the date of this announcement, the Board comprises 4 Executive Directors, namely Mr. Lin Ou Wen (Chairman), Mr. Lin Qing Ping, Mr. Dennis Luan Thuc Nguyen 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. Goh Jin Hian, Mr. Liu Jun and Mr. Lam Yat Cheong.