武夷药业
Wuyi Pharmaceutical

WUYI INTERNATIONAL PHARMACEUTICAL COMPANY LIMITED
武夷國際藥業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1889)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

FINANCIAL HIGHLIGHTS

Turnover decreased by 4.6 % to RMB 630.3 million

Gross profit decreased by 4.6 % to RMB 318.9 million

Gross profit margin remained at 50.6%

Profit for the year decreased by 23.2 % to RMB208.9 million

Earnings per share was decreased from RMB16.3 cents to RMB12.2 cents

Recommended final dividend of HK3.3 cents per share

ANNUAL RESULTS

The board (the "Board") of directors (the "Directors") of Wuyi International Pharmaceutical Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to the "Group") for the year ended 31 December 2008, together with the comparative figures of the year ended 31 December 2007 as follows:

The Group's financial information for the year ended 31 December 2008 in this announcement was prepared on the basis of the consolidated financial statements which have been reviewed by the Company's independent auditor and the Company's audit committee. The Group has agreed with the auditor as to the contents of this result announcement.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Turnover	3	**630,326**	660,661
Cost of sales		**(311,381)**	(326,453)
Gross profit		**318,945**	334,208
Other revenue	3	**7,937**	19,850
Distribution expenses		**(50,176)**	(12,265)
Administrative and other expenses		**(37,277)**	(66,972)
Finance costs	4	**(2,377)**	(2,535)
Profit before taxation	5	**237,052**	272,286
Income tax	6	**(28,166)**	(170)
Profit for the year		**208,886**	272,116
Attributable to			
Equity holders of the Company		**208,886**	272,116
Dividends payable to equity holders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	7	**49,493**	58,010
Earnings per share			
Basic and diluted	8	**RMB12.2 cents**	RMB16.3 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment		**306,965**	145,869
Land use rights		**11,180**	11,410
Intangible assets		**21,224**	23,610
Deposit for the acquisition of land use right		**55,275**	7,275
		394,644	188,164
Current assets			
Inventories		**18,754**	23,810
Trade and other receivables	9	**66,488**	146,339
Bank balances and cash		**1,086,361**	1,102,450
		1,171,603	1,272,599
Current liabilities			
Trade and other payables	10	**41,369**	83,528
Short-term bank loans		**30,000**	35,000
Current taxation		**2,639**	868
		74,008	119,396
Net current assets		**1,097,595**	1,153,203
Total assets less current liabilities		**1,492,239**	1,341,367
Non-current liabilities			
Obligations under a finance lease		**11**	15
Deferred taxation		**3,889**	3,889
		3,900	3,904
Net assets		**1,488,339**	1,337,463
Capital and reserves			
Share capital	11	**17,098**	17,098
Reserves		**1,471,241**	1,320,365
Total equity		**1,488,339**	1,337,463

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:

1. GENERAL

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

The 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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has where applicable applied to the following amendments and interpretations ("INTs") (collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

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

HKFRSs (Amendments)	Improvements to HKFRSs[5]
HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and separate financial statements[2]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[1]
HKAS 39 (Amendment)	Eligible hedged items[2]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate[1]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[1]
HKFRS 3 (Revised)	Business combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 13	Customer loyalty programmes[3]
HK(IFRIC) – Int 15	Agreements for the construction of real estate[1]
HK(IFRIC) – Int 16	Hedges of a net investment in a foreign operation[4]
HK(IFRIC) – Int 17	Distributions of non-cash assets to owners[2]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[6]

[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 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
[5] Effective for annual periods beginning on or after 1 January 2009 except for the amendment to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
[6] Effective for transfers of assets from customers received on or after 1 July 2009

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. The adoption of HKAS 1 (Revised) may result in a change in presentation of the primary statements of the financial statements.

3. TURNOVER AND OTHER REVENUE

Turnover represents the invoice value of goods sold by the Group to the outside customers after deducting goods returned, trade discount and sales tax.

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 years ended 31 December 2008 and 2007.

	2008	2007
	RMB'000	*RMB'000*
Turnover		
Sales of pharmaceutical products	**630,326**	660,661
Other revenue		
Bank interest income	**7,937**	19,850
Total interest income on financial assets not at fair value through profit or loss	**7,937**	19,850
	638,263	680,511

4. FINANCE COSTS

	2008	2007
	RMB'000	*RMB'000*
Interest on bank advances wholly repayable within five years	**2,376**	2,533
Finance charges on obligations under a finance lease	**1**	2
Total interest expenses on financial liabilities not a fair value through profit or loss	**2,377**	2,535

5. PROFIT BEFORE TAXATION

	2008	2007
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Directors' emoluments	**4,412**	4,874
Other staff's retirement benefits scheme contributions	**3,249**	2,256
Other staff costs	**22,837**	19,015
	30,498	26,145
Less: Staff costs included in research and development costs	**(906)**	(780)
	29,592	25,365
Depreciation of property, plant and equipment		
– owned by the Group	**13,238**	6,205
– held under a finance lease	**4**	5
	13,242	6,210
Less: Depreciation included in research and development costs	**(592)**	(376)
	12,650	5,834
Amortisation of intangible assets	**2,386**	597
Auditor's remuneration	**625**	1,658
Exchange loss included in administrative and other expenses	**316**	13,492
Operating lease rentals in respect of		
– land use rights	**230**	254
– rented premises	**927**	958
Research and development costs	**1,812**	1,476
Cost of inventories	**311,381**	326,453

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

	2008	2007
	RMB'000	*RMB'000*
Current tax – PRC income tax		
Provision for the year	**(29,034)**	(868)
Over-provision in respect of prior years	**868**	–
	(28,166)	(868)
Deferred taxation		
– origination and reversal of temporary differences	**–**	(763)
– effect of change in tax rate	**–**	1,461
	(28,166)	(170)

a) 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, Fujian Sanai Pharmaceutical Co., Ltd. ("Fujian Sanai") and Fuzhou Sanai Pharmaceutical Co., Ltd. ("Fuzhou Sanai"), which were qualified as Production Enterprises during the year 2006 and 2008 respectively, 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.

Fujian Sanai a wholly-foreign-owned enterprise, was subject to PRC enterprise income tax at a rate of 25% applicable to the company on the assessable profits for the year (2007: 33%). It was exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses being the year ended 31 December 2006, followed by a 50% reduction for the next three years. Commencing from 2008, the profit generated from Fujian Sanai was subject to an income tax rate of 12.5% being half of the enterprise income tax rate applicable. Such tax exemption expired on 31 December 2010.

Fuzhou Sanai a wholly-foreign-owned enterprise, was subject to PRC enterprise income tax at a rate of 25% applicable to the company on the assessable profits for the year (2007: 33%). It was exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. The first year of profitable operations is the year ended 31 December 2008. Commencing from 2010, the profit generated from Fuzhou Sanai will be subject to an income tax of 12.5% being half of the enterprise income tax applicable. Such tax exemption expired on 31 December 2012.

Fujian Sanai Pharmaceutical Trading Co., Ltd. ("Sanai Pharmaceutical Trading"), the PRC enterprise, was subject to PRC enterprise income tax at a rate of 25% applicable to the company on the assessable profits for the year (2007: Nil).

b) No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong for the year ended 2008 (2007: Nil).

c) The Group had no significant unprovided deferred tax assets or liabilities at 31 December 2008.

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

	2008	2007
	RMB'000	*RMB'000*
Profit before taxation	**237,052**	272,286
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**(61,568)**	(89,854)
Tax effect of non-deductible expenses	**(15,356)**	(26,964)
Tax effect of non-taxable income	**13,462**	14,780
Tax effect of income tax exemption granted to the PRC subsidiaries	**34,428**	100,250
Over-provision in prior years	**868**	–
Decrease in deferred tax liability brought forward resulting from a decrease in applicable tax rate	**–**	1,461
Others	**–**	157
Actual tax expenses	**(28,166)**	(170)

7. DIVIDENDS

(a) Dividends payable to equity holders of the Company attributable to the year.

	2008	2007
	HK$'000	*HK$'000*
Final dividend in proposed after the balance sheet date, HK3.3 cents per share (2007: HK3.8 cents per share)	**56,422**	64,971
	RMB'000	*RMB'000*
Equivalent to	**49,493**	58,010

Subsequent to the year ended date, the Board resolved to propose a final dividend of HK3.3 cents (equivalent to approximately RMB2.9 cents) per share for the year ended 31 December 2008 to the shareholders on the register of members of the Company on 2 June 2009, which is subject to the approval by the shareholders in the forthcoming Annual General Meeting of the Company.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the year.

	2008	2007
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK3.8 cents per share (2007: Nil)	**64,971**	–
	RMB'000	*RMB'000*
Equivalent to	**58,010**	–

8. EARNINGS PER SHARE

a) Basic 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 RMB208,886,000 (2007: RMB272,116,000) and the weighted average of 1,709,772,500 shares (2007: 1,672,539,521 shares) in issue throughout the year, calculated as follows:

	2008	2007
	'000	*'000*
Weighted average number of shares		
Issued shares at 1 January	**1,709,773**	1,280,000
Shares issue under public offering	**–**	392,540
Weighted average number of shares at 31 December	**1,709,773**	1,672,540

b) Diluted earnings per share

Diluted earnings per share is equal to basis earnings per share as there were no dilutive potential ordinary shares outstanding for the two years ended 31 December 2008 and 2007.

9. TRADE AND OTHER RECEIVABLES

	2008	2007
	RMB'000	*RMB'000*
Trade receivables	**66,025**	145,879
Other receivables	**463**	460
	66,488	146,339

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

	2008	2007
	RMB'000	*RMB'000*
Age		
0 to 30 days	**35,248**	74,104
31 to 60 days	**30,777**	71,775
	66,025	145,879

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired and relate to a wide range of customers for whom there was no recent history of default.

There are no trade and other receivables past due or impaired for the years ended 31 December 2008 and 2007.

The Group does not hold any collateral over the balances.

10. TRADE AND OTHER PAYABLES

	2008	2007
	RMB'000	*RMB'000*
Trade payables		
– a related company*	**1,666**	2,546
– others	**22,134**	60,574
	23,800	63,120
Payroll and welfare payables	**911**	798
Payable for acquisition of property, plant and equipment	**5,150**	–
Accrued charges	**3,015**	6,147
Obligations under a finance lease	**4**	4
Others	**3,698**	2,721
Financial liabilities measured at amortised cost	**36,578**	72,790
Other non-income tax payables	**4,791**	10,738
	41,369	83,528

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

	2008	2007
	RMB'000	*RMB'000*
Age		
0 to 30 days	**11,767**	35,357
31 to 60 days	**12,033**	27,763
	23,800	63,120

11. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 31 December 2007 and 2008	3,200,000,000	32,000
Issued and fully paid:		
At 1 January 2007	1,280,000,000	12,800
Issue of shares under public offering:	429,772,500	4,298
At 31 December 2007 and 2008	1,709,772,500	17,098

	2008	2007
	RMB'000	*RMB'000*
Shown in the consolidated balance sheet as	**17,098**	17,098

12. CAPITAL COMMITMENTS

	2008	2007
	RMB'000	*RMB'000*
		(Restated)
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of		
– intangible assets	**8,100**	8,100
– land use rights	**2,922**	50,922
– property, plant and equipment	**600**	–
	11,622	59,022

13. COMPARATIVE FIGURES

Certain comparative figures have been realigned to conform with current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

A Business Review

The Group recorded a turnover of approximately RMB630.3 million (2007: approximately RMB660.7 million) for the year 2008, a slight decrease of 4.6% from last year. Profit for the year was approximately RMB208.9 million (2007: approximately RMB272.1 million) decreasing 23.2% as compared to last year. Although the Group recorded a remarkable growth in the first half of 2008, the impact of the financial crisis mainly occurred in the second half of the year, which wiped out people's wealth in China and gave rise to a general cut on expenditures including on medicines and affected the Group's sales. In addition, as the protection period of some products became expired, certain manufacturers produced imitated products which took some market share. In addition, since there were incidents of adverse effect resulted from Chinese medicine injectibles produced by various pharmaceutical manufacturers in the north during 2008, the State Food and Drug Administration of the PRC stressed on "the careful usage of Chinese medicine injectibles/tightened regulatory rules", causing a decrease in the sales of the Group's Chinese medicine injectibles in the first half of the year. Other main cause for the decrease in profit was the increase in some expenses such as taxation and advertising expenses. However, our gross profit margin remained stable at a high level of approximately 50.6% despite the current difficult business conditions.

1. Product Development

i) Perilla Oil Capsule

In respect of products, the product we specially developed for the control of hyperlipidemia, Perilla Oil Capsule, was launched to the market since March 2008 and is a key product in our promotion. The Group noted the common occurrence of hyperlipidemia in the people of northeastern region due to their dietary style and living habits, and their preference of greasy and strong flavoured food. The Group therefore targeted eastern and northern China as our key strategic markets, and focused on 9 economically more developed cities and provinces for the marketing of Perilla Oil Capsule. The product was well received since its launch and its low toxicity and zero side effect made it popular in the market. It recorded ideal sales of over approximately RMB42.3 million in 2008 in Zhejiang Province and Jiangsu Province, representing approximately 28.3% and 20.5% of total sales respectively. Since Perilla Oil Capsule is a unique product of the Group, we can determine the price according to the market acceptance and preference. Therefore, we expect that the sales of Perilla Oil Capsule will continue to increase and benefit the Group with material contribution of earnings.

ii) Yuxingcao Injectible

Fujian Sanai, a wholly-owned subsidiary of the Group, is one of the enterprises in the PRC which have obtained approval to resume production of Yuxingcao Injectible. The Group has resumed its production and sales of Yuxingcao Injectible (2 ml) since January 2008 with approval of the State Food and Drug Administration. In 2008, Yuxingcao Injectibles contributed sales revenue of approximately RMB22.5 million, representing a market share of approximately 20.0%.

The main raw material of Yuxingcao Injectible is Yuxingcao. Its production is also under strict control of relevant state departments. Currently those departments have prohibited the manufacturers from producing medicine by dry Yuxingcao. The Group operates its Yuxingcao production base to grow Yuxingcao and can therefore have an inexhaustible supply of fresh Yuxingcao. This not only ensures a stable supply of the fresh plant, but can also control and lower the production cost effectively, and can closely monitor and control product quality. These factors have enormously enhanced our competitive advantage in the product.

iii) Other products

The product with the highest sales volume during the year was N(2)-L Alanyl-L-Glutamine Injectible (a parenteral nutritional agent specifically for severe patients), its turnover was approximately RMB82.3 million, decreasing 23.3% from last year. The decrease in sales was mainly attributable to the lowering of consumption sentiment due to the economic downturn, and the increased market competition from imitated products produced by certain manufacturers as the protection periods of some products have expired.

While Xiangdan Injectible (specifically for cardio-cerebrovascular diseases), the Group's another product with ready sales volume, recorded sales revenue of approximately RMB74.8 million during the year. Furthermore, the new anti-hepatitis compound drug Liver & Gall Bladder Tablets ("複方肝膽片") developing under the cooperation of the Group and Peking University's Faculty of Medicine has been completed toxicity test and entered into the stage of efficacy testing.

2. Business and market analysis

Regarding our business mix, prescription drugs remain the most important source of income for the Group, accounting for 80.8% of the total turnover, while non-prescription drugs and raw materials sales operation accounted for 11.5% and 5.6% respectively. In addition, the Group established Sanai Pharmaceutical Trading in the first half of 2008 to actively develop the drug sales agency operation. From July 2008, we began selling a total of 7 drugs for other enterprises, and recorded sales revenue of approximately RMB13.1 million for the year, representing 2.1% of the total turnover. As the operation of Sanai Pharmaceutical Trading develops, the proportion of sales revenue from the related sales agency operation will increase continuously.

Regarding our markets, the Group has successfully established a solid business network in the first and second line cities. In view of the great development potential of the rural markets, the Group has been proactively developing the rural markets since 2007. We have achieved results from such effort since 2008, and successfully extended our business into the western region such as Xinjiang. Although the rural market currently only accounts for 1.1% of the Group's total turnover, since the market has huge potential and we will actively develop the market in the coming year, we believe the proportion of the rural market will rise remarkably in the future.

3. Sales network

During the year, the Group's sales networks have been distributed in 20 key provinces, cities, autonomous regions and municipality cities in the whole country, mainly covering the affluent coastal cities and provinces of the eastern region and northeastern region of China. During the period under review, the Group further increased number of its distributors to 59 which enables stable development of sales networks. On the other hand, the Group continued to actively explore market in rural area, and make use of the distribution network of Jointown Group Co., Ltd. ("Jointown") to promote the product distribution in the rural communities in a dozen of southern provinces.

B Outlooks and Future Development

The PRC government launched the proposal for further reform of the medical and health system in September of 2008, allocating significantly more resources to promote development of the medical sector. Together with the sustaining growth of the pharmaceutical product market in the PRC and the great demand for high quality pharmaceutical products from rural market and end consumers, the Group believes that Wuyi Pharmaceutical, as a specialized pharmaceutical enterprise with competitive advantages in the PRC, will be benefited in such circumstances. Despite the severe economic conditions and numerous uncertainties in 2009, in view of the government's determination in supporting the development of pharmaceutical industry, we are cautiously optimistic about the business prospects of the Group.

1. Benefit from medical reform in the PRC

The State Council initially issued the opinion collecting draft "Opinions Concerning Further Reform of the Medical and Health System" (the "Opinions Draft") in September of 2008, and approved and passed principally the Opinions Draft and the "Implementation Proposal on Further Reform of the Medical and Health System for 2009-2011" in January 2009. In which it was decided to focus on the implementation of five reforms on the basic medical and health security system, and expressly indicated that approximately RMB850 billion will be invested to achieve milestone targets, for the period from 2009 to 2010. By 2011, the basic medical and health security system will fully cover residents in cities and urban area and the accessibility and quality of basic medical and health service will be enhanced significantly. Medical burden of the people will also be significantly reduced, and the problem of "difficulty in getting and affording medical care" will be alleviated.

The Group is expected to be benefited from three reforms under the Opinions Draft, including:

i. Accelerating the establishment of a basic medical and health security system – to achieve an insurance participation of above 90% for basic medical insurance and new rural cooperation medical insurance by employees and residents in cities and towns within 3 years. By 2010, the medical insurance subsidies for residents in cities and towns will be raised to RMB120 per person a year, and appropriately raised the payment standard, reimbursed proportion and payment limit of individuals.

   The Group believes that this reform will enhance the standard of medical security effectively. The overall medical spending power and demand for medical service of the grass-roots end users will be lifted. Great effort has been put to support the development of villages and townships by the PRC government in recent years, which are the market the Group has been actively developing. With support of policies and increase in spending power, there will be a huge development potential.

ii. Initially establishing a national basic pharmaceutical system – to establish a mechanism for basic drugs directory selection, adjustment and management and a supply securing system in a scientific and reasonable manner, and incorporate all basic drugs into the medical insurance reimbursement directory. Products listed in the national basic drugs directory are likely to enjoy an increase in market share and sales.

   The Perilla Oil Capsule developed by the Group, which is currently the only type of health drug in the market, has been launched to the market less than a year and has not yet been listed on the national medical insurance directory. Hence its full market potential is yet to be released and this has affected sales of the drug. The Group will strive to promote the entrance of the drug into the national medical insurance directory, and this is one of the Group's most important targets in 2009.

iii. Improving the primary medical and health service system – to focus on strengthening the construction of county hospitals and Chinese medicine hospitals, village and town health centers, clinics in remote areas and villages, community health service centers in poor area and cities.

   The Group believes that a complete primary medical and health service construction will drive drug consumption. The demand from communities for the overall medical care and quality drug will also increase gradually, which will create opportunities for the Group's business development generally.

2. Greater effort on development of rural market

In view of the great development potential of rural market, the Group has been actively developing rural end market in recent years. For the further development of our sales network, we will continue to make use of the nationwide distribution network of Jointown to promote the product distribution in the rural communities in a dozen of southern provinces. Meanwhile, the Group will add more salesmen in rural market offices to promote our drugs to village and town's first rank health centers, strengthen the relationship with communities, and enhance our brand awareness. The Group expects to increase the proportion of sales in rural market in 2009 through effective advertising and promotion programs.

3. Enhancement of the popularity of enterprise and products

The Group will continue in enhancing the popularity of "Sanai" brand and products by TV advertisements and academic promotion activities, securing an extensive recognition of our brand by the society and patients. During 2009, the Group will continue in allocating resources for advertising expenses and recruiting professional specialists to hold academic promotional seminars throughout the country for staff from the relevant industries. Through such seminars, doctors and patients will have a clearer understanding of the pharmacology, effect and benefits of our products and built confidence and loyalty towards the "Sanai" brand.

4. Development target for new products

The Pazufloxacin Mesilate Injectible and Omeprazole Enteric-Coated Capsule of the Group are undergoing approval procedures in accordance with the registration and administration measures, and pending approval from State Food and Drug Administration for launching in market. The former is specifically for curing sensitive bacterial infection and chronic infection of the second respiratory inflection, and the latter is specifically for inhibiting gastroenterology causing gastric ulcer and gastroesophageal reflux.

5. Steady progress on construction of Jianyang plant

The preliminary work such as infrastructure and application for relevant licenses for the new plant of the Group in Jianyang, Fujian Province has been completed, and construction of the plant has been commenced in October 2008, scheduling to be completed around 2010. The Phase I of the construction consists of an area of approximately 60,000 sq m, which is around three times the area of the existing prescription plant. In addition to the production capacity for the dozen of existing products, the plant can also provide plastic bottle packaging apart from glass bottle packaging to cope with consumption preference of the PRC. The expected production capacity upon completion will be three times of the existing capacity, which may fulfill the development requirements of the Company of years to come.

The construction of the plant is a major investment of the Group and is critical for our future business development. The Group will make appropriate adjustment in a prudent manner and in accordance with changes in the market environment and the pace of Group's development.

C Financial Review

1. Turnover

The Group recorded a turnover of approximately RMB630.3 million (2007: approximately RMB660.7 million), a slight decrease of 4.6% over last year. The Group recorded a remarkable growth in its turnover in the first half of the year. However, as the impact of the financial crisis has come in the second half of the year and expenditures were scaled back generally including the lowering of expenditure and demand for pharmaceutical products, sales of our pharmaceutical products was affected. Furthermore, as the protection period of some products has expired, some manufacturers started producing imitated products which took up some market shares. Nevertheless, this has no negative effect on the price of our products. In addition, since there were incidents of adverse effect resulted from Chinese medicine injectibles produced by various pharmaceutical manufacturers in the north during 2008, the State Food and Drug Administration of the PRC stressed on the careful usage of Chinese medicine injectibles/ tightened regulatory rules, and the sales of the Group's Chinese medicine injectibles was thus reduced by comparison with the sales of last year. Nevertheless, the Group recorded a total turnover of approximately RMB77.0 million from the three new Chinese medicines launched in the year including Perilla Oil Capsule and Yuxingcao Injectible representing approximately 12.2% of total turnover, resulting in an overall growth in Chinese medicines of 14.3% compared with the last year.

Turnover in 2008 was yet dominated by Western medicines, with a turnover volume of approximately RMB347.3 million, representing approximately 55.1 % of total turnover and a decrease of approximately 18.2% over last year (2007: approximately RMB424.5 million, representing approximately 64.3% of total turnover). Turnover of Chinese medicines amounted to approximately RMB269.9 million, representing approximately 42.8% of total turnover, and an increase of approximately 14.3% over last year (2007: approximately RMB236.2 million, representing approximately 35.7% of total turnover). In addition, the newly added pharmaceutical trading revenue in the second half of the year recorded a turnover of approximately RMB13.1 million, representing approximately 2.1% of total turnover.

The highest sales volume was again achieved by Western medicines, N(2)-L Alanyl-L-Glutamine Injectible, with a turnover volume of approximately RMB82.3 million, representing approximately 13.1% of total turnover (2007: approximately RMB107.3 million, representing approximately 16.2% of total turnover). Sales volume of the 5 most saleable medicines amounted to approximately RMB287.5 million, representing approximately 45.6% of total turnover (2007: approximately RMB359.9 million, representing approximately 54.5% of total turnover).

2. *Gross Profit and Gross Profit Margin*

Gross profit decreased slightly by 4.6% to approximately RMB318.9 million (2007: approximately RMB334.2 million), and gross profit margin remained at approximately 50.6% (2007: approximately 50.6%) same as last year, indicating that the financial crisis had no impact on the Group's gross profit margin. Related cost of goods sold ratios, including raw material, packaging material, energy and fuel costs, direct labor cost and others, remained essentially unchanged compared with the same period of 2007, except that such related amount decreased in 2008 with sales volume.

During the year, the implementation of the Labour Contract law since beginning of the year and the rising cost of production in the PRC did not form pressure on the Group's cost of goods sold and we were able to maintain a stable gross profit margin. The main reason for this was our continuing optimization of product structure has brought contribution to our gross profit. In addition, we produced high return and high effect pharmaceutical products such as Perilla Oil Capsule, and the gross profit margin of such products was approximately 70.0%. Thus the overall gross profit margin of the Group was able to remain stable at a high level of 50% during the financial turmoil. The pharmaceutical trading operation newly added in the second half of the year also contributed a gross profit of approximately RMB5.6 million, with a gross profit margin of approximately 42.7%.

3. *Profit for the Year*

In 2008, profit for the year decreased 23.2% from 2007 to approximately RMB208.9 million (2007: approximately RMB272.1 million). Although the Group's operation recorded a remarkable growth in the first half of 2008, turnover was lowered due to the impact of financial turmoil in the second half of the year. In addition, our wholly owned subsidiaries in the PRC still enjoyed a preferential tax arrangement of tax exemption for the first two years and 50% reduction for the following three years, with the income tax expenses of approximately RMB28.2 million (2007: nil) and the effective tax rate was 11.9% (2007: nil). Other reasons included an increase in distribution expenses of 308.1% to approximately RMB50.2 million (2007: approximately RMB12.3 million). During the year, the wholly owned subsidiaries in the PRC spent approximately RMB37.0 million in advertising expenses including the use of TV advertisements and academic promotion activities to increase the brand and product awareness of "Sanai". As a result, our products were widely recognised by the public and patients, which was a good marketing for preparing our launch of the new Perilla Oil Capsule to the market. The two wholly owned subsidiaries recruited experts of professional specialists to hold academic promotional seminars nationwide for staff from the industry. Through the seminars, doctors and patients had a clearer understanding of the pharmacology, effect and benefits of our products and built confidence and loyalty towards the "Sanai" brand.

Finally, the Group's administrative and other expenses reduced significantly by 44.3% to approximately RMB37.3 million (2007: approximately RMB67.0 million). The decrease was mainly attributable to the occurrence of non-recurring administrative and other expenses including professional fees and issuance expenses for the Hong Kong and global placings of our shares in last year of RMB22.2 million (2008: nil), and the exchange loss of approximately RMB13.5 million (2008: approximately RMB0.3 million) due to the appreciation of Renminbi against Hong Kong dollars.

4. *Liquidity, Financial Resources and Capital Structure*

The Group maintains a stable financial position. As at 31 December 2008, the Group had bank balances and cash of approximately RMB1,086.4 million (2007: approximately RMB1,102.5 million) and short-term bank loans of RMB30.0 million (2007: RMB35.0 million). All short-term bank loans were denominated in RMB, at prevailing market interest and repayable within 1 year. During the period, the Group did not use any financial instruments for hedging purpose.

The gearing ratio representing the ratio of short-term bank loans to the shareholders' equity of the Group was 2.0% as at 31 December 2008 (2007: 2.6%).

5. *Exposure to Fluctuation in Exchange Rates*

For the year ended 31 December 2008, the Group conducted its business transactions principally in Renminbi. The Group has not experienced any material difficulties or negative impacts on its operations as a result of fluctuations in currency exchange rates. Although the Group has certain bank balances denominated in Hong Kong dollars, the Group adopts a conservative financial policy and most of its bank deposits are in Renminbi and Hong Kong dollars. As at 31 December 2008, 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.

6. *Significant Acquisitions and Disposal of Investments*

For the year ended 31 December 2008, the Group did not have any significant acquisition and disposal of investment.

7. *The Number and Remuneration of Employees*

As at 31 December 2008, the Group employed approximately 468 employees (2007: 387 employees). The Group determines staff remuneration in accordance with prevailing market salary scales, individual qualifications and performance. Remuneration packages including performance bonuses and entitlements to share options are reviewed on regular basis.

8. *Charge on Group Assets*

As at 31 December 2008, the net book value of furniture, fixtures and equipment of approximately RMB42.7 million (2007: approximately RMB6.6 million) includes an amount of approximately RMB14,000 (2007: approximately RMB18,000) in respect of asset held under a finance lease.

9. *Contingent Liabilities*

As at 31 December 2008, the Group did not have any contingent liabilities (2007: Nil).

10. *Capital Expenditure*

For the year ended 31 December 2008, capital expenditure of the Group for property, plant and equipment amounted to approximately RMB174.3 million (2007: approximately 19.5 million)

11. *Capital Commitments*

As at 31 December 2008, the Group had capital expenditure contacted for but not provided in the financial statements amounted to approximately RMB11.6 million (2007: approximately RMB59.0 million).

12. *Use of Proceeds*

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

For the year ended 31 December 2007, the Company applied approximately RMB230.0 million and approximately RMB114.7 million to the capital injection in our two major subsidiaries Fujian Sanai and Fuzhou Sanai respectively in the PRC. The capital injected to these two subsidiaries is intended to be used in the construction and expansion of new plants and production lines in Fuzhou and Jianyang. An amount of approximately RMB62.0 million had been used for repayment of an interest-free shareholder's loan for the acquisition of a 40% interest in Fuzhou Sanai from Mr. Lin Ou Wen.

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

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

DIVIDEND

Subsequent to the year ended date, the Board resolved to propose a final dividend of HK3.3 cents (equivalent to approximately RMB2.9 cents) per share for the year ended 31 December 2008 to the shareholders on the register of members of the Company on 2 June 2009, which is subject to the approval by the shareholders in the forthcoming Annual General Meeting of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). In addition, the Company has made specific enquiries of all Directors and each Director confirms that during the year ended 31 December 2008, they have fully complied with the required standards as set out in the Model Code.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

ANNUAL GENERAL MEETING

The 2009 Annual General Meeting of the Company will be held on 11 June 2009, Thursday and the Notice of Annual General Meeting will be published and dispatched in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 3 June 2009, Wednesday to 11 June 2009, Thursday (both days inclusive), during which no transfer of shares will be registered. In order to qualify for the proposed final dividend for the year, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Registrar of the Company, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Tuesday, 2 June 2009.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed shares during the year.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the Code Provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules for the year ended 31 December 2008 ensuring that are up to the requirements as being diligent, accountable and professional.

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

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 AC his valuable experience in reviewing financial statements and evaluating significant control and financial issues of the Group 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 external auditor. The Company's interim result announcement and interim report for the six months ended 30 June 2008 and the annual result announcement and annual report for the year ended 31 December 2008 have been reviewed, with no disagreement among its members, by the AC, and with recommendation to the Board for approval.

The AC shall meet at least twice a year. On 3 April 2009, 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 statements of the Company for the year ended 31 December 2008 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. On 3 December 2008, Mr. Dennis Luan Thuc Nguyen was resigned from the Chairman of the RC due to personal reason. Mr. Lin Ou Wen has been re-designated from the member to the Chairman of the RC on the same date. The RC comprises three Independent Non-executive Directors and one Executive Director. 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 2 December 2008 in which Mr. Dennis Luan Thuc Nguyen (Chairman), Mr. Lin Ou Wen, Mr. Lam Yat Cheong and Mr. Liu Jun, being members of the AC were present. The RC 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 2009.

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

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

NOMINATION COMMITTEE

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

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

Pursuant to the Company's Articles of Association, one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting 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 2 December 2008, a NC meeting was held with Mr. Lin Ou Wen (Chairman), Mr. Lin Qing Ping, Mr. Lam Yat Cheong and Mr. Liu Jun, being members of the NC were present to perform appraisal of the Directors so as to recommend to the 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.

PUBLICATION OF FURTHER INFORMATION

The Annual Report of the Company for the year ended 31 December 2008 containing all the applicable information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Company at www.wuyi-pharma.com and the Stock Exchange at www.hkexnews.hk in due course.

ACKNOWLEGEMENT

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

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

Hong Kong, 14 April 2009

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