Wuyi International Pharmaceutical Company Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1889

武夷药业
Wuyi Pharmaceutical

Annual Report 2007

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lin Ou Wen *(Chairman)*

Mr. Lin Qing Ping

Mr. Xu Chao Hui

Mr. Dennis Luan Thuc Nguyen

Non-executive Directors

Mr. Tang Bin

Mr. John Yang Wang

Independent Non-executive Directors

Mr. Goh Jin Hian

Mr. Liu Jun

Mr. Lam Yat Cheong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Kung Wai Chiu, Marco *FCPA (Practising) and FCCA*

AUTHORIZED REPRESENTATIVES

Mr. Lin Ou Wen

Mr. Kung Wai Chiu, Marco *FCPA (Practising) and FCCA*

AUDIT COMMITTEE

Mr. Lam Yat Cheong *(Chairman)*

Mr. Goh Jin Hian

Mr. Liu Jun

REMUNERATION COMMITTEE

Mr. Dennis Luan Thuc Nguyen *(Chairman)*

Mr. Lin Ou Wen

Mr. Goh Jin Hian

Mr. Liu Jun

Mr. Lam Yat Cheong

NOMINATION COMMITTEE

Mr. Lin Ou Wen *(Chairman)*

Mr. Lin Qing Ping

Mr. Goh Jin Hian

Mr. Liu Jun

Mr. Lam Yat Cheong

AUDITOR

Deloitte Touche Tohmatsu

Certified Public Accountants

SOLICITORS

Gallant Y.T. Ho & Co.

COMPLIANCE ADVISER

Sun Hung Kai International Limited

PRINCIPAL BANKER

Bank of Communications Co., Ltd

REGISTERED OFFICE

4th Floor

P.O. Box 2804

George Town

Grand Cayman

Cayman Islands

PRINCIPAL PLACE OF BUSINESS

Room 2805, 28th Floor

Central Plaza

18 Harbour Road

Wanchai

Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICES

Principal share registrar and transfer office

Butterfield Fund Services (Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 705

George Town

Grand Cayman

Cayman Islands

British West Indies

Hong Kong branch share registrar and transfer office

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai, Hong Kong

STOCK CODE

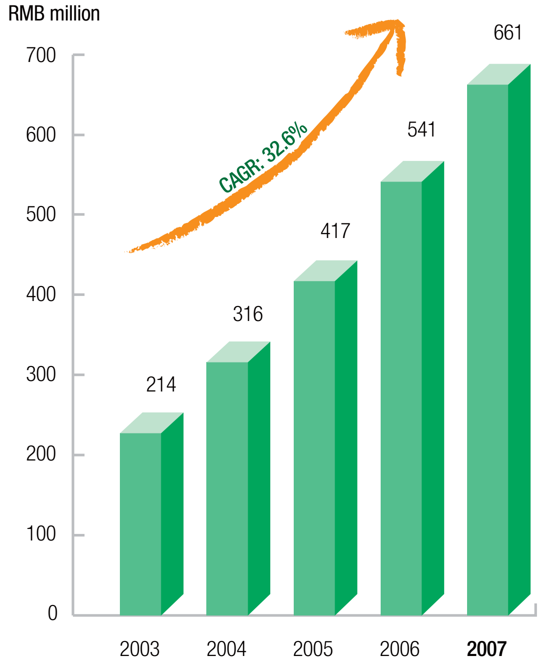
1889

WEBSITE

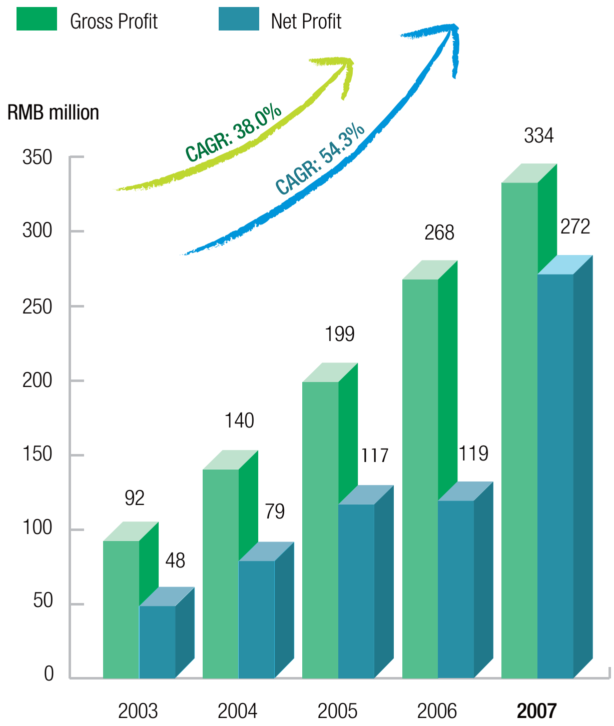
www.wuyi-pharma.com

Financial Highlights

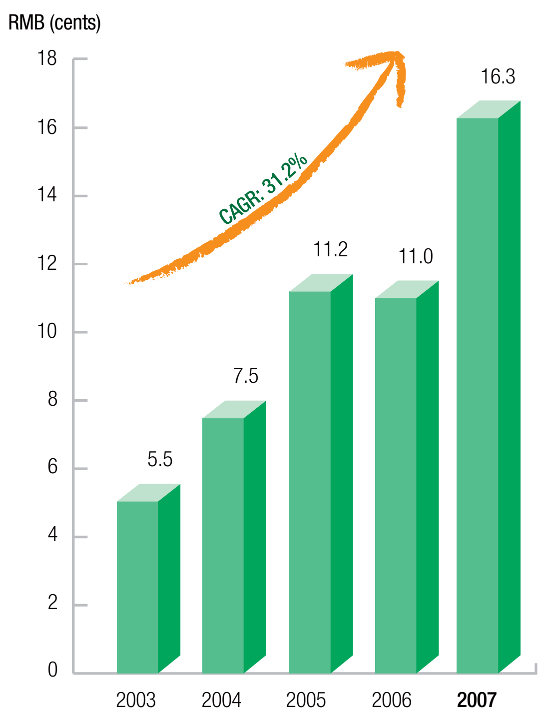
Turnover



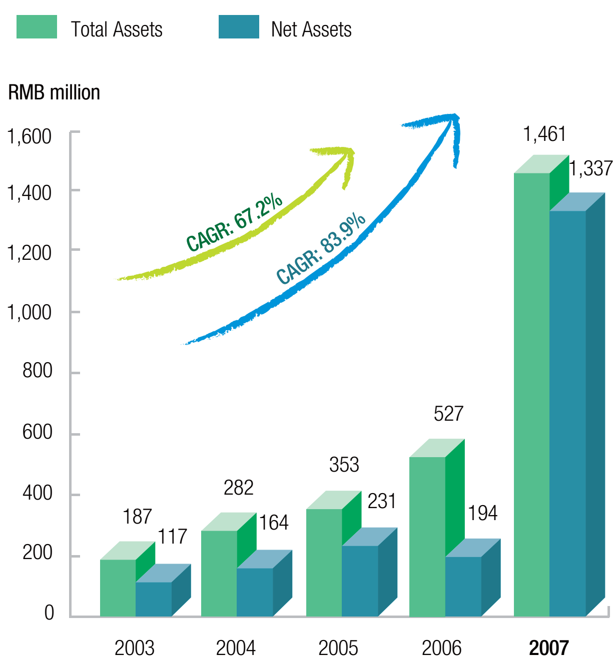
Gross Profit & Net Profit



Earnings per share - Basic



Total Assets & Net Assets



Chairman's Statement

To All Shareholders

On behalf of the Board of Directors (the "Board"), I am pleased to present to the shareholders the annual results and operations of Wuyi International Pharmaceutical Company Limited ("Wuyi Pharmaceutical" or the "Company") and its subsidiaries (collectively, the "Group") for the financial year ended 31 December 2007.

Business Review

During the year under review, the pharmaceutical market in the People's Republic of China ("PRC" or the "Country") was benefited from the Country's strong effort in medical reform and the pharmaceutical market has been continuing to develop in a healthy tone. Attributed to the rising demand for medical pharmaceuticals, the Group managed to achieve satisfactory results. For the year ended 31 December 2007, the net profit attributable to equity holders was RMB272.1 million, representing a 127.1% growth compared to the preceding financial year.

In view of the satisfactory results, the Board has recommended the payment of a final dividend of HK$3.8 cents per share with a dividend payout ratio of 28.5% after deduction of the PRC Statutory Reserve Fund of approximately RMB61.5 million as a return of investment to the Company's shareholders.

In December 2006, the Ministry of Health of the State Council, PRC, published a report about urban and rural health care system reform and reinforcing regulation of food and drug safety. The report mentioned that regulation of drugs and the relevant legislation are improving and being strengthened. The Company believes that the State's strict regulation on the pharmaceutical market will facilitate the healthy development of the market. In an environment that only the strong ones survive, ample development opportunities will be given to sizeable enterprises and the Group will be one of the beneficiaries.

At the same time, the PRC economy continued to grow and per capita income is rising. The growth rate of the rural and urban residents' income was particularly notable. According to the figures released by National Bureau of Statistics of China, the per capita income of rural residents in the first 3 quarters last year recorded an increase of 14.8% after discounting the cost factors. Such increase was 3.4% higher than the same period in 2006. The rapid increase in income of the rural and urban residents brought about a corresponding rise in their living standard. Coupled with the State's initiatives to strengthen the health care policy for rural residents, a growing demand for high quality medical pharmaceuticals in the market was resulted.

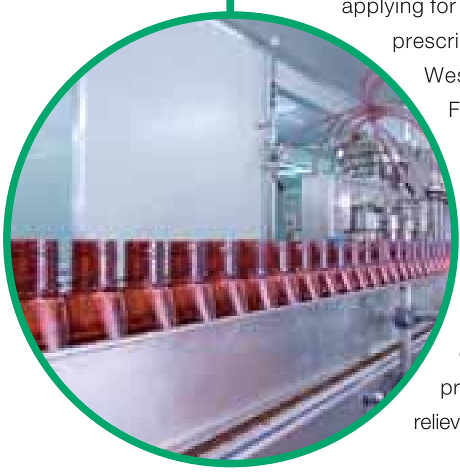
During 2007, the Company's wholly-owned subsidiaries in the PRC continued to enjoy the preferential policies regarding income tax exemption, which allowed the profit margin to stay at a relatively high level. These favourable market operating environments supported the growth of the Group's business.

In response to the demand for medical pharmaceuticals in the market, the Group carefully selected from 100 approved pharmaceutical numbers in June 2007, and launched 3 new pharmaceutical products such as Compound Male Fern Rhizome and Aspirin Tablets (複方貫眾阿司匹林). Sales of these new products were satisfactory and provided a notable contribution to the Group's turnover. On the other hand, the Group's 2 major products, namely Perilla Oil Capsule and Yuxingcao Injectibles, had new progress during the second half of 2007. The Group had obtained authorization for production and sales of the Perilla Oil Capsule and was granted the GMP Certification. At the same

Chairman's Statement

time, The State Food and Drug Administration approved Fujian Sanai Pharmaceutical Co., Ltd. ("Fujian Sanai"), a wholly-owned subsidiary of the Company, to resume the production and sales of Yuxingcao Injectibles. Fujian Sanai is among the 3 enterprises in the PRC who have obtained approval to produce Yuxingcao Injectibles. The approval will further enhance the competitive advantages of the Group and, at the same time, demonstrated the Group's continual emphasis in quality control, which won the assurance from Government bodies.

The Group is dedicated to pharmaceutical development. In July 2007, Fujian Sanai signed an agreement with the Peking University (Peking University's Faculty of Medicine) to jointly set up a Research Laboratory to carry out research projects. Upon obtaining successful research results, Fujian Sanai has the right to share the research outcome and enjoy the exclusive license on production. Regarding traditional Chinese medicine, at present, Fujian Sanai has agreed on a research project with Peking University's Faculty of Medicine for a new pharmaceutical product aiming at curing liver diseases, and is applying 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 pharmaceutical products targeting cough relieving and phlegm clearing.



Following the Country's dedication in promoting medical reform in rural areas, the Company believes that there are ample business opportunities in the rural market. In 2007, the Group actively expanded the coverage of their sales network, with major efforts put in the western region such as Xinjiang. The Group engaged 9 new distributors thus increased its number of distributor to 57. The Group also continued to sell its existing and upcoming pharmaceutical products in its existing rural and urban networks through collaboration with the Country's biggest pharmaceutical distribution company, Jointown Group Co., Ltd.（九洲通集團公司）("Jointown").

Future Prospect

The medical reform in the PRC will further boost the operating environment of the pharmaceutical market, particularly in the rural areas. With the implementation of the rural medical cooperative system in the PRC, most rural residents are enrolled in medical insurance schemes. In addition, the State Council is promoting medical insurance schemes for all enterprises. These measures are all stimulatory to consumer spending in rural and urban pharmaceutical markets. The Company believes contributions to business brought about by the rural market will increase steadily.

Regarding new pharmaceutical products, the Group's major product Perilla Oil Capsule had obtained approvals from the Country and production and marketing of the product has taken place since March 2008. Perilla Oil Capsule carries higher curative effects when compared to products of similar types. With low side effect as a key feature attributed to the pure biological extraction and purification process, the product is at present the only drug with similar characteristics in the PRC. Perilla Oil Capsule is highly recognized in the PRC market which in turn helps create favourable conditions for the rapid expansion of the market.

The Group will boost sales of the product through Fujian Sanai's sales network, sales team and clients. As the pricing power of Perilla Oil Capsule is relatively high, the Company expects the product will bring satisfactory sales profit and become a major source of revenue.

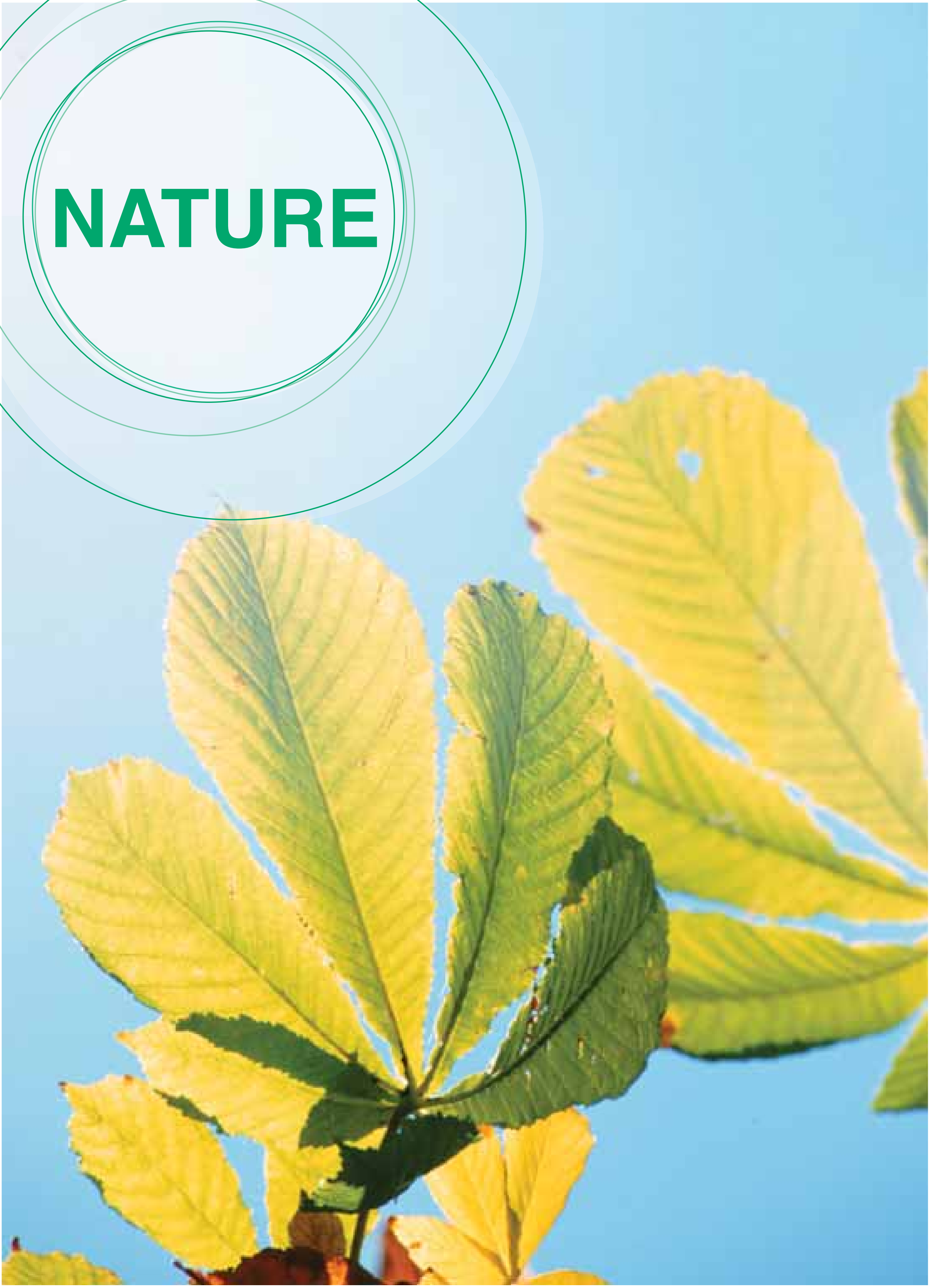
In short, the Group reveals a prospective development in view of the Country's policy and the Group's business development.

Last but not least, I would like to express my heart-felt gratitude on behalf of the Board to Wuyi Pharmaceutical's management teams and all the staff for their unfailing hard work and brilliant contributions, as well as to all shareholders for their continuous support to the Company. We pledge to do our best and lead Wuyi Pharmaceutical to new highs.

Lin Ou Wen
Chairman

Hong Kong, 31 March 2008

NATURE



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, 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. 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

Management Discussion and Analysis

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 three 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. 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 March 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-

Management Discussion and Analysis

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% 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 of Hong Kong Limited (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 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.

Further discussion on financial risk management objectives and policies is included in the "Financial Instruments" section of note 7 to the Financial Statements.

(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 of option in February 2007).

During the year ended 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 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$62.0 million (equivalent to approximately RMB62.0 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.

SCIENCE

Corporate Governance Report

Corporate Governance Practices

Wuyi Pharmaceutical is committed to serving the long-term interests of shareholders by being transparent and adopting sound business practices. This commitment extends to the prompt disclosure of relevant information in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), as well as a continual determination to achieve high levels of ethics and corporate governance within every aspect of the Group's business. The Board will continue to review and monitor the Group's corporate governance practices from time to time with the aim of maintaining a high standard of corporate governance.

During the year 2007, the Company complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") published by the Stock Exchange except for a deviation from the Code provision A.2.1. in respect of the roles of Chairman and Chief Executive Officer should not be performed by the same individual. The Company has established an Audit Committee to ensure proper financial reporting and adequate internal controls. In addition, a Remuneration Committee has been established to determine the appropriate remuneration of Directors and members of senior management. The Company ensures that both committees are provided with sufficient resources to appropriately carry out their respective duties.

The Company firmly believes that transparency and sound business practices will lay the foundation for robust growth while maximizing shareholder returns.

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 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.

Board of Directors

The Board currently consists of nine members, with four Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. Biographies of the Board are shown on pages 18 to 19 of this report.

Mr. Lin Ou Wen, the Chairman is the younger brother of Mr. Lin Qing Ping.

The duties of the Board include, among other things, the following:

1. To approve board policies, strategies and financial objectives of the Company and to monitor the performance of management;
2. To oversee the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance;
3. To approve major funding proposals, investment and divestment proposals;
4. To approve the nominations of Board members and appointment of key personnel;
5. To assume responsibility for corporate governance;
6. To approve interested person transactions of a material nature.

Corporate Governance Report

The Board is accountable to the shareholders and report to them at general meetings. The day-to-day operations of the Group are delegated to the management, which is headed by the Chief Executive Officer.

The Directors believe that the composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business of the Group and for effective leadership as all Executive Directors possess extensive experience in production, marketing and management; whilst the Independent Non-executive Directors, has professional expertise and extensive experience in various aspects, such as economics, computing control, management, finance and accounting matters. The Directors are of the opinion that the present structure of the Board can ensure the independence and objectivity of the Board and provide checks and balances to safeguard the interests of the shareholders and the Company. The Company has complied with the requirement of the Listing Rules which requires that at least one of its Independent Non-executive Directors have appropriate professional qualifications or accounting or related financial management expertise. As required under the Listing Rules, the Company has obtained a written confirmation from each of its Independent Non-executive Directors in respect of their independence, and the Company is of the opinion that all its Independent Non-executive Directors are independent to the Company.

The responsibilities of Non-executive Directors include, without limitation, regular attendance at meetings of the Board and of board committees of which they are members; provision of independent opinions at meetings of the Board and other board committees, resolution of any potential conflict of interest, service on the Audit Committee, Nomination Committee and Remuneration Committee and inspection, supervision and reporting on the performance of the Company. The Board is accountable to the shareholders of the Company and report to them at general meetings.

The Board meets regularly throughout the year to review the overall strategy and to monitor the operation as well as the financial performance of the Company. The Chairman focuses on Company strategy and is responsible for chairing and managing the efficient operation of the Board and ensuring that all key issues are considered by the Board in a timely manner.

Notice of at least 14 days has been given to all Directors for all regular Board meetings and the Directors can include matters for discussion in the agenda whenever they consider appropriate and necessary. Agenda and accompanying Board papers in respect of regular Board meetings are dispatched in full to all Directors within a reasonable time before the meeting. Directors have to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and abstain from voting as appropriate. Draft minutes of all board meetings are circulated to Directors for comment within a reasonable time prior to confirmation. The Board meets at least 4 times a year, at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Company that require the resolution of the Board. Simultaneous conference call may be used to improve attendance when individual Director cannot attend the meeting in person. Opinions of the Independent Non-executive Directors are actively sought by the Company if they are unable to attend the meeting in person.

Minutes of board meetings are kept by the Company Secretary; all Directors have access to board papers and related materials, and are provided with adequate information in a timely manner; this enables the Board to make informed decision on matters placed before it.

Board Attendance

It is intended that the Board should meet regularly for at least four times a year, i.e. at approximately quarterly intervals. Special meetings of the Board will be convened if the situation requires so. For the year ended 31 December 2007, the Board convened a total of four Board meetings, and the individual attendance record of the Directors is tabulated as follows:

Directors	Number of attendance
Executive Directors	
Mr. Lin Ou Wen *(Chairman)*	4/4
Mr. Lin Qing Ping	4/4
Mr. Xu Chao Hui	4/4
Mr. Dennis Luan Thuc Nguyen	3/4

Non-executive Directors	
Mr.Tang Bin	4/4
Mr. John Yang Wang	4/4
Independent Non-executive Directors	
Mr. Goh Jin Hian	4/4
Mr. Lam Yat Cheong	4/4
Mr. Liu Jun	4/4

Chairman and Chief Executive Officer

Under Paragraph A.2.1 of Appendix 14 to the Listing Rules, the roles of Chairman and Chief Executive Officer of an issuer should be separate and should not be performed by the same person. The Company does not at present separate the roles of Chairman and Chief Executive Officer. Mr. Lin Ou Wen is the Chairman and Chief Executive Officer of the Company responsible for overseeing the operations of the Group. The Board considers that vesting the roles of the Chairman and the Chief Executive Officer in the same person facilities the execution of the Company's business strategies and maximizes the effectiveness of its operations. The Board shall review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

Non-executive Directors

The Non-executive Directors (including Independent Non-executive Directors) are appointed for an initial period of three years and are subject to retirement by rotation and re-election by shareholders in accordance with the articles of association of the Company. The responsibilities of the Non-executive Directors include, without limitation: regular attendance at meetings of the Board and of board committees of which they are members; provision of independent opinions at meetings of the Board and other board committees; resolution of or taking the lead where there is potential conflict of interests; service on the Audit Committee, the Remuneration Committee and Nomination Committee; and scrutinizing and monitoring the performance of the Company.

Committees

The monitoring and assessment of certain governance matters are allocated to three committees which operate under defined terms of reference. The composition of the committees up to the date of this report is set out in the table below.

Directors	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors			
Mr. Lin Ou Wen *(Chairman)*	–	Member	Chairman
Mr. Lin Qing Ping	–	–	Member
Mr. Xu Chao Hui	–	–	–
Mr. Dennis Luan Thuc Nguyen	–	Chairman	–
Non–executive Directors			
Mr. Tang Bin	–	–	–
Mr. John Yang Wang	–	–	–
Independent Non–executive Directors			
Mr. Lam Yat Cheong	Chairman	Member	Member
Mr. Goh Jin Hian	Member	Member	Member
Mr. Liu Jun	Member	Member	Member

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 auditor. 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.

Corporate Governance Report

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. Details of the share option scheme are set out in note 27 to the financial statements.

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 Chief Executive Officer. 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 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 annual general meeting 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.

Auditor's Remuneration

Deloitte Touche Tohmatsu is the auditor of the Company and only provides audit service to the Group. The fee for the audit of the Group's financial statements for the year ended 31 December 2007 was HK$1,650,000.

Directors' and Auditor's Responsibilities For Accounts

The Board acknowledges their responsibility for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements. The Board acknowledges their responsibilities for the preparation of the consolidated financial statements of the Company for the year ended 31 December 2007, which give a true and fair view of the state of affairs of the Company and of the results and cash flows for that period. In preparing these consolidated financial statements, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

Deloitte Touche Tohmatsu, the auditor of the Company, has presented their responsibilities in the independent auditor's report as set out on page 29.

Internal Controls

The Board is responsible for developing and maintaining an internal control system of the Company to protect shareholders' interest and to safeguard the Company's assets by reviewing the control procedures for financial, operational and compliance controls and risk management functions. Such internal control system is implemented by the management upon the authorization of the Board and the effectiveness of the internal control system is reviewed by the AC from time to time.

The Company's internal audit department has been established and operating since April 2007 for the purpose of reviewing the internal control system in a more effective manner. Depending on the materiality of potential risks existing in the internal control systems of various businesses and processes of the Company, the internal audit department carries out inspection, supervision and evaluation of the Company's financial information disclosure, operations and internal control activities on a regular or as-needed basis, with the purpose of ensuring transparency in information disclosure, operational efficiencies and effectiveness of the corporate control regimes. It furnished independent and objective evaluations and recommendations in the form of audit reports. Internal audit officers are authorized to access any data relating to the Company and to make enquiries to the staff concerned, and the audit manager will directly report to the AC on the findings and review, on the basis of which the AC will make recommendations to the management and submit regular reports to the Board.

In September 2007 and March 2008, the Company's internal control system reports which were prepared by the Internal Control Department were reviewed and approved by the Board. The Board is satisfied with the effectiveness of the Company's internal control system, including financial, operational and compliance controls and risk management functions.

Communications with Shareholders

The Company uses a number of formal communication channels to account to shareholders for the performance of the Company. These include the annual report and accounts, the interim report, periodic company announcements made through the Stock Exchange, as well as through the annual general meeting. The Company aims to provide its shareholders and potential investors with high standards of disclosure and financial transparency. In order to provide effective disclosure to investors and potential investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcements as required by the Listing Rules. The Company also welcomes comments and questions from shareholders at its annual general meeting.

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

Directors and Senior Management

Executive Directors

Mr. Lin Ou Wen, aged 51, is the Chairman and Chief Executive Officer and founding shareholder. Mr. Lin graduated from Fujian Normal University with a bachelor's degree in physics in 1983. He is a senior economist. In January 2004, he established Fuzhou Sanai and has since been appointed as the chairman and director. In March 2006, he further established Wuyi International Pharmaceutical Investment Company Limited ("Wuyi BVI") and has since been appointed as the chairman and director. In January 2000, he, together with other founding shareholders, established Fujian Sanai and has since then been appointed as the Chairman, Chief Executive Officer and executive Director. He has over 8 years of experience in the pharmaceutical industry. He is the younger brother of Mr. Lin Qing Ping.

Mr. Lin Qing Ping, aged 58, is a General Manager, chief operating officer and founding shareholder. Mr. Lin graduated from Wuhan University with a bachelor's degree in management in 1982. He is a senior economist. He has been a director of various companies, namely, Fuzhou Sanai and Wuyi BVI since January 2004 and July 2006. He has over 21 years of experience in business management and 11 years' experience in the pharmaceutical industry with a thorough understanding in the pharmaceutical industry. He is elder brother of Mr. Lin Ou Wen.

Mr. Xu Chao Hui, aged 38, is an Executive Director. He graduated from Fuzhou University with a diploma in social work and management in 2004. He joined the Company in July 2000. He has been a director of Wuyi BVI since July 2006.

Mr. Dennis Luan Thuc Nguyen, aged 38, is an Executive Director. Mr. Nguyen is responsible for corporate finance, investor relations and compliance. He holds a Juris Doctor degree from the University of Minnesota Law School and a double Bachelor of Arts degrees in Economics and Chinese Literature from the University of California. He pursued graduate studies in Chinese politics and economics at Nanjing University. He is a member of the Johns Hopkins University Advisory Council. Mr. Nguyen is the Chairman of New Asia Partners Investment Holdings Limited ("NAP") which has a 3.95% interest in the share capital of the Company as at 31 December 2007. He has over 11 years of private equity, investment banking and consulting experience.

Non-executive Directors

Mr. Tang Bin, aged 50, is a Non-executive Director. He obtained a bachelor's degree in law from Jiangxi University in 1986. He joined the Company in January 2000. He has been appointed as a director of Fuzhou Sanai since January 2004 and a director of Wuyi BVI since July 2006.

Mr. John Yang Wang, aged 38, is a Non-executive Director. He holds a Bachelor of Arts in International Relations from Tufts University in 1992. Mr. Wang has a M.A.L.D. degree in international law and business from The Fletcher School of Law and Diplomacy in 1994. He has over 11 years of experience in investment banking and consulting experience.

Independent Non-executive Directors

Mr. Goh Jin Hian, aged 39, is an Independent Non-executive Director. He graduated from the National University of Singapore with a degree in Bachelor of Medicine and Bachelor of Surgery in 1992. He also obtained his MBA degree from the University of Hull, UK, and attended the Advanced Management Program at Wharton. He has over 15 years of experience in the healthcare industry, including holding directorships at various Singapore Healthcare networks and Hospitals.

Mr. Liu Jun, aged 41, is an Independent Non-executive Director. He obtained a diploma in finance and a master's degree in economics from Xiamen University in 1988 and 1997 respectively. He received a master's degree in business administration from The Open University of Hong Kong in 2000.

Mr. Lam Yat Cheong, aged 46, is an Independent Non-executive Director. He graduated from Hong Kong Baptist University in 1992 with a bachelor's degree in business administration and a diploma in accounting. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has been registered as a Certified Public Accountant (Practising) in Hong Kong since 2000.

Senior Management

Mr. Chen Zhi Chuan, aged 43, is the Chief Financial Officer in charge of financial management. He graduated from Fuzhou University with a bachelor's degree in Finance in 1988. He has over 7 years of experience in the pharmaceutical industry.

Mr. Cheng Shi De, aged 49, is the Deputy General Manager in charge of production. He graduated from Anhui Province Medical School with a bachelor's degree in pharmacy in 1982. He is a senior engineer. He has over 25 years of experience in the pharmaceutical industry.

Mr. Chen Gui Dong, aged 42, is the manager of Research and Development. He is a senior engineer. He obtained a bachelor's degree in chemistry from Tianjin University in 1991, and was awarded a diploma in business management by Nankai University. He has over 20 years of experience in the pharmaceutical industry.

Ms. Yang Ai Min, aged 32, is the manager of Sales and Marketing. She graduated from Fujian Medical University with a bachelor's degree in pharmacy in 1998. She has over 9 years of experience in the pharmaceutical industry.

Company Secretary and Qualified Accountant

Mr. Kung Wai Chiu, Marco, aged 34, is the company secretary, qualified accountant and financial controller of the Company. Mr. Kung graduated from Hong Kong Lingnan University in 1997 with a bachelor's degree in business administration. He further obtained a master's degree in business administration from the University of Wollongong, Australia, in 2005. Mr. Kung is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has been registered as a Certified Public Accountant (Practising) in Hong Kong since 2007.

Directors' Report

The Directors of the Company are pleased to present herewith their annual report together with the audited accounts of the Company for the year ended 31 December 2007.

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 of option in February 2007).

During the period under review, the Company applied approximately RMB230.0 million and approximately RMB114.7 million to the capital injection in our two major subsidiaries Fujian Sanai and Fuzhou Sanai respectively. The capital injected to those 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.

Principal Activities

The Company is an investment holding company. Details of the principal activities of its principal subsidiaries are set out in note 33 to the financial statements. The principal activities of each member of the Company during the year ended 31 December 2007 are manufacturing, marketing and selling our branded prescription and over-the-counter western pharmaceuticals and modern Chinese medicine products, including modern Chinese medicine injectibles, for the Chinese market.

Results and Dividends

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 30 of this report.

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.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Company during the year are set out in note 14 to the financial statements.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 26 to the financial statements.

Reserves

Details of the movements in the reserve of the Group during the year are set out in consolidated statement of changes in equity on page 32 of this report.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of associations or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year under review after the date on which the Shares first commenced trading on the Stock Exchange, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the its listed securities.

Directors

The Directors of the Company during the year and up to the date of this report were as follows:

Executive Directors:

Mr. Lin Ou Wen *(Chairman and Chief Executive Officer)*
Mr. Lin Qing Ping *(General Manager and Chief Operating Officer)*
Mr. Xu Chao Hui
Mr. Dennis Luan Thuc Nguyen

Non-executive Directors

Mr. Tang Bin

Mr. John Yang Wang

Independent Non-executive Directors

Mr. Goh Jin Hian

Mr. Liu Jun

Mr. Lam Yat Cheong

In accordance with Article 87(1) of the Company's Articles of Association, Mr. Xu Chao Hui, Mr. Tang Bin and Mr. John Yang Wang will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. All other remaining Directors continue in office.

The Company has received annual confirmation from each of the Independent Non-executive Directors in regard to their independence to the Company pursuant to Rule 3.13 of the Listing Rules and considers that each of the Independent Non-executive Directors are independent.

All of the Independent Non-executive Directors are members of the Company's audit committee, nomination committee and remuneration committee.

Biographical Details of the Directors and the Senior Management

Biographical details of the Directors and the senior management of the Company are set out on pages 18 to 19 of this report.

Directors' Service Contracts

Each of the Executive Directors has entered into a service contract with the Company for an initial term of three years commencing on 1 February 2007 (the "Listing Date") unless terminated by not less than three months' written notice of termination served by either the Director or the Company. Each of the service contracts further provides that during the term of the service contract and within one year upon the termination of service, the Executive Director cannot engage in any business which is competing or is likely to compete, either directly or indirectly, with the business of the Company.

Each of the Non-executive Directors and independent Non-executive Directors has entered into an appointment letter with the Company for a term of three years commencing from the Listing Date. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association of the Company.

Other than as disclosed above, none of the Directors has entered into any contract of service with the Company or any of its subsidiaries excluding contracts expiring or determinable by the employer within one year without payment of compensation (except for statutory compensation).

The Company's policies concerning remuneration of the Executive Directors are as follows: –

(i) the amount of remuneration is determined on a case by case basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group;

(ii) non-cash benefits may be provided at the discretion of the Board to the relevant Directors under their remuneration package; and

(iii) the Executive Directors may be granted, at the discretion of the Board, share option scheme adopted by the Company, as part of their remuneration package.

Management Contract

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Retirement Benefits Scheme

Details of the retirement benefits scheme is set out in note 31 to the financial statements.

Directors' Report

Directors' Interests in Contracts of Significance

Save as disclosed in section under "Continuing Connected Transaction" on pages 25 to 27 of this report, none of the Directors had a material interest, either directly or indirectly, in any contracts of significance to the business of the Company. There is no contract of significance between the Company, its holding company or any of its subsidiaries or its controlling shareholder during the year.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its associated corporations

As at 31 December 2007, the interests or short positions of the Directors and Chief Executive in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules were as follows:

Name of Directors	Company/name of associated corporation	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
Mr. Lin Ou Wen	The Company	Interest of controlled corporation (Note 2)	248,704,000 (L)	14.55%
		Interest of spouse (Note 3)	42,438,267 (L)	2.48%
Mr. Lin Qing Ping	The Company	Interest of controlled corporation (Note 4)	331,520,000 (L)	19.39%
Mr. Xu Chao Hui	The Company	Interest of controlled corporation (Note 5)	117,488,000 (L)	6.87%
Mr. Dennis Luan Thuc Nguyen	The Company	Interest of controlled corporation (Note 6)	67,512,500 (L)	3.95%
Mr. Tang Bin	The Company	Interest of controlled corporation (Note 7)	88,442,000 (L)	5.17%

Notes:

1. The letter "L" denotes long position in the Shares.

2. These shares are registered in the name of Thousand Space Holdings Limited, which is wholly owned by Mr. Lin Ou Wen who is deemed to be interested in all the Shares in which Thousand Space Holdings Limited is interested by virtue of the SFO.

3. 136,151,000 Shares are registered in the name of Orient Day Management Limited, which is owned as to 23.38%, 45.45% and 31.17% by Mr. Lin Qing Mei, Mr. Liu Dao Hua and Ms. Xue Mei respectively. Ms. Xue Mei is the spouse of Mr. Lin Ou Wen, therefore, she is deemed to be interested in the Shares of which Mr. Lin Ou Wen is deemed to be interested in for the purpose of the SFO and vice versa.

4. These shares are registered in the name of Bright Elite Management Limited, which is wholly owned by Mr. Lin Qing Ping who is deemed to be interested in all the Shares in which Bright Elite Management Limited is interested by virtue of the SFO.

5. These shares are registered in the name of Loyal More Group Limited, which is owned as to 66.67% and 33.33% of its entire share capital by Mr. Xu Chao Hui, our Executive Director and Mr. Chen Bo Mei respectively. Mr. Xu Chao Hui is deemed or taken to be interested in all the Shares in which Loyal More Group Limited is interested by virtue of the SFO.

6. These shares are registered in the name of NAP, which is wholly owned by Paradigm Capital Limited. Ms. Fan Li Rong, spouse of Mr. Dennis Luan Thuc Nguyen, holds 100% of the share capital in Paradigm Capital Limited. Mr. Dennis Luan Thuc Nguyen is deemed or taken to be interested in all the Shares in which NAP is interested by virtue of the SFO.

7. These shares are registered in the name of Good East Management Limited, which is owned as to 64.52% and 35.48% of its entire share capital by Mr. Tang Bin and Mr. Chen Shi Yan respectively. Mr. Tang Bin is deemed or taken to be interested in all the Shares in which Good East Management Limited is interested by virtue of the SFO.

Save as disclosed above, none of the Directors or Chief Executive of the Company aware of any other Director or Chief Executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of the Company or any associated corporation as at 31 December 2007.

Directors' Right to Acquire Shares or Debentures

At no time during the year ended 31 December 2007 was 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 Directors, their respective spouse or children under the age of 18; or were any such rights exercised by them; or was the Company or any of its subsidiaries or a party to any arrangement to enable the Directors, their respective spouse or children under the age of 18 to acquire any such rights in any other body corporate.

Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its associated corporations

As at 31 December 2007, the interests or short positions of the following shareholders, other than a Director or Chief Executive of the Company, in the shares or underlying shares in or debentures of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as follows:

Name of Shareholder	Company/name of subsidiary	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
Bright Elite Management Limited	The Company	Beneficial owner	331,520,000 (L)	19.39%
Mr. Lin Qing Ping	The Company	Interest of controlled corporation (Note 2)	331,520,000 (L)	19.39%
Thousand Space Holdings Limited	The Company	Beneficial owner	248,704,000 (L)	14.55%
Mr. Lin Ou Wen	The Company	Interest of controlled corporation (Note 3)	248,704,000 (L)	14.55%
		Interest of spouse (Note 4)	42,438,267 (L)	2.48%
Ms. Xue Mei	The Company	Interest of spouse (Note 4)	248,704,000 (L)	14.55%
		Interest of controlled corporation (Note 4)	42,438,267 (L)	2.48%
Orient Day Management Limited	The Company	Beneficial owner	136,151,000 (L)	7.96%
Mr. Liu Dao Hua	The Company	Interest of controlled corporation (Note 4)	136,151,000 (L)	7.96%
Loyal More Group Limited	The Company	Beneficial owner	117,488,000 (L)	6.87%
Mr. Xu Chao Hui	The Company	Interest of controlled corporation (Note 5)	117,488,000 (L)	6.87%
Mr.Chen Bo Mei	The Company	Interest of controlled corporation (Note 5)	117,488,000 (L)	6.87%
Good East Management Limited	The Company	Beneficial owner	88,442,000 (L)	5.17%
Mr. Tang Bin	The Company	Interest of controlled corporation (Note 6)	88,442,000 (L)	5.17%
Mr. Chen Shi Yan	The Company	Interest of controlled corporation (Note 6)	88,442,000 (L)	5.17%
Orchid Asia III, L.P.	The Company	Beneficial owner (Note 7)	117,952,000 (L)	6.90%
Orchid Asia Group Management, Limited	The Company	Interest of controlled corporation (Note 7)	117,952,000 (L)	6.90%
Orchid Asia Group, Limited	The Company	Interest of controlled corporation (Note 7)	117,952,000 (L)	6.90%
YM Investment Limited	The Company	Interest of controlled corporation (Note 8)	121,600,000 (L)	7.11%
Ms. Lam Lai Ming	The Company	Interest of controlled corporation (Note 9)	121,600,000 (L)	7.11%
Mr. Gabriel Li	The Company	Interest of Spouse (Note 10)	121,600,000 (L)	7.11%
Pope Investments LLC	The Company	Beneficial owner	102,400,000 (L)	5.99%
Pope Asset Management, LLC	The Company	Interest of controlled corporation (Note 11)	102,400,000 (L)	5.99%
Wells William P	The Company	Interest of controlled corporation (Note 11)	102,400,000 (L)	5.99%
Credit Suisse (Hong Kong) Limited	The Company	Beneficial owner	133,545,000 (L) 66,772,500 (S)	7.81% 3.90%
Credit Suisse (International) Holding AG	The Company	Interest of controlled corporation (Notes 12 and 13)	133,545,000 (L) 66,772,500 (S)	7.81% 3.90%
Credit Suisse	The Company	Interest of controlled corporation (Notes 12 and 13)	133,545,000 (L) 66,772,500 (S)	7.81% 3.90%

Directors' Report

Notes :

1. The letters "L" and "S" denote long position and short position in the Shares respectively.

2. These Shares are registered in the name of Bright Elite Management Limited, which is wholly owned by Mr. Lin Qing Ping who is deemed to be interested in all the Shares in which Bright Elite Management Limited is interested by virtue of the SFO.

3. These Shares are registered in the name of Thousand Space Holdings Limited, which is wholly owned by Mr. Lin Ou Wen who is deemed to be interested in all the Shares in which Thousand Space Holdings Limited is interested by virtue of the SFO.

4. These Shares are registered in the name of Orient Day Management Limited, which is owned as to 23.38%, 45.45% and 31.17% by Mr. Lin Qing Mei, Mr. Liu Dao Hua and Ms. Xue Mei, spouse of Mr. Lin Ou Wen, respectively, therefore Mr. Liu Dao Hua is deemed to be interested in the Shares held by Orient Day Management Limited for the purpose of the SFO. Ms. Xue Mei is the spouse of Mr. Lin Ou Wen, therefore, she is deemed to be interested in the Shares of which Mr. Lin Ou Wen is deemed to be interested in for the purpose of the SFO and vice versa.

5. These Shares are registered in the name of Loyal More Group Limited, which is owned as to 66.67% and 33.33% of its entire share capital by Mr. Xu Chao Hui and Mr. Chen Bo Mei respectively, therefore, Messrs. Xu Chao Hui and Chen Bo Mei are deemed to be interested in all the Shares held by Loyal More Group Limited for the purpose of the SFO.

6. These Shares are registered in the name of Good East Management Limited, which is owned as to 64.52% and 35.48% of its entire share capital by Mr. Tang Bin and Mr. Chen Shi Yan respectively. Mr. Tang Bin is deemed or taken to be interested in all the Shares in which Good East Management Limited is interested by virtue of the SFO.

7. These Shares are registered in the name of Orchid Asia III, L.P., which is controlled by Orchid Asia Group Management Limited, which is in turn controlled by Orchid Asia Group Limited.

8. Among these Shares, 3,648,000 Shares are registered in the name of Orchid Asia Co-Investment Limited, which is controlled by YM Investment Limited and the remaining 117,952,000 Shares are registered in the name of Orchid Asia III, L.P., which is controlled by Orchid Asia Group Management Limited, which is controlled by Orchid Asia Group Limited, which is in turn controlled by YM Investment Limited.

9. Among these Shares, 3,648,000 Shares are registered in the name of Orchid Asia Co-Investment Limited, which is controlled by YM Investment Limited, which is in turn controlled by Ms. Lam Lai Ming and the remaining 117,952,000 Shares are registered in the name of Orchid Asia III, L.P., which is controlled by Orchid Asia Group Management Limited, which is controlled by Orchid Asia Group Limited, which is controlled by YM Investment Limited, which is in turn controlled by Ms. Lam Lai Ming.

10. Among these Shares, 3,648,000 Shares are registered in the name of Orchid Asia Co-Investment Limited, which is controlled by YM Investment Limited, which is in turn controlled by Ms. Lam Lai Ming and the remaining 117,952,000 are registered in the name of Orchid Asia III, L.P., which is controlled by Orchid Asia Group Management Limited, which is controlled by Orchid Asia Group Limited, which is controlled by YM Investment Limited, which in turn controlled by Ms. Lam Lai Ming, spouse of Mr. Gabriel Li, therefore, Mr. Gabriel Li is deemed to be interested in all the Shares of which Ms. Lam Lai Ming is deemed to be interested in for the purpose of SFO.

11. These Shares are registered in the name of Pope Investments LLC, which is controlled by Pope Asset Management LLC, which is in turn controlled by Wells William P.

12. These Shares are registered in the name of Credit Suisse (Hong Kong) Limited, which is owned as to 94.75% by Credit Suisse (International) Holding AG, which is in turn wholly owned by Credit Suisse. Therefore, Credit Suisse (Hong Kong) Limited, Credit Suisse (International) Holding AG and Credit Suisse are deemed or taken to be interested in all the Shares held by Credit Suisse (Hong Kong) Limited for the purpose of the SFO.

13. These Shares are registered in the name of Credit Suisse (Hong Kong) Limited, which is owned as to 94.75% by Credit Suisse (International) Holding AG, which is in turn wholly owned by Credit Suisse. Therefore, Credit Suisse (Hong Kong) Limited, Credit Suisse (International) Holding AG and Credit Suisse are deemed to hold or hold a short position of 66,772,500 Shares as defined under Part XV of the SFO.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 by the SFO as at 31 December 2007.

Continuing Connected Transactions and Connected Transactions

Exempt Connected Transaction

Promissory Note issued to Mr. Lin Ou Wen

On 8 August 2006, Wuyi BVI issued a promissory note in the amount of US$8.0 million (the "Promissory Note") in favor of Mr. Lin Ou Wen, our Chairman, Chief Executive Officer, Executive Director and Substantial Shareholder, in connection with a loan it received in the same amount from Mr. Lin Ou Wen. The Promissory Note was not secured by any assets of the Group and interest-free. We have paid the Promissory Note out of the proceeds from the Global Offering of the Company's Shares.

Under normal commercial terms, interest and security are usually required for debt. Pursuant to the Promissory Note, the amount of US$8.0 million did not carry any interest which had been due and payable on the date on which dealings in the Shares first commence on the Stock Exchange. Accordingly, the terms were more favorable to the Company.

The Promissory Note is exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.31 of the Listing Rules as the financial assistance was provided by a connected person for the benefit of the Company on normal commercial terms (or on terms more favorable to the Company) where no security over the assets of the Group was granted in respect of the financial assistance given.

This connected transaction is exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.31(2) of the Listing Rules.

Exempt Continuing Connected Transaction

Tenancy Agreement with Mr. Lin Qing Xiang

On 1 January 2006, Fujian Sanai entered into a tenancy agreement with Mr. Lin Qing Xiang for the lease of office premises located at Unit 01-03, 23rd Floor, District A, Jinyuan Plaza, 68 Guangda Road, Taijiang District, Fuzhou (the "Tenancy Agreement"). Mr. Lin Qing Xiang is the brother of Mr. Lin Ou Wen and the Substantial Shareholder, Mr. Lin Qing Ping and Mr. Lin Qing Mei, a shareholder of Orient Day Management Limited, one of our shareholders. The Tenancy Agreement provides for a term of three years, expiring on 1 January 2009, and requires monthly rental payments in the amount of RMB17,004.75. The annual rental payable by the Group to Mr. Lin Qing Xiang under the Tenancy Agreement is RMB204,057. At the time of the Company's listing, Savills Valuation and Professional Services Limited, an independent property valuer, has confirmed that the rental payments due under the Tenancy Agreement are consistent with prevailing market rates available from independent third parties.

The Tenancy Agreement was entered into by Fujian Sanai in the ordinary and usual course of business. The terms of the Tenancy Agreement are normal commercial terms which the Directors (including the Independent Non-executive Directors) consider to be fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Tenancy Agreement constitutes a continuing connected transaction exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules as each of the percentage ratios (other than the profit ratio) is, on an annual basis, equal to or more than 0.1% but less than 2.5%, and the annual consideration required under the agreement is less than HK$1,000,000.

This connected transaction is exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.31(2) of the Listing Rules.

Continuing Connected Transaction

Sale and Purchase Agreements for Industrial Products and Minerals

福州宏宇包裝工業有限公司 Fuzhou Hongyu Packing Co., Ltd. ("Fuzhou Hongyu") has historically provided and will continue to provide the packaging materials to the Company on an arm's length basis for the pharmaceutical products manufactured by the Company in our ordinary course of business. The principal business of Fuzhou Hongyu is manufacturing of compound bags, packaging boxes, paper boxes and printing of packaging accessories.

The entire share capital of Fuzhou Hongyu is owned by Mr.

Directors' Report

Lin Ou Wen. Under the Listing Rules, for as long as Mr. Lin Ou Wen remains as our Chairman, Chief Executive Officer, Executive Director or Substantial Shareholder, the transactions with Fuzhou Hongyu has constituted non-exempt continuing connected transactions.

For the years from 2003 to 2006, the Group only relied on Fuzhou Hongyu for provision of packaging materials for the pharmaceutical products manufactured by us. The reasons the Group purchased packaging materials from Fuzhou Hongyu instead of independent third parties in those years were that we considered a higher degree of confidentiality on the anti-counterfeiting measures adopted in connection with the packaging materials could be maintained, its prices were reasonable and service level was satisfactory.

On 25 December 2005, Fujian Sanai and Fuzhou Hongyu entered into a sale and purchase agreement for a term of one year commencing from 1 January 2006. On 30 November 2006, Fujian Sanai and Fuzhou Hongyu entered into another sale and purchase agreement for a term of two years commencing from 1 January 2007. The aforementioned sale and purchase agreements are collectively referred to as the Sale and Purchase Agreements (the "Sale and Purchase Agreements"). Pursuant to the Sale and Purchase Agreements, Fujian Sanai agreed to purchase annual packaging materials, including paper cartons and packaging color boxes, from Fuzhou Hongyu for aggregate amounts of approximately RMB21.0 million, RMB17.0 million and RMB20.0 million of the years ended 31 December 2006 and 31 December 2007 and year ending 31 December 2008.

Details of the above sale and purchase of packaging materials are set out in the Prospectus.

For the years ended 31 December 2006 and 31 December 2007 and year ending 31 December 2008, the Directors project that the annual aggregate transaction amount under the Sale and Purchase Agreement will not exceed RMB17.5 million, RMB17.0 million and RMB20.0 million respectively (collectively the "Annual Caps"). The Annual Caps are less than the actual payment of Fujian Sanai to Fuzhou Hongyu for the years ended 31 December 2003, 2004 and 2005 for Fujian Sanai has retained more suppliers with an aim to minimize connected transactions with Fuzhou Hongyu. The projected cost of sales for the years ending 31 December 2007 and 2008 is based on the historical growth of our sales volume and the Directors' projection of future growth of our sales volume considering the amount of orders placed by our customers. Our sales volume grew at a rate of 47.8% and 32.0%, respectively for the years ended 31 December 2004 and 2005. Based on this growth, the Directors' projection of our sales volume will grow at a rate of approximately 30.0% for the years ending 31 December 2007 and 31 December 2008. The Annual Cap for the year ended 31 December 2006 is based on the estimated actual payment of Fujian Sanai to Fuzhou Hongyu for the year ended 31 December 2006. The Annual Caps are based on the projected cost of sales multiplied by the percentage of packaging materials supplied by Fuzhou Hongyu. Although the amount of materials to be supplied by Fuzhou Hongyu as a percentage of the Company's projected costs of sale remain the same for the years ended 31 December 2007 and ending 31 December 2008, the figures for the Annual Cap for the years ending 31 December 2007 and ending 31 December 2008 are different because the projected cost of sales for the Company has been increased from 2007 to 2008.

For the year ended 31 December 2007, payments made by Fujian Sanai to Fuzhou Hongyu for the purchase of packaging materials did not exceed RMB17.0 million.

On the basis of the Annual Caps, the continuing connected transactions under the Sale and Purchase Agreements will be subject to the requirements of reporting, announcement and independent shareholders' approval as required by Rules 14A.45 to 14A.48 of the Listing Rules.

This connected transaction is subject to the reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

In the opinion of the Directors (including the Independent Non-executive Directors), the terms of the continuing connected transactions referred to above are made in the ordinary and usual course of our business, on an arm's length basis and on normal commercial terms which are no less favorable than terms available from independent third parties. The Directors (including the Independent Non-executive Directors) are of the view that the terms and conditions of these transactions are fair and reasonable and are in the best interests of our Company and our shareholders as a whole. The Directors, including the Independent Non-executive Directors, are also of the view that the Annual Caps are fair and reasonable as far as our Shareholders taken as a whole are concerned.

The Stock Exchange has granted the Company a waiver for a period of three years up to 31 December 2008 from compliance with the announcement and independent shareholders' approval requirements set out in Rule 14A.42(3) of the Listing Rules in respect of the Sale and Purchase Agreement.

The Directors confirm that the disclosure requirement in accordance with Chapter 14A of the Listing Rules has been complied with by the Company.

The related party transactions disclosed in the Note 32 to the financial statements.

Share Options

Details of the Company's share option scheme are set out in note 27 to the financial statements.

No share options had been granted or exercised during the year ended 31 December 2007. As at 31 December 2007, no share options of the Company were outstanding.

Directors' and Management Emoluments

Particulars of directors' emoluments and the five highest paid individuals in the Group are set out in note 10 to the financial statements.

Major Customers and Suppliers

The information of turnover and purchases attributable to the major customers and suppliers of the Company for the year is as follows: –

	2007	2006
	%	%
Turnover		
The largest customer	**4.3**	4.0
Five largest customers in aggregate	**20.0**	18.5
Purchases		
The largest supplier	**14.4**	17.3
Five largest suppliers in aggregate	**44.1**	43.8

Fuzhou Hongyu is one of the five largest suppliers which in entirely owned by Mr. Lin Ou Wen, a Director of the Company. Save as disclosed above, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the above suppliers and major customers noted above.

Corporate Governance

Report on the Company's corporate governance are set out on pages 13 to 17 of this report.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float, as not less than 25% of the Company's issued shares are held by the public.

Code of Best Practice

The Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2007.

Directors' Report

Model Code for Securities Transactions

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry made with all the Directors, the Directors have complied with the required standard as set out in the Model Code, throughout the accounting period covered by the annual report.

Competing interests

None of the Directors or management shareholders of the Company and their respective associates (as defined in the Listing Rules) has an interest in a business which competes or may compete with the business of the Company or has any other conflict of interest with the Company during the year.

Audit Committee

The Company has established an AC since January 2007 for the purposes of reviewing and providing supervision over the Company's financial reporting process and internal controls. The AC currently comprises the three Independent Non-executive Directors of the Company. The AC has reviewed the accounting principles and practice adopted by the Company as well as the audited financial statement of the Company for the year ended 31 December 2007 before recommending to the Board for approval.

Auditor

The financial statements of the Company for the year ended 31 December 2007 have been audited by Messrs. Deloitte Touche Tohmatsu. A resolution will be submitted at the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

LIN OU WEN
Chairman

Hong Kong, 31 March 2008

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF
WUYI INTERNATIONAL PHARMACEUTICAL COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Wuyi International Pharmaceutical Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 61, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 March 2008

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	9	**272,286**	154,021
Taxation	11	**(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	12	**–**	84,120
Earnings per share			
– Basic	13	**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	14	**145,869**	132,619
Land use rights	15	**11,410**	11,664
Intangible assets	16	**23,610**	24,207
Deposit made on acquisition of land use right		**7,275**	–
		188,164	168,490
Current assets			
Inventories	17	**23,810**	21,573
Trade and other receivables	18	**146,339**	137,388
Bank balances and cash	19	**1,102,450**	199,765
		1,272,599	358,726
Current liabilities			
Trade and other payables	20	**83,528**	82,571
Amount due to a director	21	**–**	62,400
Other financial liability	22	**–**	140,400
Taxation		**868**	–
Short-term bank loans	23	**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	24	**15**	–
Deferred taxation	25	**3,889**	4,587
		3,904	4,587
Net assets		**1,337,463**	194,258
Capital and reserves			
Share capital	26	**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

The consolidated financial statements on pages 30 to 61 were approved and authorised for issue by the Board of Directors on 31 March 2008 and are signed on its behalf by:

Lin Ou Wen
Chairman and
Chief Executive Officer

Lin Qing Ping
General Manager and
Chief Operating Officer

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2007

	Paid-in capital/ share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Capital reserve RMB'000 (Note b)	Put option reserve RMB'000 (Note c)	Translation reserve RMB'000	Statutory surplus reserve RMB'000 (Note d)	Statutory welfare fund RMB'000 (Note e)	Non-distributable reserve RMB'000 (Note f)	Retained profits RMB'000	Attributable to equity holders of the Company RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2006	60,863	–	–	–	–	–	27,537	13,769	23,752	89,110	215,031	16,313	231,344
Profit for the year	–	–	–	–	–	–	–	–	–	119,774	119,774	(383)	119,391
Exchange differences arising on translation of foreign operations and net gain recognised directly in equity	–	–	–	–	–	1,156	–	–	–	–	1,156	–	1,156
Total recognised income and expenses for the year	–	–	–	–	–	1,156	–	–	–	119,774	120,930	(383)	120,547
Issue of shares on incorporation of a subsidiary	80	–	–	–	–	–	–	–	–	–	80	–	80
Arising on group reorganisation	(50,447)	–	(77,636)	–	–	–	–	–	–	–	(128,083)	–	(128,083)
Conversion of convertible bonds	2,304	201,986	–	–	–	–	–	–	–	–	204,290	–	204,290
Capital contributions	–	–	–	53,000	–	–	–	–	–	–	53,000	–	53,000
Arising on acquisition of additional interest of a subsidiary	–	–	(46,470)	–	–	–	–	–	–	–	(46,470)	(15,930)	(62,400)
Arising from put option	–	–	–	–	(140,400)	–	–	–	–	–	(140,400)	–	(140,400)
Transfers	–	–	–	–	–	–	13,769	(13,769)	–	–	–	–	–
Dividends paid	–	–	–	–	–	–	–	–	–	(84,120)	(84,120)	–	(84,120)
	(48,063)	201,986	(124,106)	53,000	(140,400)	–	13,769	(13,769)	–	(84,120)	(141,703)	(15,930)	(157,633)
At 31 December 2006	12,800	201,986	(124,106)	53,000	(140,400)	1,156	41,306	–	23,752	124,764	194,258	–	194,258
Issue of shares	4,298	769,293									773,591	–	773,591
Expenses incurred in connection with the issue of shares	–	(41,746)	–	–	–	–	–	–	–	–	(41,746)	–	(41,746)
Put option lapsed	–	–	–	–	140,400	–	–	–	–	–	140,400	–	140,400
Transfers	–	–	–	–	–	–	61,467	–	–	(61,467)	–	–	–
	4,298	727,547	–	–	140,400	–	61,467	–	–	(61,467)	872,245	–	872,245
Profit for the year	–	–	–	–	–	–	–	–	–	272,116	272,116	–	272,116
Exchange differences arising on translation of foreign operations and net loss recognised directly in equity	–	–	–	–	–	(1,156)	–	–	–	–	(1,156)	–	(1,156)
Total recognised income and expenses for the year	-	-	-	-	-	(1,156)	-	-	-	272,116	270,960	-	270,960
At 31 December 2007	17,098	929,533	(124,106)	53,000	-	-	102,773	-	23,752	335,413	1,337,463	-	1,337,463

Notes:

(a) Special reserve represents the aggregate of:

(i) the difference between the consideration paid by a subsidiary of the Company Wuyi International Pharmaceutical Investment Company Limited ("Wuyi BVI") for the acquisition of the entire interest in 福建三愛藥業有限公司 Fujian Sanai Pharmaceutical Co., Ltd. ("Fujian Sanai") and Cyberstop Profits Limited ("Cyberstop") and the nominal value of paid-in capital of Fujian Sanai and Cyberstop;

(ii) the difference between the nominal amount of the shares issued by the Company and the amount of share capital of Wuyi BVI pursuant to the group reorganisation in preparation for the listing of the Company's shares in 2007; and

(iii) the difference between the consideration paid for the acquisition of additional interests in 福州三愛藥業有限公司 Fuzhou Sanai Pharmaceutical Co., Ltd. ("Fuzhou Sanai") and the carrying values of the underlying net assets attributable to the additional interests in Fuzhou Sanai.

(b) Capital reserve represents the capital contributions from Mr. Lin Qing Ping, a director and shareholder of the Company; and 福州宏宇包裝工業有限公司 Fuzhou Hongyu Packing Co., Ltd., a company controlled by Mr. Lin Ou Wen, also a director and shareholder of the Company.

(c) The put option reserve represents the recognition of the obligation of a put option written by the Company to the shareholders in respect of the shares issued upon the conversion of the Convertible Bonds. Details of the Convertible Bonds and the put option liability are defined and set out in note 22.

(d) As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by their board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

(e) The statutory welfare fund, which is to be used for the welfare of the staff and workers of Fujian Sanai, is of capital nature. In accordance with the latest PRC relevant laws and regulations, the unutilised statutory welfare fund as at 31 December 2005 is required to transfer to statutory surplus reserve in 2006.

(f) In accordance with the Articles of Association of Fujian Sanai, Fujian Sanai may appropriate funds to non-distributable reserve with the discretion of its board of directors. According to the Articles of Association of Fujian Sanai, the non-distributable reserve can be used to (i) make up prior year losses; (ii) convert into capital, provided such conversion is approved by a resolution at a shareholders' meeting; and (iii) expand production operation.

Consolidated Cash Flow Statement

For the Year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
Operating activities		
Profit before taxation	**272,286**	154,021
Adjustments for:		
Interest income	**(19,850)**	(587)
Interest expenses	**2,535**	2,704
Depreciation of property, plant and equipment	**6,210**	4,178
Loss on disposal of property, plant and equipment	**–**	15
Amortisation of intangible assets	**597**	–
Fair value change on convertible bonds	**–**	63,890
Operating lease rentals in respect of land use rights	**254**	252
Write-down of inventories	**–**	388
Operating cash flows before movements in working capital	**262,032**	224,861
Increase in inventories	**(2,237)**	(4,170)
Increase in trade and other receivables	**(10,107)**	(32,849)
Increase in trade and other payables	**953**	20,823
Cash from operations	**250,641**	208,665
Tax paid	**–**	(50,075)
Net cash from operating activities	**250,641**	158,590
Investing activities		
Interest received	**19,850**	587
Purchase of property, plant and equipment	**(19,437)**	(41,361)
Proceeds from disposal of property, plant and equipment	**–**	16
Purchase of patents	**–**	(2,800)
Product development costs paid	**–**	(3,177)
Deposit paid on acquisition of land use right	**(7,275)**	–
Net cash used in investing activities	**(6,862)**	(46,735)
Financing activities		
Interest paid	**(2,535)**	(2,704)
Dividends paid	**–**	(84,120)
Proceeds from issue of shares of a subsidiary	**–**	80
Proceeds from issue of new shares	**773,591**	–
Expenses incurred in connection with the issue of shares	**(41,746)**	–
Proceeds from issue of convertible bonds	**–**	142,200
Payment to shareholders of a subsidiary upon group reorganisation	**–**	(128,083)
Capital contributed by shareholder	**–**	53,000
Repayment to a director	**(62,400)**	–
New bank loans raised	**59,900**	43,000
Repayment of bank loans	**(67,900)**	(43,000)
Repayment of obligations under a finance lease	**(4)**	–
Net cash from (used in) financing activities	**658,906**	(19,627)
Increase in cash and cash equivalents	**902,685**	92,228
Cash and cash equivalents at 1 January	**199,765**	108,181
Effect of foreign exchange rate changes	**–**	(644)
Cash and cash equivalents at 31 December	**1,102,450**	199,765
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,102,450**	199,765

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2007

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 disclosed in the "Corporate Information" section of the annual report. The principal activities of its principal subsidiaries are set out in note 33.

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

2. Group Restructuring and Basis of Presentation 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 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, 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") in accordance with the Group's accounting policy as disclosed in note 4.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new Standard, Amendment and Interpretations ("INT"s) (collectively referred to as "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.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised Standards or INTs that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKAS 27 (Revised)	Consolidated and separate financial statements [2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [1]
HKFRS 3 (Revised)	Business combinations [2]
HKFRS 8	Operating segments [1]
HK(IFRIC) - Int 11	HKFRS 2: Group and treasury share transactions [3]
HK(IFRIC) - Int 12	Service concession arrangements [4]
HK(IFRIC) - Int 13	Customer loyalty programmes [5]
HK(IFRIC) - Int 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction [4]

1 Effective for annual periods beginning on or after 1 January 2009.

2 Effective for annual periods beginning on or after 1 July 2009.

3 Effective for annual periods beginning on or after 1 March 2007.

4 Effective for annual periods beginning on or after 1 January 2008.

5 Effective for annual periods beginning on or after 1 July 2008.

The directors of the Company anticipate that the application of these Standards or INTs will have no impact on the results and the financial position of the Group except for the adoption of HKFRS 3 (revised) "Business combinations" and HKAS 27 (Revised) "Consolidation and separate financial statements". HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment on changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

4. Significant Accounting Policies

The consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments which are measured at fair value as explained in the accounting policies set out below. In addition, the consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of a subsidiary so as to obtain benefit from its activities.

All significant inter-company transactions, balances, income and expenses within the Group are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations involving entities under common control

The consolidated financial statements incorporate the financial statement items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

Acquisition of additional interest in a subsidiary

On acquisition of additional interest in a subsidiary accounted for as equity transactions. The difference between the consideration and the carrying values of the underlying assets and liabilities attributable to the additional interest in a subsidiary is debited directly through equity.

4. Significant Accounting Policies (Continued)

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods, or for administrative purposes, other than construction in progress, are stated at cost less depreciation and any identified impairment loss at the balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefit is expected to arise from the continued use of the assets. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period in which the item is derecognised.

The cost of buildings is depreciated over 30 years using the straight line method.

Construction in progress is stated at cost which includes all development expenditure and other direct costs attributable to such projects. They are not depreciated until completion of construction and the asset is ready for their intended use. Cost of completed construction works is transferred to the appropriate category of property, plant and equipment.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2007

4. Significant Accounting Policies (Continued)

Property, plant and equipment (Continued)

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Furniture, fixtures and equipment	10% - 20%
Motor vehicles	20%
Plant and machinery	10% - 20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Land use rights

Payment for obtaining land use right is considered as operating lease payment and charged to income statement over the lease term of the right using the straight line method.

Intangible assets

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its estimated useful life.

When no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Product development costs

Product development costs are amortised using the straight line basis over the commercial lives of the underlying products, starting from the time when the product is available for sale.

Patents

Purchased patents are stated at cost less accumulated amortisation and any identified impairment losses. Amortisation is calculated on a straight line basis over its estimated useful economic life, starting from the time when the patent is available for use.

4. Significant Accounting Policies (Continued)

Intangible assets (Continued)

Impairment

Intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimated of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables (including trade and other receivables and bank balances and cash) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in National or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Trade and other payables and amount due to a director

Trade and other payables and amount due to a director are subsequently measured at amortised cost, using the effective interest method.

Bank loans

Interest-bearing bank loans are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds

The conversion option embedded in convertible bonds that will or may be settled other than by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments is a derivative embedded in the financial liability. Derivatives embedded in a financial instrument are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss.

The convertible bonds (including the embedded derivatives) as a whole is designated as financial liabilities at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, the entire convertible bond is measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Transaction costs that are directly attributable to the issue of the convertible bonds designated as financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Put option

Where the put option written by the Company will be settled by delivering of cash and receiving a fixed number of the Company's shares, a financial liability is recognised on the consolidated balance sheet representing the present value of the obligation with a corresponding adjustment to equity. If the put option expires without delivery, the carrying amount of the financial liability is reclassified to equity.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2007

4. Significant Accounting Policies (Continued)

Impairment of tangible and intangible assets (other than intangible assets not available for use)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement.

4. Significant Accounting Policies (Continued)

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Renminbi ("RMB"), which is the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in profit or loss for the period.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve during the vesting period.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

5. Key Sources of Estimation Uncertainty

Impairment of intangible assets

The policy for impairment of intangible assets not available for use of the Group is based on the evaluation of their recoverable amount with reference to expected future cash flows based on management's estimation. A considerable amount of judgement is required in estimating the expected future cash flows from the Group's pharmaceutical products under development. If the recoverable amounts are less than the carrying amounts of the intangible assets, impairment may be required. At the 31 December 2007, such intangible assets not available for use by the Group amounted to RMB12,277,000 (2006: RMB24,207,000).

6. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the short-term bank loans disclosed in notes 23, and equity attributable to equity holders of the Company, comprising issued share capital and reserves (including retained profits).

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

7. Financial Instruments

Categories of financial instruments

	2007	2006
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including bank balance and cash)	**1,248,789**	337,153
Financial liabilities		
Liabilities at fair value through profit or loss	**–**	140,400
Liabilities at amortised cost	**101,639**	168,021
Obligations under a finance lease	**19**	–

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, short-term bank loans and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors manage and monitor these expenses to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain bank balances are denominated in foreign currencies which expose the Group to foreign currency risk.

Details of the Group's bank balances denominated in foreign currencies, mainly in United States Dollar (''USD'') and Hong Kong Dollar ("HKD") at the balance sheet date are set out in note 19.

The Group currently does not have a foreign currency hedging policy but the directors monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

7. Financial Instruments (Continued)

Financial risk management objectives and policies (continued)

Currency risk (continued)

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% in exchange rate of RMB against USD/HKD while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at each balance sheet date for a 5% change in foreign currency rates.

A positive number below indicates an increase in profit for the year where RMB weakens 5% against the relevant currency. For a 5% strengthening of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2007	2006
	RMB'000	RMB'000
Profit for the year	**4,466**	11

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and fixed-rate bank deposits. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value interest rate risk on fixed-rate bank borrowings and bank deposits is insignificant as they are short-term and thus no sensitivity analysis is provided.

Credit risk

At 31 December 2007, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, is arising from the carrying amount of the respective financial assets as stated in the balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties have high credit ratings or reputable in the PRC or in Hong Kong.

The group does not have any significant concentration of credit risk on its trade receivables, which consists of a large number of customers, spread across diverse geographical areas.

7. Financial Instruments (Continued)

Financial risk management objectives and policies (continued)

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the directors to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 6 months RMB'000	6-12 months RMB'000	1-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2007 RMB'000
2007						
Trade payables		63,120	–	–	63,120	63,120
Other payables		3,519	–	–	3,519	3,519
Obligations under a finance lease	5.6	3	3	17	23	19
Short-term bank loans	7	23,546	13,914	–	37,460	35,000
		90,188	13,917	17	104,122	101,658

	Weighted average effective interest rate %	Less than 6 months RMB'000	6-12 months RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2006 RMB'000
2006					
Trade payables		57,847	–	57,847	57,847
Other payables		4,774	–	4,774	4,774
Amount due to a director		62,400	–	62,400	62,400
Short-term bank loans	6.07	29,748	15,883	45,631	43,000
Other financial liability	6	144,612	–	144,612	140,400
		299,381	15,883	315,264	308,421

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flows analysis using prices or rates from observable current market transactions as input.

The directors consider the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

8. 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.

9. Profit Before Taxation

	2007 **RMB'000**	2006 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration (note 10)	**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 included in administrative and other expenses	**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

10. Directors' and Employees' Remuneration

The emoluments paid or payable to each of the 9 directors were as follows:

	2007				2006			
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors								
Lin Ou Wen	**1,736**	**185**	**39**	**1,960**	–	187	38	225
Lin Qing Ping	**834**	**185**	**37**	**1,056**	–	186	36	222
Xu Chao Hui	**278**	**101**	**21**	**400**	–	67	13	80
Dennis Luan Thuc Nguyen	**556**	**–**	**–**	**556**	–	–	–	–
Non-executive directors								
Tang Bin	**208**	**–**	**–**	**208**	–	–	–	–
John Yang Wang	**208**	**–**	**–**	**208**	–	–	–	–
Independent non-executive directors								
Goh Jin Hian	**208**	**–**	**–**	**208**	–	–	–	–
Liu Jun	**139**	**–**	**–**	**139**	–	–	–	–
Lam Yat Cheong	**139**	**–**	**–**	**139**	–	–	–	–
	4,306	**471**	**97**	**4,874**	–	440	87	527

The five highest paid individuals included four (2006: two) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining (2006: three) individual(s) is/are as follows:

	2007	2006
	RMB'000	RMB'000
Salaries and other benefits	**621**	440
Retirement benefits scheme contributions	**12**	54
	633	494

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

11. Taxation

	2007 RMB'000	2006 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 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)

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2007

12. Dividends

During the year, a final dividend of RMB3.5 cents (equivalent to 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.

13. 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.

14. Property, Plant and Equipment

	Buildings RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2006	30,746	727	2,178	49,359	20,117	103,127
Additions	–	865	318	17,884	24,998	44,065
Disposals	–	–	(58)	–	–	(58)
Transfers	–	4,750	–	4,465	(9,215)	–
At 31 December 2006	30,746	6,342	2,438	71,708	35,900	147,134
Additions	–	1,031	4,358	14,071	–	19,460
Transfers	35,900	–	–	–	(35,900)	–
At 31 December 2007	66,646	7,373	6,796	85,779	–	166,594
DEPRECIATION						
At 1 January 2006	1,810	317	501	7,736	–	10,364
Provided for the year	989	128	173	2,888	–	4,178
Eliminated on disposals	–	–	(27)	–	–	(27)
At 31 December 2006	2,799	445	647	10,624	–	14,515
Provided for the year	989	279	185	4,757	–	6,210
At 31 December 2007	3,788	724	832	15,381	–	20,725
NET BOOK VALUES						
At 31 December 2007	62,858	6,649	5,964	70,398	–	145,869
At 31 December 2006	27,947	5,897	1,791	61,084	35,900	132,619

All the Group's buildings are erected on land held under medium-term land use right in the PRC.

Included in the net book value of furniture, fixtures and equipment is an amount of RMB18,000 (2006: Nil) in respect of assets held under a finance lease.

15. Land Use Rights

	2007 RMB'000	2006 RMB'000
Carrying value		
At 1 January	**11,664**	11,916
Charged to income statement for the year	**(254)**	(252)
At 31 December	**11,410**	11,664

The balance of land use right represents prepayment of rentals for land use rights situated in the PRC for a period of 50 years.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2007

16. Intangible Assets

	Patents RMB'000	Product development costs RMB'000	Total RMB'000
COST			
At 1 January 2006	13,430	4,800	18,230
Additions	2,800	3,177	5,977
At 31 December 2006 and 31 December 2007	16,230	7,977	24,207
AMORTISATION			
Amortised for the year and balance at 31 December 2007	357	240	597
CARRYING VALUE			
At 31 December 2007	15,873	7,737	23,610
At 31 December 2006	16,230	7,977	24,207

The above intangible assets have definite useful lives. Such intangible assets are amortised on a straight line basis over five years.

During the year, there was no amortisation on some of the intangible assets as they are not yet available for use.

During the year ended 31 December 2006, there was no amortisation on all of the intangible assets as they were not yet available for use.

17. Inventories

	2007 RMB'000	2006 RMB'000
Raw materials	**11,537**	10,885
Work in progress	**425**	15
Finished goods	**11,848**	10,673
	23,810	21,573

18. Trade and Other Receivables

	2007 RMB'000	2006 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 RMB'000	2006 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 monitor 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.

19. Bank Balances and Cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. During the year, the bank deposits carry interest at rates ranging from 1.75% to 5.8% (2006: 0.72% to 2.75%) per annum.

At the balance sheet date, included in bank balances and cash are the following amounts denominated in currency other than the functional currency of the relevant entity to which it relates.

	2007 RMB'000 equivalent	2006 RMB'000 equivalent
United States Dollars	**74**	135
Hong Kong Dollars	**89,251**	83

20. Trade and Other Payables

	2007 RMB'000	2006 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 (note 24)	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 RMB'000	2006 RMB'000
Age		
0 to 30 days	35,357	32,668
31 to 60 days	27,763	25,179
	63,120	57,847

21. Amount Due to a Director

The amount represented a promissory note issued to a director which was unsecured, interest-free and was fully repaid in April 2007.

22. Other Financial Liability

The other financial liability at 31 December 2006 represents the financial liability from the Put Option 2 (as defined below). This Put Option 2 lapsed upon completion of the initial offer for subscription of the shares of the Company to the public on 1 February 2007.

Several investors (the "Investors"), a number of original owners of Fujian Sanai (the "11 Founding Shareholders"), Mr. Lin Ou Wen, a director and shareholder of the Company, and the then shareholders of Wuyi BVI (the "Original Shareholders") entered into a subscription agreement on 22 May 2006 (the "Subscription Agreement"), supplemental agreement on 20 June 2006 and an investment agreement on 11 July 2006 ("Investment Agreement") with Wuyi BVI, pursuant to which Wuyi BVI issued convertible bonds due on 12 July 2008 (the "Convertible Bonds") to the Investors in an aggregate principal amount of US$18 million convertible into ordinary shares of Wuyi BVI at an initial conversion price of US$8,200.456 per share subject to certain adjustments set forth in the Investment Agreement.

Pursuant to the Investment Agreement, the Investors have an option ("Put Option 1"), which gives the Investors the right to require Wuyi BVI to purchase all of the shares of Wuyi BVI held by the Investors in the event that the Company fails to complete the initial offer for subscription of the shares of the Company to the public within six months from the date of conversion of the Convertible Bonds into the shares of Wuyi BVI. The aggregate purchase price at which the Investors may require Wuyi BVI to repurchase Wuyi BVI's shares under Put Option 1 will be equal to the price at which the Investors acquired Wuyi BVI's shares pursuant to the Subscription Agreement plus a premium equivalent to a compound return of 6% per annum for the period from the date of issue of the Convertible Bonds to the date of the exercise of Put Option 1.

Put Option 1 will lapse upon completion of the initial offer for subscription of the shares of the Company to the public within six months from the date of conversion of the Convertible Bonds into the shares of Wuyi BVI.

On 27 October 2006, Wuyi BVI, the Investors, the 11 Founding Shareholders, Mr. Lin Ou Wen and the Original Shareholders entered into a supplemental deed to the Subscription Agreement pursuant to which the Investors exercised their conversion rights under the Convertible Bonds, which caused the Company instead of Wuyi BVI to issue 230,400,000 shares of the Company to the Investors at a conversion price of US$0.078125 each on 27 October 2006.

On 27 October 2006, Wuyi BVI, the Investors, the 11 Founding Shareholders, Mr. Lin Ou Wen, the Original Shareholders and New Asia Partners Investment Holdings Limited ("NAP"), a company owned by the spouse of a director of the Company, entered into a termination agreement terminating the Investment Agreement. On 27 October 2006, the Company, the Original Shareholders, the 11 Founding Shareholders, Mr. Lin Ou Wen, NAP and the Investors entered into the New Investment Agreement pursuant to which the Company granted to the Investors an option (the "Put Option 2") which gives the Investors the right to require the Company to repurchase all the Shares held by the Investors in the event that the Company fails to complete the Hong Kong public offer within six months from 27 October 2006. The aggregate purchase price at which the Investors may require the Company to repurchase all the Shares under Put Option 2 will be equal to the price at which the Investors acquired all the Shares pursuant to the supplemental deed to the Subscription Agreement which is US$18 million, as amended, plus a premium equivalent to a compound return of 6% per annum for the period from the date of the New Investment Agreement to the date of the exercise of the Put Option 2.

The Convertible Bonds issued in July 2006 carry interest at a rate of the greater of (i) 6% per annum or (ii) an amount corresponding with dividends or asset distributions by Wuyi BVI on or after 1 January 2006. The fair value of the convertible bonds at 27 October 2006 has been arrived at on the basis of a valuation carried out on that date by Savills Valuation and Professional Services Limited, an independent business valuer.

22. Other Financial Liability (Continued)

The movements of the Convertible Bonds were as follows:

	RMB'000
6% convertible bonds issued during the year ended 31 December 2006	142,200
Currency realignment	(1,800)
Change in fair value during the year	63,890
Conversion into shares of the Company during the year	(204,290)
At 31 December 2006	–

The fair value of the Convertible Bonds at the date of conversion were calculated using the Binomial Model. The inputs into the model by reference to the valuation of Wuyi BVI were as follows:

Average share price	US$10,840
Exercise price	US$8,200
Expected volatility	30%
Expected life	Nine months
Risk-free rate	3.7%
Expected dividend yield	0.0%

Put Option 2 lapsed when the shares of the Company was listed on the Main Board of the Stock Exchange on 1 February 2007.

23. Short-Term Bank Loans

The bank loans are unsecured, carry interest at fixed rates ranging from of 7.029% to 7.29% (2006: 6.138% - 6.696%) per annum and are repayable within 1 year.

24. Obligations Under a Finance Lease

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under a finance lease:				
Within one year	**6**	–	4	–
Between one to two years	**6**	–	5	–
Between two to five years	**11**	–	10	–
	23	–	19	–
Less: Future finance charges	**4**	–		
Present value of lease obligations	**19**	–		
Less: Amount due within one year shown under trade and other payables (note 20)			4	–
Amount due after one year			15	–

It is the Group's policy to lease certain of its fixtures and equipment under financial leases. The average lease term is 5 years. Interest rate underlying the obligations under a finance lease is fixed at its contract date at 5.6% per annum. No arrangements have been entered into for contingent rental payments.

25. Deferred Taxation

The following is the deferred tax liabilities recognised and movements thereon during the year:

	Deferred product development costs and patents
	RMB'000
At 1 January 2006	2,079
Charged to income statement for the year	2,508
At 31 December 2006	4,587
Charged to income statement for the year	763
Effect of change in tax rate	(1,461)
At 31 December 2007	3,889

26. 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 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, 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.

27. Equity-Settled Share Option Scheme

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 8 January 2007 for the primary purpose of providing incentives to and recognising significant contributions from directors and eligible employees, and will expire on 31 January 2017. Under the Scheme, the board of directors the Company (the "Board") may grant options to all full-time employee, directors (including independent non-executive directors) and part-time employees with weekly working hours of 10 hours and above, of the Group, substantial shareholders of each member of the Group, associates of the directors and substantial shareholders of any member of the Group, trustee of any trust pre-approved by the Board; and any advisor (professional or otherwise) or consultant, distributor, supplier, agent, customer, joint venture partner, service provider to the Group whom the Board considers, in its sole discretion, has contributed or contributes to the Group.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue on the date of listing of shares on the Stock Exchange in issue which represents 164,300,000 shares (excluding the overallotment portion), without prior approval from the Company's shareholders. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under this Scheme shall not in aggregate exceed 30% of the shares in issue from time to time. No option may be granted under this Scheme and any other share option scheme of the Company if such limit is exceeded. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share in issue or with an aggregate value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Upon acceptance of the options granted the grantee shall make a payment of HK$1 to the Company by way of consideration for the grant. Options may be exercised at any time immediately from the date of grant of the share option and during the period in which notified by the directors at date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Up to 31 December 2007, no options were granted under the Scheme.

28. Major Non-Cash Transactions

During the year, the Group entered into a finance lease arrangement in respect of assets with a total capital value at the inception of the lease of RMB23,000.

29. Operating Lease Commitments

At the balance sheet date, the Group was committed to make the following future minimum lease payments in respect of office properties under non-cancellable operating leases for three years which fall due as follows:

	2007 **RMB'000**	2006 RMB'000
Within one year	**936**	966
In the second to fifth year inclusive	**580**	1,569
	1,516	2,535

30. Capital Commitments

	2007 RMB'000	2006 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

31. Retirement Benefits Scheme

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees but subject to a maximum amount of HK$1,000 per month for each employee.

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

32. Related Party Transactions

During the year, the Group has the following significant transactions with its related parties:

Name of related party	Relationship with related party	Nature of transaction	2007 RMB'000	2006 RMB'000
Fuzhou Hongyu	Company controlled by Mr. Lin Ou Wen	Purchase of packaging materials	16,997	14,959
Mr. Lin Qin Xiang	Brother of Mr. Lin Ou Wen and Mr. Lin Qing Ping*	Property rentals paid	204	204
Mr. Lin Ou Wen	Director	Purchase of 40% interest in Fuzhou Sanai	–	62,400

* Messrs. Lin Ou Wen and Lin Qing Ping are directors and shareholders of the Company.

The details of remuneration of key management personnel represents emoluments of directors of the Company paid during the year which are set out in note 10.

33. Principal Subsidiaries

Details of the Company's principal subsidiaries, all of which are indirectly wholly-owned by the Company, at 31 December 2007 and 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ establishment/operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activity
Fujian Sanai	PRC wholly foreign owned enterprise for a term of 50 years commencing 18 January 2000	RMB290,780,000	Develop, manufacture, marketing and sales of pharmaceutical products
Fuzhou Sanai	PRC sino-foreign equity joint venture for a term of 50 years commencing 24 December 2003	US$19,810,000	Develop, manufacture, marketing and sales of pharmaceutical products

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

Five-Year Financial Summary

RESULTS

	Year ended 31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	213,834	316,165	417,349	541,320	**660,661**
Cost of goods sold	(122,230)	(176,414)	(218,479)	(272,827)	**(326,453)**
Gross profit	91,604	139,751	198,870	268,493	**334,208**
Other income	344	478	470	2,233	**19,850**
Distribution expenses	(8,398)	(10,961)	(13,363)	(11,679)	**(12,265)**
Administrative and other expenses	(10,794)	(9,131)	(8,394)	(38,432)	**(66,972)**
Fair value change on convertible bonds	–	–	–	(63,890)	**–**
Interest on bank borrowings wholly repayable within five years	(1,111)	(2,431)	(2,917)	(2,704)	**(2,535)**
Profit before taxation	71,645	117,706	174,666	154,021	**272,286**
Taxation	(23,388)	(38,949)	(57,463)	(34,630)	**(170)**
Profit for the year	48,257	78,757	117,203	119,391	**272,116**
Attributable to:					
Equity holders of the Company	48,257	78,909	117,288	119,774	**272,116**
Minority interests	–	(152)	(85)	(383)	**–**
	48,257	78,757	117,203	119,391	**272,116**
Dividends	23,746	39,264	59,146	84,120	**–**
Earnings per share – Basic	RMB5.5 cents	RMB7.5 cents	RMB11.2 cents	RMB11.0 cents	**RMB16.3 cents**

ASSETS AND LIABILITIES

	As at 31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	186,795	282,219	353,420	527,216	**1,460,763**
Total liabilities	(69,551)	(118,035)	(122,076)	(332,958)	**(123,300)**
Net assets	117,244	164,184	231,344	194,258	**1,337,463**

Notes:

1. The results and summary of assets and liabilities for each of the three years ended 31 December 2005 which were extracted from the Company's prospectus dated 22 January 2007 have been prepared on a combined basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on The Stock Exchange of Hong Kong Limited, had been in existence throughout those years.