武夷药业
Wuyi Pharmaceutical

Wuyi International Pharmaceutical Company Limited

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

Life • Nature • Science

Annual Report 2011

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Lin Ou Wen *(Chairman)*
Mr. Lin Qing Ping
Mr. Xu Chao Hui

Non-executive Directors
Mr. Tang Bin
Mr. John Yang Wang

Independent Non-executive Directors
Mr. Liu Jun
Mr. Lam Yat Cheong
Mr. Du Jian

COMPANY SECRETARY

Mr. Kung Wai Chiu, Marco
FCPA (Practising), FCCA, FTIHK, ACIS, ACS and CTA (HK)

AUTHORIZED REPRESENTATIVES

Mr. Lin Ou Wen
Mr. Kung Wai Chiu, Marco
FCPA (Practising), FCCA, FTIHK, ACIS, ACS and CTA (HK)

AUDIT COMMITTEE

Mr. Lam Yat Cheong *(Chairman)*
Mr. Liu Jun
Mr. Du Jian

REMUNERATION COMMITTEE

Mr. Lam Yat Cheong *(Chairman)*
Mr. Lin Ou Wen
Mr. Liu Jun
Mr. Du Jian

NOMINATION COMMITTEE

Mr. Lin Ou Wen *(Chairman)*
Mr. Lin Qing Ping
Mr. Liu Jun
Mr. Lam Yat Cheong
Mr. Du Jian

AUDITOR

CCIF CPA Limited
Certified Public Accountants

SOLICITORS

Gallant Y. T. Ho & Co.

PRINCIPAL BANKER

Bank of Communications Co., Ltd.

REGISTERED OFFICE

4th Floor
P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

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 Fulcrum (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

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

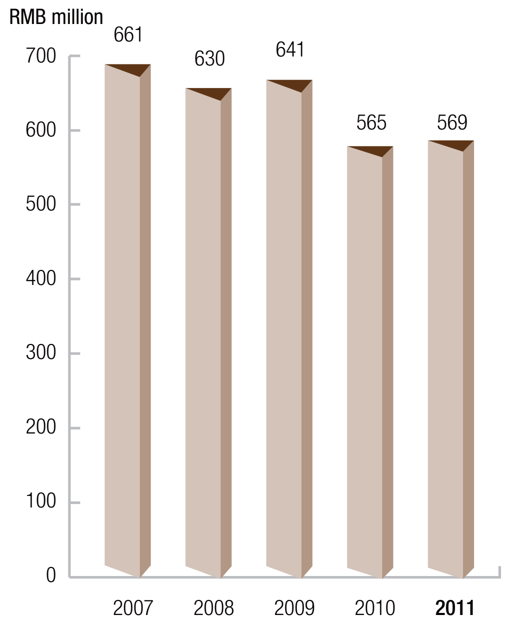
1889

WEBSITE

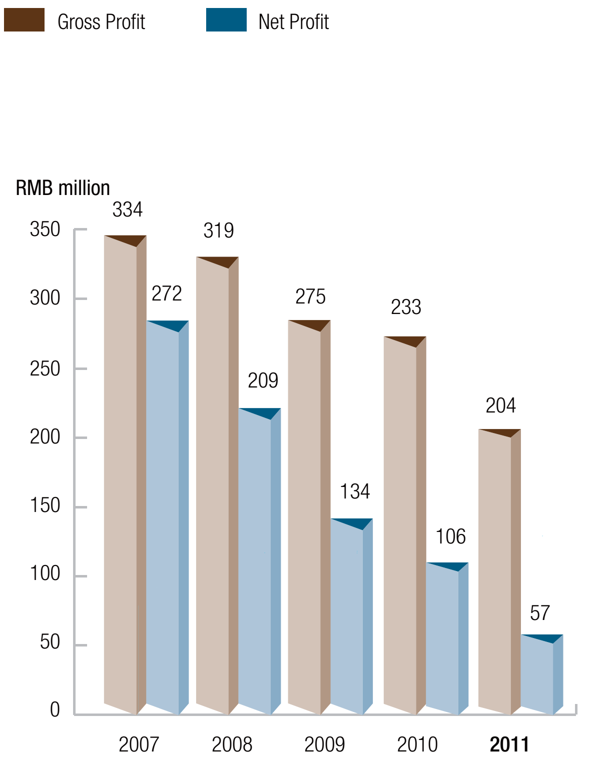
www.wuyi-pharma.com

Financial Highlights

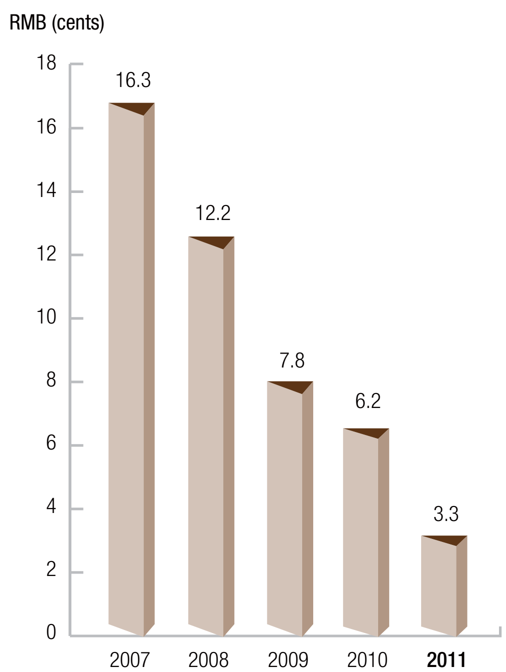
Turnover



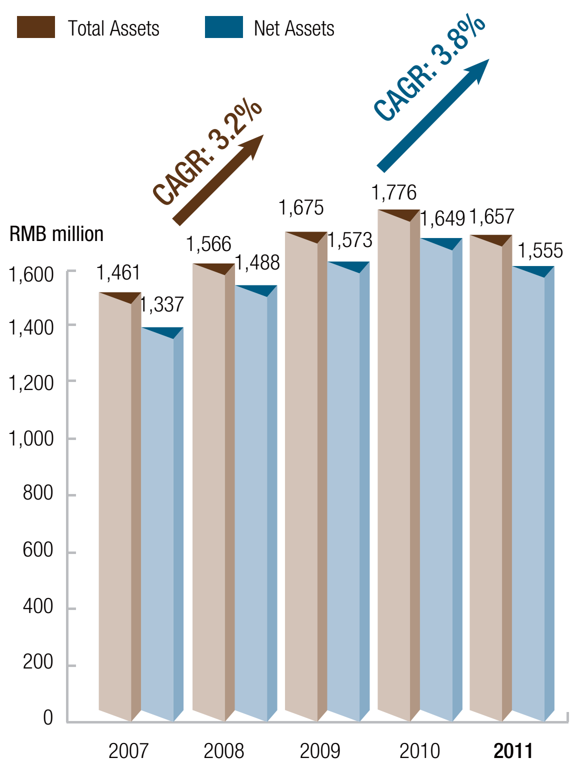
Gross Profit & Net Profit



Earnings per share - Basic and diluted



Total Assets & Net Assets



Chairman's Statement

To all Shareholders

On behalf of the Board of Directors, I am pleased to present to the shareholders the annual results of Wuyi International Pharmaceutical Company Limited ("Wuyi Pharmaceutical" or the "Company") and its subsidiaries (collectively, the "Group") for the financial year ended 31 December 2011.

BUSINESS REVIEW

The year 2011 saw the unprecedented challenges encountered by pharmaceutical enterprises in China as the State's medical and health system has entered its final stage. By and large, it was a relatively difficult year as, on one hand, enterprises were struck by heightening inflationary pressure, surging prices in raw materials, labors, production and packaging costs, while on the other hand, the NDRC issued the "Notice of Adjustment on the Maximum Retail Price of Certain Pharmaceuticals Related to Antibiotics and Cardiovascular Drugs"(《關於調整部分抗微生物類和循環系統類藥品最高零售價格的通知》)on 28 March 2011, which stipulated that the maximum retail prices of major antibiotics and medicines for long term use in the PRC be reduced by more than 20% on average, resulting in a sharp decline in the selling price of the majority of pharmaceutical products during the year.

At the same time, along with the progression and stricter enforcement of the reform of the medical and health system, the State gradually tightened the tendering and purchasing measures of provincial pharmaceutical products. Subsequent to Fujian, Sichuan and Chongqing, an increasing number of provinces adopted the new low-price bidding model and reviewed their prices annually, thus intensifying the market competition and driving the prices of pharmaceutical products to continue falling. In face of rising costs and decreasing prices, gross profit margin and profitability of pharmaceutical enterprises were under direct impact, and the overall industry is facing extraordinary challenges. Under the influences of the policy and market competition, the annual average selling price of the Group's four main products was lowered by 6.1% to 29.3% in 2011 compared with 2010 during the year under review.

On 28 March 2011, the State Food and Drug Administration (the "SFDA") has officially implemented the Administrative Measures Governing the Production Quality of Pharmaceutical Products (2010 Revision) (the "New GMP"), which imposed more stringent requirements on pharmaceutical enterprises in relation to the indicators of medicine R&D and production facilities, the purpose of which was to facilitate the consolidation of the entire pharmaceutical industry to increase the degree of concentration of the pharmaceutical industry. According to the data released by SFDA, as at the end of the first half of 2011, there were 6,900 enterprises holding the drug manufacturing permit, among which 4,579 manufacturing enterprises obtained the bulk medicine and pharmaceutical reagent permit. Since the implementation of the New GMP in March 2011, there were only 77 enterprises which have applied certification from the SFDA. During the implementation of the New GMP, pharmaceutical enterprises with backward production capacity as well as of small-scale and inadequate competitiveness will be phased out, which will be beneficial to improving the product quality of domestic pharmaceutical enterprises, fostering the long-term healthy development of the pharmaceutical industry in China. In addition, the State Council executive meeting discussed and adopted the State Drug Safety Plan (2011-2015) (國家藥品安全規劃(二零一一－二零一五年)) on 7 December, which stipulated the overall objectives and goals of drug safety during the "Twelfth Five-year" period, requiring 100% compliance of pharmaceutical production with the New GMP by 2015.

The Group attached great importance to the New GMP requirements in relation to the enhancement of production capacity and quality. Considerable resources have been inputted in this regard, including the construction of a new factory in Fujian Haixi as well as upgrading certain existing production equipment. The construction works of the new factory are expected to be completed by year-end, which will improve the Group's long-term production capacity and competitiveness. However, investment related to the project will exert certain pressure on the Group's production costs in the short term. Owing to the New GMP, the Group's depreciation charges in cost of sales rose during the year under review, which brought impact to the overall gross profit margin.

Against the backdrop of the unfavorable operating environment, the Group has adopted a prudent business strategy, striving to consolidate its business and maintain a stable growth. Despite the above adverse factors, there is still an increasing market demand for pharmaceutical products that are regarded as necessities owing to China's rapid economic development, its population and age structure as well as rising health awareness. As a result, the Group forged ahead the expansion and deepening of the sales pipeline to boost product sales. As such, even though some products needed to lower prices, the Group still managed to achieve a turnover of approximately RMB569,300,000 during the year under review, a level similar to that of last year. Gross profit margin was down to 35.8%, while profit attributable to owners of the Company was approximately RMB56,900,000.

To reward shareholders for their support to the Group during the year, the Board proposed a final dividend of HK0.8 cents per share in accordance with the dividend payout policy of the Group, representing the upper limit of the dividend payout ratio of approximately 29%.

In response to the challenges and increasingly fierce competition in the market, the Group adhered to a prudent strategy to promote its products through the most efficient way. In addition to placing advertisement through media for its target audiences, the Group also promoted its products specifically through academic promotion matinees, new drug promotional seminars and drug guidance talks to maintain the reputation of the Group and its products.

Omeprazole Enteric-Coated Capsule, a new product developed by the Group that specifically inhibits gastric acid secretion and helicobacter pylori reflux, has passed the production and sales approval by the SFDA of the PRC during the year under review and was officially launched in the market in June 2011. Through the Group's national sales network, market response and sales of Omeprazole Enteric-Coated Capsules were both satisfactory, which successfully seized the market share in rural areas and the community during the year.

As for new drug development, the Group conducted research on Perilla Oil Capsule with Fujian University's Faculty of Medicine. Moreover, Fujian Sanai Pharmaceutical Co., Ltd. ("Fujian Sanai"), a wholly-owned subsidiary of the Group, entered into an agreement with Peking University's Faculty of Medicine to conduct ongoing research for new drugs which was still under process during the year under review. Owing to the uncertainties of the current market conditions, it is expected that the research and development of the Group's new products will slow down.

OUTLOOK

Currently, the State is finalizing the overall requirements for the reform of the medical and health system: domestic pharmaceutical companies are required to undergo restructuring, strengthen their own research and development capacity, promote new drugs and technology research and development, foster merger and reorganization and increase product quality and international competitiveness, aiming at rationalizing industry structure through five-years' adjustment, while improving the degree of concentration in the industry to promote a long-term stable and healthy growth of the industry with enhanced strength.

With broader implementation of the basic drugs system, it is expected that the local primary health care market in the PRC will maintain a rapid growth. Pharmaceutical producers and agents of certain scale and strength will be benefited whilst the degree of concentration of various sub-sectors will be further improved. In addition, China is facing the issue of aging coupled with the society's general increasing awareness in health, which will foster the continuous growth of the domestic pharmaceutical consumption directly.

However, as the reform of the medical and health system was fully enforced, domestic pharmaceutical companies will be required to face and overcome the distress brought by the restructuring in the short-and mid-term. To stand out from the crowd during the industry consolidation, we must promptly transform our business model to enhance production capacity and product quality and to cope with the market changes and develop new strategies while market profits have shrunk gradually. Under the current situation, the Group will remain cautious and press ahead its market development and promotional efforts with the most cost-effective way in a bid to increasing production capacity and its core competitiveness.

The Group's national sales network has been substantially developed, which basically covers key provinces, cities, autonomous regions and municipalities across the nation. Through third-party logistics and distribution network, products will be delivered to health centers in villages and towns. The Group also distributed products in rural communities in a dozen of southern provinces in China, including 2A and 2B grade county hospitals, community hospitals as well as health centers in villages and towns, with gradual improvement for sales in rural market. In the future, the Group will devote more efforts to expand the market penetration in the community and rural areas in order to raise the market coverage and sales of its products.

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 confidence and support to the Group. Under such a difficult operating environment, the entire Group needs to join forces as a unity to overcome different kinds of challenges. We will commit to our shareholders and investors faithfully and pledge to do our best for Wuyi Pharmaceutical to create excellent results, while maintaining the Group's profitability and safeguarding shareholder's interests.

Lin Ou Wen
Chairman

Hong Kong, 28 March 2012

Management Discussion and Analysis

Business Review

Reviewing the year of 2011, the Chinese government continued to promulgate a number of related measures, guidelines and quality related requirements and regulations of the industry have been further strengthened. At the same time, China's drug tendering model of "low-price bidding" further dragged down our product prices, and surging costs of raw materials, packing materials and wage aggravated by price hikes in Mainland China also inevitably affected the profits of pharmaceutical enterprises. In the face of a challenging operating environment, Wuyi Pharmaceutical will continue to consolidate its existing business while committing to maintain the stable growth of the Group.

In the face of the multiple challenges arisen from the State policies and market competition, the Group adjusted the prices of four products in 2011, including N(2)-L-Alanyl-L-Glutamine Injectible, Amikacin Sulfate Injectable, Alginic Sodium Diester and Sodium Chloride Injectible and Xiangdan Injectibles, with the prices being scaled down by approximately 6.1% to 29.3%. Therefore, the overall gross profit margin declined to a certain extent.

For the year ended 31 December 2011, the Group has achieved turnover of approximately RMB569.3 million, representing a 0.8% increase over last year (2010: approximately RMB564.5 million). The overall gross profit margin was 35.8% (2010: 41.4%), representing a year-on-year decrease of 5.6 percentage points. Profits attributable to owners amounted to approximately RMB56.9 million during the year, representing a decrease of 46.3% over last year (2010: RMB106.0 million).

Since 28 March 2011, the SFDA has officially implemented the Administrative Measures Governing the Production Quality of Pharmaceutical Products (2010 Revision) (the "New GMP"), which imposed more specific stipulations on pharmaceutical enterprises in relation to the indicators of medicine R&D and production facilities. To comply with the requirements of the New GMP and enhance the Group's overall competitiveness, during the year, the Group actively carried out the construction and development of a new factory in Fujian Haixi Commercial Trading Development Zone, which is currently under smooth progress and the construction of the infrastructure is expected to be completed in 2012, which will commence operation in the second half of 2013 upon obtaining the GMP certification from the relevant authorities.

1. Development of Major Products

i. Perilla Oil Capsule

Perilla Oil Capsule is a key product of the Group and can effectively control hyperlipidemia. Perilla Oil Capsule was listed in the medical insurance directory of Fujian Province of the PRC in 2009. It has obtained approval from the authorities in Shanxi Province, Inner Mongolia and Xinjiang for listing in their medical insurance directory in 2010. During the year, the Group continued to place advertisements in televisions and journals so as to promote the popularity and quality of the products. Owing to the strenuous market competition within the industry, turnover of the product fell by approximately 6.6% to approximately RMB45.6 million, accounting for 8.0% of the Group's total turnover during the year. Gross profit margin dropped to 60.0% from 63.0% in 2010 due to soaring prices of raw materials.

ii. Omeprazole Enteric-Coated Capsules

The Group's new product, Omeprazole Enteric-Coated Capsules, has officially entered the market in June this year. The product is specifically for inhibiting gastric acid secretion and helicobacter pylori reflux. The Group mainly utilized its nationwide sales network, including utilizing rural and community markets for product distribution and securing market share. Meanwhile, the Group also promoted the efficacy of the product by means of TV commercials and new medicine promotional seminars, etc. During the year, sales of Omeprazole Enteric-Coated Capsules remained stable. As at 31 December 2011, turnover of the product was approximately RMB5.7 million, accounting for 1.0% of the Group's total turnover during the year. Gross profit margin amounted to 59.5%.

iii. N(2)-L Alanyl-LGlutamine Injectible

In 2011, sales of the product remained stable, due to the reducing number of the generic products of N(2)-L Alanyl-LGlutamine Injectible in the market alongside the Group's appropriate adjustments in sales strategies and product price. Turnover of the product was approximately RMB68.8 million, and gross profit margin amounted to 50.1%.

iv. Other Products

Xiangdan Injectible (specifically for cardiovascular and cerebrovascular diseases) is another popular product of the Group. It won a considerable share in the rural market with the advantages of outstanding efficacy and reasonable price. During the year, the Group continued to vigorously promote it in the rural market and hospitals. Turnover of 2-ml and 10-ml Xiangdan Injectible was approximately RMB12.4 million and RMB42.4 million, and gross profit margin was 4.3% and 38.8%, respectively.

The Group took initiative to cease the production of another western medicine product of the Company, Netilmicin Sulfate and Glucose Injectible immediately since last year because of unstable product quality, and inspection on the product was still underway while the production was suspended.

v. Development of New Medicines

The Group continued to actively engage in the development of new medicines in 2011, and conducted new research on Perilla Oil Capsule with Fujian University's Faculty of Medicine. Experts are now carrying out indication research on that project and have found new efficacies of the medicine such as softening of blood vessels and protection of liver function, which are breakthrough discoveries.

Fujian Sanai Pharmaceutical Co., Ltd., a wholly-owned subsidiary of the Group, entered into an agreement with Peking University's Faculty of Medicine to conduct ongoing research for new drugs, which were still under process during the year. The new anti-hepatitis Compound Drug Liver & Gall Bladder Tablets co-developed have completed toxicity test and entered into the stage of efficacy testing.

Another new product of the Company, Pazufloxacin Mesilate Injectible, is specifically for bronchitis, emphysema, bronchial asthma, tuberculosis, pneumonia, pulmonaryc cyst and renal infection. Due to stricter approval requirement from the mainland government authorities in the past two years, our new product Pazufloxacin Mesilate Injectible was still undergoing approval procedures in 2011.

vi. Sales agency for drugs

Fujian Sanai Pharmaceutical Trading Co., Limited ("Sanai Pharmaceutical Trading") was the agency of seven types of drugs mainly sold in the five provinces and cities of Fujian, Jiangsu, Zhejiang, Liaoning and Beijing during the year. During the year, as there was a decrease in sales staff and products sold through the agent, sales revenue amounted to approximately RMB13.0 million, representing a year-on-year decrease of 9.7%, accounting for approximately 2.3% of the Group's total turnover in 2011.

2. **Sales Network and Marketing**

   The Group's sales network covers 20 key provinces, cities, autonomous regions and municipalities around the country, mainly covering the more affluent coastal cities and provinces of the eastern region and the northeastern region of China. The number of distributors for the Group has reached to 62 during the year. In comparison with last year, Sinopharm Holding Taizhou Co., Ltd. and Nanjing Pharmaceutical Holding Co., Ltd. were newly added distributors. The Group also continued to aggressively exploit the market in rural areas, generating sale revenue of RMB55.5 million from that market in 2011, which represented approximately 9.7% of our total turnover, which was substantially the same as that of last year.

   To boost the brand awareness of the product, the Group promoted its brand image and product quality through television advertisements during the year. On the other hand, the Group also introduced the unique curativeness of the products via academic and new product promotion activities as well as medicine fairs.

Outlooks and Future Development

2011 earmarks the concluding year of the Chinese government's medical reform. Although the intensity of the medical reform policies introduced by the Chinese government slowed down during the second half of the year, it will still have on-going effect on the pharmaceutical industry, which exposes the entire industry with formidable challenges.

In November 2011, the National Development and Reform Commission issued the "Twelfth Five-year Plan" for Pharmaceutical Technology Development, in which a primary market mainly comprising rural areas and city communities was firstly outlined, aiming at effectively enhancing the technology and services of primary health care institutions. Moreover, the "Twelfth Five-year Plan" for Biomedicine is pending to be promulgated, in which it stipulates that the financial support to be provided by the central government for the pharmaceutical industry will exceed RMB40 billion in order to realize an average annual growth rate of 20% for the total output of the pharmaceutical industry during the "Twelfth Five-year Plan" period. The introduction of the plan will bring about operational and financial support for the pharmaceutical industry, which favors the long-term development of pharmaceutical enterprises. In the short run, however, it will stir up competition in the industry, thereby casting more uncertainties for the development outlook of pharmaceutical enterprises.

In respect of drug tendering, Fujian, Sichuan and Anhui provinces have adopted a new tendering model for provincial pharmaceutical products in 2011, which has driven down medicine price significantly. In the future, along with the fact that more and more provinces have implemented the new tendering model, medicine price of different pharmaceutical enterprises will be further suppressed and the gross profit margin of products will decrease. In addition, Ministry of Health will make amendments to the National Essential Drugs List in 2012, which will enlarge the tendering scope of drugs while exacerbating the downward adjustment in product prices, bringing enormous pressure to the profitability of pharmaceutical enterprises.

In view of this, the Group will continue to adopt a steady development strategy in actively expanding sales channels, grasping development opportunities of primary medical services and sustaining the in-depth exploration of markets of rural areas and city communities so as to remedy the impact of the State policies on the Group and strive for more stable business results for 2012.

1. **Establish new factory for capacity expansion to cope with the new GMP rules of the State**

   To match up with the new requirements in respect of medicine production of the New GMP of the State and to enhance the Group's overall competitiveness in the future, the Group actively carried out in the construction of a new factory in Fujian Haixi Commercial Trading Development Zone. We expected the construction of infrastructure will be completed at the end of 2012, with an aim to commence production upon obtaining the GMP certification within 2013, after which the expected maximum production capacity will increase up to three times after the capacity expansion. A new office building will also commence construction near the new factory with scheduled completion in 2012 to cope with the increasing need for office arisen from its business expansion.

2. **Promote new products and enhance product sales**

   In 2012, the Group will focus on promoting Omeprazole Enteric-Coated Capsules, according to the tendering progress of pharmaceutical products of different provinces and cities. The Group will also promote the extensive uses of the product in curing diseases such as intestines and stomach ulcers by means of TV commercials and new medicine promotional seminars, etc. so as to uplift the sales volume. Meanwhile, the Group will also continue with the promotion of its key products, Perilla Oil Capsule to further increase the brand awareness and acquire more market share of the product.

3. **Continuously expand its sales network and increase market penetration**

The Group will continue to make use of the nationwide distribution network of Jointown Pharmaceutical Group Co., Ltd. to distribute products in rural communities in a dozen of southern provinces in China in order to consolidate our sales network further and stabilize the development of the proportion of sales in the rural market. The Group's existing sales network has extensively covered the rural market. We will strive to increase penetration in the community and rural markets in the future, with focus on 2A and 2B grade county hospitals and health centers in villages and towns.

The Group will make use of its solid financial strength to cope with the severe challenges calmly and with prudence, and promote existing products while constantly developing of new medicines, so as to maintain sustainable and optimal development of the enterprise while striving for maximum return for the shareholders.

Financial Review

1. **Turnover**

The Group's turnover recorded approximately RMB569.3 million (2010: RMB564.5 million), representing a slight increase of approximately 0.8% over last year. As disclosed in the 2011 Interim Report and the profit warning announcement of the Company dated 26 August 2011 and 30 January 2012 respectively, the State has for many times demanded pharmaceutical enterprises to lower medicine prices since 2010, the overall prices of medicines dropped significantly as the primary comprehensive reform has gained certain progress. Meanwhile, the NDRC issued the "Notice of Adjustment on the Maximum Retail Price of Certain Pharmaceuticals Related to Antibiotics and Cardiovascular Drugs"《關於調整部分抗微生物類和循環系統類藥品最高零售價格的通知》on 28 March 2011, which stipulated that the maximum retail prices of major antibiotics and medicines for long term use should be reduced by more than 20% on average. On the other hand, market competition has become increasingly intensified, and the popularity of Bid Winning at Lowest Price mode in the tendering procurement of national drugs led to further decline of sales price of products. In such an extremely challenging business environment and under multiple challenges arisen from the State policies and market pressures, the prices of some products are required to be lowered so as to align with the purchasing power and maintain its market share. In spite of this, the Group made every effort to improve its operation and turnover in the second half of the year amounted to approximately RMB300.6 million (first half of the year: approximately RMB268.7 million), an increase of approximately 11.9% compared with the first half of the year.

Turnover for 2011 was still dominated by the Western medicines, with a turnover of approximately RMB291.3 million recorded by the Group, accounting for approximately 51.2% of the overall turnover, a decrease of approximately 0.3% over last year (2010: approximately RMB292.1 million, representing approximately 51.7% of the overall turnover) as further restrictions and quality requirements on various aspects were imposed by SFDA. Turnover of the Chinese medicines amounted to approximately RMB265.0 million, accounting for approximately 46.5% of the overall turnover, an increase of approximately 2.7% over last year (2010: approximately RMB258.0 million, representing approximately 45.7% of the overall turnover). The gap between the turnover of Western medicines and Chinese medicines has been further narrowed. In addition, the newly added pharmaceutical trading revenue since the second half of 2008 recorded a turnover of approximately RMB13.0 million, representing approximately 2.3% of total turnover (2010: approximately RMB14.4 million, representing approximately 2.6% of the overall turnover), a decrease of approximately 9.7% over last year.

Although our key product, the Perilla Oil Capsule, has obtained approval from authorities in Fujian, Shanxi, Inner Mongolia and Xinjiang for listing in the medical insurance directory since last year and is still in the protection period, as it has yet to be listed in the national medical insurance directory, sales of the product were affected to some extent. Sales for the year amounted to approximately RMB45.6 million, representing approximately 8.0% of the overall turnover, a slight decrease of approximately 6.6% over last year (2010: approximately RMB48.8 million, representing approximately 8.6% of the overall turnover).

The highest sales volume during the year was again achieved by Western medicines, N(2)-L Alanyl-L-Glutamine Injectible, with a turnover of approximately RMB68.8 million, representing approximately 12.1% of the overall turnover (2010: approximately RMB81.9 million, representing approximately 14.5% of the overall turnover). Sales of the five top selling medicines amounted to approximately RMB226.7 million, representing approximately 39.8% of the overall turnover (2010: approximately RMB254.8 million, representing approximately 45.1% of the overall turnover).

2. Gross Profit and Gross Profit Margin

Gross profit of the Group decreased to approximately RMB203.6 million, representing a decrease of approximately 12.8% over last year (2010: approximately RMB233.5 million). Gross profit margin decreased by approximately 5.6 percentage points to approximately 35.8% over last year (2010: approximately 41.4%). The three main reasons for the decrease are as follows:

1) The overall prices of raw materials and packaging materials rose by approximately 14.9% as compared with last year. Relevant costs for the current year amounted to RMB303.0 million, representing approximately 82.9% of the overall costs of sales (2010: approximately RMB263.8 million, representing approximately 79.7% of the overall costs of sales), which led to the increase of production costs;

2) As mentioned above, while the model of Bid Winning at Lowest Price was implemented in tendering procurement of national drugs, market competition has also become increasingly intensified. Facing multiple challenges from the State policies and market pressure, the prices of some products are required to be lowered so as to align with the purchasing power of the market and market share. As a result, the overall gross profit margin was affected; and

3) In addition, as the new GMP certification (Administrative Measures Governing the Production Quality of Pharmaceutical Products) was implemented by SFDA on 28 March 2011, part of our large volume injectible, small volume injectible and tablet plants and some public utilities have to be upgraded, so the Group is required to increase capital expenditure for construction and development of plants and new production facilities since last year. The depreciation charges for current year therefore increased to approximately RMB29.3 million, representing an increase of approximately 3.5% over last year (2010: approximately RMB28.3 million). Gross profit decreased due to the increase of depreciation within sales costs.

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

3. Profit for the Year

In 2011, profit for the year of the Group amounted to approximately RMB56.9 million, representing a decrease of approximately 46.3% from 2010 (2010: approximately RMB106.0 million). As a number of related measures, guidelines and quality related requirements have been promulgated by the Chinese government, the supervision and regulations imposed on the domestic pharmaceutical industry have been tightened. Meanwhile, the model of Winning by Lower Price in tendering procurement of national drugs led to further decrease in sales prices of pharmaceutical products, and the price inflation in Mainland China resulted in the increase in costs of raw materials, packaging materials and salary expenses, hence the profit of pharmaceutical enterprise was inevitably affected.

In addition, distribution costs of the Group decreased approximately 1.4% to approximately RMB75.0 million (2010: approximately RMB76.1 million). During the year, the advertising and marketing expenses of our three wholly-owned subsidiaries in the PRC totalled approximately RMB53.0 million (2010: approximately RMB56.9 million). The main reasons for maintaining the advertising and marketing expenses were to increase the brand and product awareness of "Sanai" which would contribute to wider recognition of our products by the public and patients. Advertising also helped in the exploration of new rural market and product promotion, especially the brand awareness of "Sanai" in rural market during the year. The management believed that the effects of advertising will be achieved soon.

It is the fourth year since our new product Perilla Oil Capsule was launched in the market. To increase the awareness and public acceptance of the product, advertising and marketing efforts for the product continued during the year and related expenses amounted to approximately RMB8.0 million (2010: approximately RMB8.6 million), which were comparable with last year and used in television advertisement and academic promotion. The Group engaged experts and specialists in the relevant professional fields to hold academic promotional seminars for medical personnel across the nation. Through these seminars, doctors and patients had a clearer understanding of the pharmacology, efficacy and benefits of our products.

Administrative and other expenses amounted to approximately RMB47.1 million (2010: approximately RMB 39.2 million), representing an increase of approximately 20.2 % as compared to the previous year. This was mainly due to the fact that the State polices have undergone standardized revision in October 2010 and some of the local preferential tax treatments and exemptions originally enjoyed by foreign investment enterprises have been cancelled since 30 November 2010, leading to an increase of approximately 167.9% in urban construction and maintenance tax and education surtax for the year 2011 to approximately RMB14.2 million (2010: approximately RMB 5.3 million).

The impairment loss on intangible assets recognised during the year amounted to approximately RMB 12.3 million and discloses in the separate line in the consolidated statement of comprehensive income. Such non-cash and nonrecurring expense relates to the Group's three products under development, namely Fibrauretini and Sodium Chloride Injectible (黃藤素氯化鈉注射液), Pazufloxacin Mesilate Injectible (甲磺酸帕珠沙星氯化鈉注射液) and Nano Carbon Suspension Injectible (納米炭混懸注射液). Those three products under development have been completed all technical assessments and major clinical researches for more than 5 years and are awaiting an approval for registering the new products from SFDA. Although the Group from time to time carried out a review and put all effort for satisfying those extensive regulatory registration procedures since 2006, the Group did not receive any indication for determining the timing for registration approval from SFDA.

Finally, regarding our two wholly-owned subsidiaries in the PRC, Fujian Sanai has enjoyed a preferential tax arrangement at half of the Corporate Income Tax rate in the PRC since 2006, which continued until 2010. Since 1 January 2011, Fujian Shanai has to pay Corporate Income Tax at the rate of 25%. Another wholly-owned foreign investment subsidiary, Fuzhou Sanai has enjoyed a preferential tax arrangement of exemption from Corporate Income Tax rate for two years and 50% reduction for the following three years in the PRC since 2008, which will expire until 2012. Fuzhou Sanai still enjoyed such preferential tax arrangement. Tax expenses of the Group were approximately RMB21.9 million (2010: approximately RMB17.0 million) in total and the effective tax rate was 27.8% (2010: approximately 13.8%). It included withholding deferred income tax for the provision of undistributed profits for the three wholly-owned subsidiaries in the PRC and the deferred income tax expense amounted to approximately RMB0.9 million (2010: approximately RMB1.3 million).

4. Liquidity, Financial Resources and Capital Structure

As at 31 December 2011, the Group had cash and cash equivalents of approximately RMB815.9 million (2010: approximately RMB1,098.9 million). The Group continued to maintain a stable financial position with low gearing and healthy cash flows. The Group generated a net cash inflow from operating activities of approximately RMB117.5 million (2010: approximately RMB131.6 million). During the year, the Group did not use any financial instruments for hedging purpose.

The Group reviewed the capital structure by using a gearing ratio. The gearing ratio representing the total debt, which includes trade and other payables and obligations under a finance lease, of the Group divided by total equity of the Group. The gearing ratio of the Group was approximately 5.7% as at 31 December 2011 (2010: approximately 6.6%).

5. Exposure to Fluctuation in Exchange Rates

For the year ended 31 December 2011, 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 2011, the Group did not have any bank liabilities, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group was not exposed to any material interest and exchange risks.

Further discussion on financial risk management objectives and policies is included in the "Financial Instruments" section of note 5 at the Financial Statements.

6. Material Acquisitions and Disposal of Investments

For the year ended 31 December 2011, the Group did not have any material acquisition and disposal of investment.

7. The Number and Remuneration of Employees

For the year ended 31 December 2011, the Group employed approximately 463 employees (2010: 468 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 2011, the net book value of furniture, fixtures and equipment of approximately RMB29.9 million (2010: approximately RMB34.2million) includes an amount of approximately RMB Nil (2010: approximately RMB4,000) in respect of asset held under a finance lease.

9. **Contingent Liabilities**

As at 31 December 2011, the Group did not have any contingent liabilities (2010: Nil).

10. **Capital Expenditure**

For the year ended 31 December 2011 capital expenditure of the Group for property, plant and equipment and land use rights amounted to approximately RMB146.5 million (2010: approximately RMB32.2 million).

11. **Capital Commitments**

As at 31 December 2011, the Group's capital expenditure contracted for but not provided in the financial statements amounted to approximately RMB88.9 million (2010: approximately RMB55.3 million).

12. **Use of Proceeds**

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

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

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

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

For the year ended 31 December 2010, the Group has continuously spent approximately RMB1.3 million for promotion of our brand through advertisement in some major national TV channels in the PRC. In addition, approximately RMB2.2 million has been utilized for research and development.

For the year ended 31 December 2011, the Group has continuously spent approximately RMB3.5 million for research and development.

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

Corporate Governance Report

Corporate Governance Practices

Throughout the year ended 31 December 2011, based on the principles of good corporate governance as stipulated in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company further regulated and improved the structure of corporate governance of the Company, 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's actual compliance with the Code is detailed in the report of Corporate Governance.

Directors' Securities Transactions

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. In addition, the Company has made specific enquiries of all Directors and each Director had confirmed that during the year 31 December 2011, they have fully complied with the required standards.

Board of Directors

The Board currently consists of eight members, with three Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director are shown on pages 19 to 20 of this report.

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

The Board is responsible for planning and overseeing the overall development and management of the Group with the objective of enhancing Shareholders' value. The Board, led by the Chairman, is responsible for the approval and monitoring of the overall strategies and policies of the Group, approval of annual budgets and business plans, evaluation of the Company's performance and oversight of the works of management.

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 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. Each Independent Non-executive Directors has, pursuant to Rule 3.13 of the Listing Rules, confirmed that he is independent of the Company and the Board also considers that they are independent.

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

In 2011, the Board had convened four Board meetings. Attendance record of the Directors:

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
Non-executive Directors	
Mr.Tang Bin	4/4
Mr. John Yang Wang	4/4
Independent Non-executive Directors	
Mr. Lam Yat Cheong	4/4
Mr. Liu Jun	4/4
Mr. Du Jian	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

In full compliance with Rules 3.10(1) and (2) of the Listing Rules, during the year ended 31 December 2011, the Company has appointed three Independent Non-executive Directors, at least one of whom has appropriate professional accounting qualifications. The Company has received from each Independent Non-executive Director an annual confirmation of his independence, and the Company considers such directors to be independent in accordance with each and every guideline set out under the Listing Rules.

Save and except Mr. Du Jian whose appointment term is from 11 June 2009 to 10 June 2012, other Non-executive Directors (including Independent Non-executive Directors) are appointed for a term of one year from 1 February which will be renewed every year 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. During the period under review, 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)*	–	Chairman	Chairman
Mr. Lin Qing Ping	–	–	Member
Mr. Xu Chao Hui			
Non–executive Directors			
Mr. Tang Bin	–	–	–
Mr. John Yang Wang	–	–	–
Independent Non–executive Directors			
Mr. Lam Yat Cheong	Chairman	Member	Member
Mr. Liu Jun	Member	Member	Member
Mr. Du Jian	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 2011 and the annual result announcement and annual report for the year ended 31 December 2011 have been reviewed by the AC, and with recommendation to the Board for approval.

The AC shall meet at least twice a year after the Listing Date. On 23 March 2012, a meeting of the AC was held and Mr. Lam Yat Cheong (Chairman), Mr. Liu Jun and Mr. Du Jian, being all members of the AC were present at the meeting and the consolidated financial statement of the Company for the year ended 2011 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 and the website of the Stock Exchange.

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 with an 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 2011 with Mr. Lin Ou Wen (Chairman), Mr. Lam Yat Cheong, Mr. Liu Jun and Mr. Du Jian, 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 2012.

In order to comply with the amendments to the Listing Rules which becomes effective on 1 April 2012, Mr. Lam Yat Cheong has been appointed as the chairman of the RC in replace of Mr. Lin Ou Wen through a board meeting on 24 February 2012 with all Directors' consent. Mr. Lin Ou Wen remained as a member of the RC.

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 29 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 and the website of the Stock Exchange.

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 2 December 2011, a NC meeting was held with Mr. Lin Ou Wen (Chairman), Mr. Lin Qing Ping, Mr. Lam Yat Cheong, Mr. Liu Jun and Mr. Du Jian 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 and the website of the Stock Exchange.

Auditor's Remuneration

CCIF CPA Limited 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 2011 was HK$750,000. There is no non-audit service provided by the auditor to the Company during the period under review.

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 2011, 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.

CCIF CPA Limited, the auditor of the Company, has presented their responsibilities in the independent auditor's report as set out on page 27.

Internal Controls

The Board places great importance on internal control and risk management and is responsible for establishing and maintaining adequate internal control over financial reporting for the Company an assessing the overall effectiveness of those internal controls.

The Company has an internal audit department which plays a major role in monitoring the internal governance of the Company. The major tasks of the internal audit department are reviewing the financial condition and management of the Company and conducting comprehensive audits of all subsidiaries of the Company on a regular basis. The company has taken many steps to enhance the internal control of the Company, such as having all departments internal control inspection and appraisal, strengthening the checks and supervision of implementation of the internal control systems by the audit department and according to some weakness found during examination of the internal control, further improving the internal control system and strengthening the implementation of all the internal control systems.

In September 2011 and March 2012, 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 believes that shareholders' rights should be well respected and protected. The Company endeavours to maintain good communications with shareholders on its performance through interim reports, annual reports, general meetings and public disclosure on the Company's website (www.wuyi-pharma.com), so that they may make an informed assessment for their investments and exercise their rights as shareholders. The Company also encourages shareholders' participation through general meetings or other means.

Directors and Senior Management

Executive Directors

Mr. Lin Ou Wen, aged 55, 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 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. In January 2004, he established Fuzhou Sanai and has 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. He has over 10 years of experience in the pharmaceutical industry. He is the younger brother of Mr. Lin Qing Ping.

Mr. Lin Qing Ping, aged 62, 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 23 years of experience in business management and 13 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 42, 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.

Non-executive Directors

Mr. Tang Bin, aged 54, 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 42, is a Non-executive Director. He obtained 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 18 years of experience in investment banking and consulting.

Independent Non-executive Directors

Mr. Liu Jun, aged 45, 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 50, 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 the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accounts. He has been registered as a Certified Public Accountant (Practising) and a Certified Tax Adviser in Hong Kong since 2000 and 2010 respectively.

Mr. Du Jian, aged 71, is an Independent Non-executive Director. He graduated from the Fujian College of Traditional Chinese Medicine in 1965 and obtained a diploma in traditional Chinese medicine. Before he was appointed as the Independent Non-executive Director in June 2009, he had worked as a teacher, physician, lecturer, associate professor, professor, chief physician and doctoral advisor at the Fujian College of Traditional Chinese Medicine from September 1965 to April 2008. Mr. Du worked as a vice president of the college from November 1983 to December 1986 and was promoted and acted as the president of the college from January 1987 to April 2008. In addition, he has acted as a vice president of the Institute of Integrated Traditional and Western Medicine from May 2008 up to the present.

Senior Management

Mr. Chen Zhi Chuan, aged 47, 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 9 years of experience in the pharmaceutical industry.

Mr. Cheng Shi De, aged 53, 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 27 years of experience in the pharmaceutical industry.

Mr. Chen Gui Dong, aged 46, 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 22 years of experience in the pharmaceutical industry.

Ms. Yang Ai Min, aged 36, 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 11 years of experience in the pharmaceutical industry.

Company Secretary and Qualified Accountant

Mr. Kung Wai Chiu, Marco, aged 38, is the Company Secretary 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 two master's degrees in business administration from the University of Wollongong, Australia, in 2005 and in corporate governance from the Hong Kong Polytechnic University in 2008, respectively. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He is also a Chartered Secretary of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. He has been registered as a Certified Public Accountant (Practising) and a Certified Tax Adviser in Hong Kong since 2007 and 2010 respectively. He has over 11 years' experience in business advisory services and financial management. He joined the Group since August 2006.

Directors' Report

The Directors would like to present their annual report together with the audited accounts of the Company for the year ended 31 December 2011.

Principal Activities

The Company is an investment holding company. The principal activities of its major subsidiaries are set out in note 21 to the consolidated financial statement.

Results and Appropriations

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 28.

A final dividend for the year ended 31 December 2011 of HK0.8 cent (2010: HK1.6 cents) per share, amounting to a total final dividend of approximately RMB11.1 million, is to be proposed for the approval of shareholders at the forthcoming annual general meeting

Closure of Register of Members

The Register of Members will be closed from Wednesday, 30 May 2012 to Thursday,7 June 2012 (both days inclusive) and from Thursday, 28 June 2012 to Friday, 6 July 2012 (both days inclusive). In order to be qualified for attending the annual general meeting in 2012, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 29 May 2012. In order to qualify for the proposed final dividend for the year ended 31 December 2011, all transfer documents accompanied by the relevant share certificates, must be lodged with the Registrar of the Company, Computershare Hong Kong Investors Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Wednesday, 27 June 2012.

Reserves

As at 31 December 2011, the Company's reserve available for distribution amounted to RMB952,856,000 (2010: RMB1,142,422,000). Movements in the reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity on page 31 and in note 28 to the financial statements respectively.

Property, Plant and Equipment

Movements in the property, plant and equipment of the Company during the year are set out in note 17 to the financial statements.

Share Capital

Movements in the share capital of the Company during the year are set out in note 28 to the financial statements.

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 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

The Company has not purchased, sold or redeemed any of its listed securities during the year end of 31 December 2011.

Directors

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

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

Non-executive Directors

Mr. Tang Bin
Mr. John Yang Wang

Independent Non-executive Directors

Mr. Liu Jun
Mr. Lam Yat Cheong
Mr. Du Jian

According to the requirements of Article 87(1) of the articles of association of the Company, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Mr. Liu Jun, Mr. Lam Yat Cheong and Mr. Du Jian will retire and being eligible, offer themselves for re-election in the forthcoming annual general meeting.

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

Annual Confirmation of Independence

The Company has received from each Independent Non-executive Directors an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out in rule 3.13 of the Listing Rules.

Biographical Details of the Directors and the Senior Management

The biographical details of the Directors and Senior Management are set out on pages 19 to 20 of this Annual Report.

Directors' Service Contracts

None of the Directors (including Directors standing for re-election in the forthcoming annual general meeting) has entered into any contract of service, which is not determinable by the employer within one year without payment of compensation (other than statutory compensation), with the Company or any of its subsidiaries.

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, the share option scheme adopted by the Company, as part of their remuneration package.

Management Contracts

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 32 to the financial statements.

Directors' interests in Contracts of Significance

Save as disclosed in section under "Continuing Connected Transaction" on pages 24 to 25 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 Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its associated corporations

As at 31 December 2011, the interests or short positions of the Directors and Chief Executives 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)	413,007,450 (L) 413,007,450 (S)	24.16% 24.16%
		Interest of spouse (Note 3)	42,687,627 (L) 42,687,627 (S)	2.5% 2.5%
Mr. Lin Qing Ping	The Company	Interest of controlled corporation (Note 4)	280,352,000 (L) 280,352,000 (S)	16.4% 16.4%

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 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. 136,951,000 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. Mr. Lin Ou Wen is deemed to be interested in all the Shares referred to in note 2 above, in which Ms. Xue Mei, his spouse, is interested by virtue of the SFO.

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.

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 2011.

Directors' Right to Acquire Shares or Debentures

At no time during the year ended 31 December 2011 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 Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

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

As at 31 December 2011, the interests and short positions of the following shareholders, other than a Director or Chief Executive of the Company, in the shares or underlying shares 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 are 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	280,352,000 (L) 280,352,000 (S)	16.4% 16.4%
Mr. Lin Qing Ping	The Company	Interest of controlled corporation (Note 2)	280,352,000 (L) 280,352,000 (S)	16.4% 16.4%
Thousand Space Holdings Limited	The Company	Beneficial owner	413,007,450 (L) 413,007,450 (S)	24.16% 24.16%
Mr. Lin Ou Wen	The Company	Interest of controlled corporation (Note 3)	413,007,450 (L) 413,007,450 (S)	24.16% 24.16%
		Interest of spouse (Note 4)	42,687,627 (L) 42,687,627 (S)	2.5% 2.5%
Ms. Xue Mei	The Company	Interest of spouse (Note 4)	413,007,450 (L) 413,007,450 (S)	24.16% 24.16%
		Interest of controlled corporation (Note 4)	42,687,627 (L) 42,687,627 (S)	2.5% 2.5%
Orient Day Management Limited	The Company	Beneficial owner	136,951,000 (L) 136,951,000 (S)	8.01% 8.01%
Mr. Liu Dao Hua	The Company	Interest of controlled corporation (Note 4)	136,951,000 (L) 136,951,000 (S)	8.01% 8.01%
Pope Investments LLC	The Company	Beneficial Owner	102,400,000 (L)	5.99%
Pope Asset Management, LLC	The Company	Interest of controlled corporation (Note 5)	136,652,500 (L)	7.99%
Wells William P	The Company	Interest of controlled corporation (Note 5)	102,400,000 (L)	5.99%
Credit Suisse (Hong Kong) Limited	The Company	Beneficial Owner (Note 6)	133,545,000 (L) 66,772,500 (S)	7.81% 3.9%
Credit Suisse (International) Holding AG	The Company	Interest of controlled corporation (Note 6 and 7)	133,545,000 (L) 66,772,500 (S)	7.81% 3.9%
Credit Suisse	The Company	Interest of controlled corporation (Note 6 and 7)	133,545,000 (L) 66,772,500 (S)	7.81% 3.9%
CCB Financial Holdings Limited	The Company	Interest of controlled corporation (Note 8)	885,097,000(L)	51.77%
CCB International (Holdings) Limited	The Company	Interest of controlled corporation (Note 8)	885,097,000(L)	51.77%
CCB International Asset Management Limited	The Company	Interest of controlled corporation (Note 8)	885,097,000(L)	51.77%
CCB International Assets Management (Cayman) Limited	The Company	Interest of controlled corporation (Note 8)	885,097,000(L)	51.77%
CCB International Group Holdings Limited	The Company	Interest of controlled corporation (Note 8)	885,097,000(L)	51.77%
Central Huijin Investment Ltd.	The Company	Interest of controlled corporation (Note 8)	885,097,000(L)	51.77%
China Construction Bank Corporation	The Company	Interest of controlled corporation (Note 8)	885,097,000(L)	51.77%
Huifu Holdings Limited	The Company	Person having a security interest in shares (Note 8)	885,097,000(L)	51.77%

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 Pope Investments LLC, which is controlled by Pope Asset Management LLC, which is in turn controlled by Wells William P.

(6) 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 be interested in all the Shares in which Credit Suisse (Hong Kong) Limited is interested for the purpose of the SFO.

(7) 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 aredeemed to hold or hold a short position of 66,772,500 Shares as defined under Part XV of the SFO.

(8) Huifu Holdings Limited is interested in these Shares due to its security interest. Huifu Holdings Limited is wholly owned by CCB International Asset Management Limited, which is in turn wholly owned by CCB International Assets Management (Cayman) Limited, which is in turn wholly owned by CCB International (Holdings) Limited, which is in turn wholly owned by CCB Financial Holdings Limited, which is in turn wholly owned by CCB International Group Holdings Limited, which is in turn wholly owned by China Construction Bank Corporation, which is in turn owned as to 57.1% by Central Huijin Investment Ltd.

Save for the 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 Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under 336 by the SFO as at 31 December 2011.

Continuing Connected Transactions

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 Group on an arm's length basis for the pharmaceutical products manufactured by the Group 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.

福建三愛藥業有限公司Fujian Sanai Pharmaceutical Co. Ltd. ("Fujian Sanai"), a wholly-owned subsidiary of the Company, and Fuzhou Hongyu entered into a sale and purchase agreement for the sale and purchase of packaging materials from Fuzhou Hongyu to Fujian Sanai. The aforementioned sale and purchase agreement expires on 31 December 2008 and on 5 December 2008, Fujian Sanai and福州三愛藥業有限公司Fuzhou Sanai Pharmaceutical Co. Ltd. ('Fuzhou Sanai'), a wholly-owned subsidiary of the Company, entered into a new sale and purchase agreement (the "2008 Agreement") with Fuzhou Hongyu in respect of the sale and purchase of packaging materials from Fuzhou Hongyu for a term of 3 years from 1 January 2009 to 31 December 2011.

The entire share capital of Fuzhou Honyu is owned by Lin Ou Wen, the chairman of the Company, the executive Director and a substantial shareholder. Accordingly, Fuzhou Honyu is a connected person of the Company.

By reference to (i) the actual amounts of the transactions under the old sale and purchase agreement in the recent years; (ii) the estimated demand for packaging materials for the products of Fujian Sanai from Fuzhou Hongyu during the term of the new sale and purchase agreement; and (iii) the estimated demand for packaging materials for the products of Fuzhou Sanai from Fuzhou Hongyu during the term of the new sale and purchase agreement, the annual caps are set at RMB10,000,000 for each of the years ending 31 December 2009, 2010 and 2011.

The unit purchase prices of the packaging materials under the new sale and purchase agreement were determined by reference to (i) the current market price of similar products in the market; (ii) the unit purchase prices of the packaging materials offered by the independent third parties to Fujian Sanai and Fuzhou Sanai in their ordinary course of business; and (iii) the manufacturing costs for the packaging materials, including labour costs.

After the expiry of the 2008 Agreement, on 2 December 2011, Fujian Sanai and Fuzhou Sanai have entered into a new sale and purchase agreement with Fuzhou Hongyu in respect of the above continuing connected transactions for a term of 3 years from 1 January 2012 to 31 December 2014.

The Board has approved and the Independent Non-executive Directors have reviewed and confirmed that the above continuing connected transaction has been entered into:

(a) in the usual and ordinary course of businesses of the Group;

(b) on normal commercial terms; and

(c) in accordance with the relevant written agreements governing on terms that are fair and reasonable and in the interests of the shareholders as a whole.

The related party transactions disclosed in note 33 to the financial statements and have complied with the disclosure requirements under Chapter 14A of the Listing Rules if applicable.

Share Options

Details of the Company's share option scheme are set out in note 29 to the financial statements.

No share options had been granted or exercised during the year ended 31 December 2011. As at 31 December 2011, no share options of the Company were outstanding.

Directors' and Management Emoluments

Particulars of directors' and emoluments and the five highest paid individuals in the Group are set out in note 11 and 12 respectively 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:

	2011	2010
	%	%
Turnover		
The largest customer	**4.0**	4.5
Five largest customers in aggregate	**16.5**	19.8
Purchases		
The largest supplier	**12.6**	16.7
Five largest suppliers in aggregate	**49.0**	49.2

Fuzhou Hongyu is one of the five largest suppliers which is 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 major suppliers and major customers noted above.

Corporate Governance

Report for the corporate governance principles and practices adopted by the Company is set out on pages 15 to 18 of this report.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

Donations

During this year, the Group made charitable donations amounting to RMB196,300 (2010: RMB4,079,000).

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 2011.

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 Directors, the Directors have complied with the required standard 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

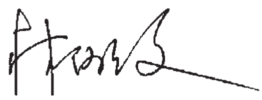
In compliance with Rule 3.21 of the Listing Rules, the Board has established an audit committee on 8 January 2007, with written terms of reference. The primary duties of the audit committee are to review the financial reporting procedures and internal controls and provide guidance in relation thereto. The audit committee comprises the three Independent Non-executive Directors of the Company.

The Audit Committee 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 2011 have been reviewed by the audit committee before recommending to the Board for approval.

Auditor

The financial statements of the Company for the year ended 31 December 2011 have been audited by Messrs. CCIF CPA Limited. A resolution will be submitted at the annual general meeting of the Company to re-appoint Messrs. CCIF CPA Limited as auditor of the Company.

On behalf of the Board



LIN OU WEN
Chairman

Hong Kong, 28 March, 2012

Independent Auditor's Report

CCIF

CCIF CPA LIMITED

34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

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 (together "the Group") set out on pages 28 to 75, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made 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 about 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 of consolidated financial statements that give a true and fair view 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 affairs of the Company and of the Group as at 31 December 2011, and of the Group's 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.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 28 March 2012

Sze Chor Chun, Yvonne
Practising Certificate Number P05049

Consolidated Statement of Comprehensive Income

For the Year ended 31 December 2011

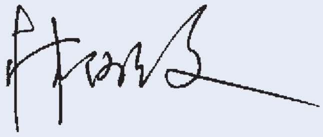
	Notes	2011 RMB'000	2010 RMB'000
Turnover	7	**569,285**	564,539
Cost of sales		**(365,673)**	(331,030)
Gross profit		**203,612**	233,509
Other revenue and net income	8	**9,621**	4,757
Distribution costs		**(75,013)**	(76,079)
Administrative and other expenses		**(47,134)**	(39,188)
Impairment loss on intangible assets	19	**(12,277)**	–
Finance costs	9	**–**	(1)
Profit before tax	10	**78,809**	122,998
Income tax	14	**(21,939)**	(17,046)
Profit for the year attributable to owners of the Company	13	**56,870**	105,952
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year attributable to owners of the Company		**56,870**	105,952
Earnings per share – Basic and diluted	16	**RMB3.3 cents**	RMB6.2 cents

Consolidated Statement of Financial Position

As at 31 December 2011

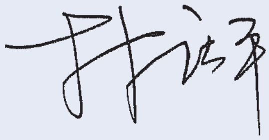
	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	17	**468,715**	353,926
Land use rights	18	**66,555**	67,973
Intangible assets	19	**1,789**	16,452
Deposits for the acquisition of non-current assets	20	**154,500**	46,000
Deferred tax assets	27(b)	**6,815**	4,206
		698,374	488,557
Current assets			
Inventories	22	**21,738**	17,312
Trade and other receivables	23	**121,830**	171,654
Cash and cash equivalents	24	**815,814**	1,098,894
		959,382	1,287,860
Current liabilities			
Trade and other payables	25	**89,029**	109,557
Tax payable	27(a)	**7,612**	9,467
		96,641	119,024
Net current assets		**862,741**	1,168,836
Total assets less current liabilities		**1,561,115**	1,657,393
Non-current liabilities			
Deferred tax liabilities	27	**6,359**	8,816
Net assets		**1,554,756**	1,648,577
Capital and reserves			
Share capital	28(b)	**17,098**	17,098
Reserves		**1,537,658**	1,631,479
Total equity attributable to owners of the Company		**1,554,756**	1,648,577

Approved and authorised for issue by the board of directors on 28 March 2012 and signed on its behalf by:



Lin Ou Wen

Chairman and Chief Executive Officer



Lin Qing Ping

Executive Director, General Manager and Chief Operating Officer

Statement of Financial Position

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Investments in subsidiaries	21	**214,786**	214,786
Current assets			
Other receivables	23	**754,135**	943,040
Cash and cash equivalents	24	**1,051**	1,707
		755,186	944,747
Current liabilities			
Other payables	25	**18**	13
Net current assets		**755,168**	944,734
Total assets less current liabilities		**969,954**	1,159,520
Capital and reserves			
Share capital	28(a)	**17,098**	17,098
Reserves		**952,856**	1,142,422
Total equity		**969,954**	1,159,520

Approved and authorised for issue by the board of directors on 28 March 2012 and signed on its behalf by:

Lin Ou Wen
Chairman and Chief Executive Officer

Lin Qing Ping
Executive Director, General Manager and Chief Operating Officer

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2011

	Attributable to owners of the Company							
	Share capital (note 28(b)) RMB'000	Share premium (note 28(c)(i)) RMB'000	Special reserve (note 28(c)(ii)) RMB'000	Capital reserve (note 28(c)(iii)) RMB'000	Statutory surplus reserve (note 28(c)(iv)) RMB'000	Non–distributable reserve (note 28(c)(v)) RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2010	17,098	929,533	(124,106)	53,000	180,944	23,752	492,400	1,572,621
Profit and total comprehensive income for the year	–	–	–	–	–	–	105,952	105,952
Transfers	–	–	–	–	26,289	–	(26,289)	–
Dividends approved in respect of the previous year (note 15(c))	–	–	–	–	–	–	(29,996)	(29,996)
At 31 December 2010 and 1 January 2011	17,098	929,533	(124,106)	53,000	207,233	23,752	542,067	1,648,577
Profit and total comprehensive income for the year	–	–	–	–	–	–	56,870	56,870
Transfers	–	–	–	–	17,982	–	(17,982)	–
Dividends approved in respect of the previous year (note 15(c))	–	–	–	–	–	–	(150,691)	(150,691)
At 31 December 2011	17,098	929,533	(124,106)	53,000	225,215	23,752	430,264	1,554,756

Consolidated Statement of Cash Flows

For the Year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
Operating activities		
Profit before tax	78,809	122,998
Adjustments for:		
Interest income	(5,122)	(3,941)
Finance costs	–	1
Depreciation of property, plant and equipment	31,719	30,621
Amortisation of intangible assets	2,386	2,386
Amortisation of land use rights	1,418	1,138
Impairment loss on intangible assets	12,277	–
	121,487	153,203
Changes in working capital		
(Increase)/decrease in inventories	(4,426)	5,191
Decrease/(increase) in trade and other receivables	49,824	(32,295)
(Decrease)/increase in trade and other payables	(20,523)	20,528
Cash generated from operations	146,362	146,627
PRC corporate income tax paid	(28,860)	(15,050)
Net cash generated from operating activities	117,502	131,577
Investing activities		
Interest received	5,122	3,941
Purchase of property, plant and equipment	(130,508)	(12,167)
Payment for acquisition of land use rights	–	(2,922)
Payment for deposits for the acquisition of non-current assets	(124,500)	(46,000)
Net cash used in investing activities	(249,886)	(57,148)
Financing activities		
Interest paid	–	(1)
Dividends paid to owners of the Company	(150,691)	(29,996)
Repayment of obligations under a finance lease	(5)	(5)
Net cash used in financing activities	(150,696)	(30,002)
Net (decrease)/increase in cash and cash equivalents	(283,080)	44,427
Cash and cash equivalents at 1 January	1,098,894	1,054,467
Cash and cash equivalents at 31 December	815,814	1,098,894
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	815,814	1,098,894

1. General

Wuyi International Pharmaceutical Company Limited (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 financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Company, rounded up to the nearest thousand.

2. Changes In Accounting Policy

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Company and its subsidiaries (together the "Group"). Of these, the following developments are relevant to the Group's financial statements:

– HKAS 24 (revised 2009), Related Party Disclosures

– Improvements to HKFRSs (2010)

– HK(IFRIC) – Int 19, Extinguishing Financial Liabilities with Equity Instruments

– Amendments to HK(IFRIC) – Int 14, Prepayments of a Minimum Funding Requirement

The Group has not applied any new and revised HKFRSs that is not yet effective for the current accounting period.

The amendments to HK(IFRIC) – Int 14 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group. HK(IFRIC)-Int 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction.

The impacts of other developments are discussed below:

– HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group' related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because no entity within the Group is a government-related entity.

– Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial Instruments: Disclosures. The disclosures about the Group's financial instruments in note 5 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recoginsed in the financial statements in the current and previous periods.

3. Summary of Significant Accounting Policies

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity. These financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand except for per share date. Renminbi is the Company's functional and the Group's presentation currency.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as otherwise set out in the accounting policies below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4 to the financial statements.

c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

3. Summary of Significant Accounting Policies (Continued)

d) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair values, except that:

- a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12 Income Tax;

- assets or liabilities relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 Employee Benefits;

- liabilities or equity instruments relating to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that HKFRS.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. Summary of Significant Accounting Policies (Continued)

d) Business combinations (Continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 Financial Instruments: Recognition and Measurement, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

The policy described above is applied to all business combinations that take place on or after 1 January 2010.

e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Sale of goods

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership and is shown net of sales related taxes, returns, rebates and discounts and after eliminating sales within the Group.

ii) Interest income

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 on initial recognition.

3. Summary of Significant Accounting Policies (Continued)

f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i) Classification of assets leased to the Group

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset or, if lower, the present value of the minimum lease payments of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 3(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(m). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged as expenses in the accounting period in which they are incurred.

Payments for obtaining land use rights are considered as an operating lease payments and amortised over the lease term of the rights using the straight-line method.

3. Summary of Significant Accounting Policies (Continued)

g) 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 carried in the statement of financial position at cost less accumulated depreciation and any subsequent accumulated impairment losses.

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

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives, at the following rates per annum:

Buildings	3.33% or over the unexpired term of lease, if shorter
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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains or losses arising from the disposal or retirement of an item of property, plant and equipment are determined as the difference between the sales proceeds on disposal and the carrying amount of the item and recognised in profit or loss on the date of disposal or retirement.

h) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. Capitalised development costs are carried at cost less accumulated amortisation and accumulated impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group separately are carried at cost less accumulated amortisation (where the estimated useful life is finite) and accumulated impairment losses.

3. Summary of Significant Accounting Policies (Continued)

h) Intangible assets (Continued)

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets are amortised from the date they are available for use and their estimated useful lives are as follows:

Product development costs	5 years
Patents	5 years

Both the period and method of amortisation are reviewed annually.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

k) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are carried at cost.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

3. Summary of Significant Accounting Policies (Continued)

m) Impairment of assets

i) *Impairment of investments in equity securities and other receivables*

Investments in equity securities and other current and non-current receivables that are carried at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 3(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 3(m)(ii).
- For trade receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

3. Summary of Significant Accounting Policies (Continued)

m) Impairment of assets (Continued)

ii) *Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- land use rights;
- intangible assets; and
- deposits for the acquisition of non-current assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the higher of its fair value less costs to sell and its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

iii) *Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with HKAS 34 Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

3. Summary of Significant Accounting Policies (Continued)

n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those difference are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

3. Summary of Significant Accounting Policies (Continued)

n) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

o) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

3. Summary of Significant Accounting Policies (Continued)

o) Translation of foreign currencies (Continued)

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

p) Employee benefits

i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share option reserve within equity. The fair value is measured at grant date using the Black Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

3. Summary of Significant Accounting Policies (Continued)

q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of an outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of an outflow of economic benefits is remote.

r) Related parties

a) ***A person, or a close member of that person's family, is related to the Group if that person:***

i) has control or joint control over the Group;

ii) has significant influence over the Group; or

iii) is a member of the key management personnel of the Group or the Group's parent.

b) ***An entity is related to the Group if any of the following conditions applies:***

i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

iii) Both entities are joint ventures of the same third party.

iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

vi) The entity is controlled or jointly controlled by a person identified in note 3(r)(a).

vii) A person identified in note 3(r)(a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. Summary of Significant Accounting Policies (Continued)

s) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's chief executive officer, being the chief operating decision maker, for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. Accounting Judgements and Estimates

a) Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

i) Useful lives of intangible assets

The Group determines the estimated useful lives and related amortisation charges for its intangible assets. Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

ii) Useful lives of property, plant and equipment

The management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry activities. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

iii) Income taxes

Determining income tax provisions involves judgement of the future tax treatment of certain transactions and the interpretation of tax rules. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

4. Accounting Judgements and Estimates (Continued)

b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

i) Impairment of intangible assets

The policy for impairment of intangible assets of the Group is based on an 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. During the year, impairment loss on intangible assets were recognised in profit or loss amounting to RMB12,277,000 (2010: Nil) (note 19).

The carrying amount of intangible assets as at 31 December 2011 was RMB1,789,000 (2010: RMB16,452,000) (note 19).

ii) Impairment of non-current assets (other than intangible assets and deferred tax assets)

The Group assesses whether there are any indicators of impairment for all non-current assets (other than intangible assets and deferred tax assets) at the end of each reporting period. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2011 and 2010, no impairment of non-current assets (other than intangible assets and deferred tax assets) of the Group was recognised.

The carrying amount of non-current assets (other than intangible assets and deferred tax assets) as at 31 December 2011 was RMB689,770,000 (2010: RMB467,899,000) (note 17, 18 and 20).

iii) Estimated provision for impairment of trade and other receivables

The Group makes provision for impairment of trade and other receivables based on an assessment of the recoverability of trade and other receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates based on the credit history of the customers and the current market conditions. Where the expectation is different from the original estimate, such difference will impact the carrying amount of receivables and impairment allowance in the period in which such estimate has been changed.

The carrying amount of trade and other receivables as at 31 December 2011 was RMB121,634,000 (2010: RMB171,451,000) (note 23).

4. Accounting Judgements and Estimates (Continued)

b) Key sources of estimation uncertainty (Continued)

iv) Estimated net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to completion and estimated selling expenses. The Group writes down slow-moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Write-down of inventories will be made where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of the inventories and the amount of inventory written down in the period in which such estimate has been changed.

The carrying amount of inventories as at 31 December 2011 was RMB21,738,000 (2010: RMB17,312,000) (note 22).

v) Recoverability of deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences (including tax losses) can be utilised. The assessment on the probability of whether the recognised deferred tax assets can be fully recovered involves the uses of judgement and estimates. As at 31 December 2011, the Group has recognised deferred tax assets of RMB6,815,000 (2010: RMB4,206,000) (note 27(b)). The management considers that the Group is capable of generating sufficient taxable profit from its future business operations for utilising the deductible temporary differences.

vi) Withholding tax on the distributable profits of the Group's PRC subsidiaries

On 16 March 2007, National People's Congress approved the Corporate Income Tax Laws of the PRC (the "New CIT Laws") which was effective from 1 January 2008. According to the relevant regulations of the New CIT Laws, when a foreign investment enterprise distributes dividends out of the profits earned from 1 January 2008 onwards to its overseas investors, they are subject to corporate income tax. The applicable corporate income tax rate varies with the origin of the overseas investors.

One of the Group's PRC subsidiaries had distributed all its distributable profits earned before 1 January 2008, therefore, the Board of Directors of the Company ("the Board") believes that the Company will not require its PRC subsidiaries to declare further dividends out of the profits earned from 1 January 2008 to 31 December 2011 in the foreseeable future. However, the Group will make provision for withholding tax on dividends expected to be remitted from group entities incorporated in the PRC, based on the Group's general dividend policy for the net profits generated by the Group's PRC subsidiaries after 1 January 2008. The Group provided withholding tax for such undistributed profits as deferred tax liabilities. The directors of the Company will regularly review the dividend distribution policy of its subsidiaries from time to time.

5. Financial Instruments

a) Categories of financial instruments

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Trade and other receivables	**121,634**	171,451	**754,135**	943,040
Cash and cash equivalents	**815,814**	1,098,894	**1,051**	1,707
	937,448	1,270,345	**755,186**	944,747
Financial liabilities				
Trade and other payables	**79,375**	96,164	**18**	13
Obligations under a finance lease	**–**	5	**–**	–
	79,375	96,169	**18**	13

b) Financial risk management objectives and policies

Details of the financial instruments are disclosed in the 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 risks to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the Group's exposure to those kinds of risks or the manner in which it manages and measures these risks.

i) Currency risk

The Group's presentation currency and the functional currency for the operations to which they relate are primarily RMB.

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

A) Exposure to currency risk

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The currencies giving rise to this risk are primarily United States Dollars ("USD") and Hong Kong Dollars ("HKD"). For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of the reporting period.

5. Financial Instruments (Continued)

b) Financial risk management objectives and policies (Continued)

i) *Currency risk (Continued)*

A) Exposure to currency risk (Continued)

	The Group				The Company	
	2011		2010		**2011**	2010
	USD'000	**HK$'000**	USD'000	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalents	**6**	**3,352**	6	3,018	**1,051**	1,707
Trade and other payables	**–**	**(790)**	–	(612)	**(18)**	(13)
Obligations under a finance lease	**–**	**–**	–	(5)	**–**	–
Net exposure arising from recognised assets and liabilities	**6**	**2,562**	6	2,401	**1,033**	1,694

B) Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% in the exchange rate of RMB against USD/HKD while all other variables are held constant. 5% is the sensitivity rate used when reporting foreign currency risk internally adopted by management and represents management's assessment of a reasonably possible change in foreign exchange rates to which the Group has significant exposure at the end of the reporting period. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusted at the end of each reporting period for a 5% change in foreign currency rates.

A positive number below indicates an increase in profit for the year where RMB weakens by 5% against the relevant currency. For a 5% strengthening of RMB against the relevant currency, there would be an equal and opposite impact on profit. The analysis is performed on the same basis for 2010.

The Group

	2011	2010
	RMB'000	RMB'000
Profit for the year and retained profits	**128**	120

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during the year.

5. Financial Instruments (Continued)

b) Financial risk management objectives and policies (Continued)

ii) *Interest rate risk*

The Group's fair value interest rate risk arises primarily from obligations under a finance lease carried at fixed rates. The Group's cash flow interest rate risk relates primarily from variable-rate bank balances. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management of the Company will consider hedging significant interest rate exposures should the need arises.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to cash flow interest rates at the end of the reporting period.

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit for the year and retained profits by approximately RMB6,499,000 (2010: RMB9,624,000). Other components of consolidated equity would not change (2010: Nil) in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for the amount of variable-rate bank balances in existence at that date. The 100 basis points increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis is performed on the same basis for 2010.

iii) *Credit risk*

a) At 31 December 2011, the Group's and the Company'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, arises from the carrying amounts of trade and other receivables and cash and cash equivalents as carried in the consolidated statement of financial position. In order to minimise credit risks, the management 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, management reviews the recoverable amount of each individual trade debt at the end of the reporting period 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.

b) In respect of bank balances, the Group has diversified its exposure into different financial institutions. Substantially all of the Group's bank balances are held in major financial institutions of high credit ratings located in the PRC, and are exposed to low credit risk in this aspect.

c) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the end of the reporting period, the Group had no significant concentrations of credit risk which individual trade and other receivables balance exceeds 10% of the total trade and other receivables at the end of the reporting period.

d) In respect of amount due from a subsidiary, the Company reviews the recoverable amount of individual debt to ensure that adequate impairment losses are made for irrecoverable amount. The Company has a concentration of credit risk of 100% (2010: 100%).

5. Financial Instruments (Continued)

b) Financial risk management objectives and policies (Continued)

iv) Liquidity risk

To manage liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the directors to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group held cash and cash equivalents amounting to approximately RMB815,814,000 at 31 December 2011 (2010: RMB1,098,894,000).

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

The Group

	Weighted average effective interest rate	Less than 6 months	6-12 months	1-5 years	Total undiscounted cash flows	Carrying amount at the end of the reporting period
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2011						
Trade payables	Nil	**61,667**	**–**	**–**	**61,667**	**61,667**
Other payables	Nil	**17,708**	**–**	**–**	**17,708**	**17,708**
		79,375	**–**	**–**	**79,375**	**79,375**
2010						
Trade payables	Nil	74,991	–	–	74,991	74,991
Other payables	Nil	21,173	–	–	21,173	21,173
Obligations under a finance lease	5.6	3	2	–	5	5
		96,167	2	–	96,169	96,169

The Company

	Weighted average effective interest rate	Less than 6 months	6-12 months	1-5 years	Total undiscounted cash flows	Carrying amount at the end of the reporting period
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2011						
Other payables	Nil	**18**	**–**	**–**	**18**	**18**
2010						
Other payables	Nil	13	–	–	13	13

5. Financial Instruments (Continued)

c) Fair value of financial instruments

The directors of the Company consider the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values as at 31 December 2011 and 2010 respectively because of the short maturity of these instruments.

6. Segment Information

The Group determines its operating segments based on the internal reports reviewed by the chief executive officer, being the chief operating decision maker, that are used to make strategic decisions.

The Group is organised into one single reporting segment in respect of the development, manufacturing, marketing and sales of pharmaceutical products. In addition, the Group's revenue from external customers is derived solely from its operations in the PRC and all material non-current assets of the Group are located in the PRC. Accordingly, no segment analysis by product and geographical perspectives is provided.

During 2011 and 2010, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

7. Turnover

Turnover represents the invoiced value of goods sold by the Group to external customers after deducting goods returned, trade discounts and sales tax.

	2011 **RMB'000**	2010 RMB'000
Sales of pharmaceutical products	**569,285**	564,539

8. Other Revenue and Net Income

	2011 **RMB'000**	2010 RMB'000
Other revenue		
Bank interest income	**5,122**	3,941
Total interest income on financial assets not at fair value through profit or loss	**5,122**	3,941
Other net income		
Exchange gain, net	**4,499**	–
Sundry income	**–**	816
	9,621	4,757

9. Finance Costs

	2011 RMB'000	2010 RMB'000
Finance charges on obligations under a finance lease	–	1
Total interest expense on financial liabilities not at fair value through profit or loss	–	1

10. Profit Before Tax

	2011 RMB'000	2010 RMB'000
Profit before tax is arrived at after charging:		
Directors' emoluments (note 11)	3,227	3,378
Other staff costs		
– Contributions to defined contribution retirement benefits scheme	3,544	3,459
– Salaries, wages and other benefits	34,962	31,880
Total staff costs *#	41,733	38,717
Depreciation of property, plant and equipment *#		
– owned by the Group	31,715	30,616
– held for own use under a finance lease	4	5
	31,719	30,621
Amortisation of intangible assets (note 19)	2,386	2,386
Amortisation of land use rights (note 18)	1,418	1,138
Auditor's remuneration	609	595
Exchange loss included in administrative and other expenses, net	–	27
Operating lease payments in respect of rented premises	889	887
Cost of inventories# (note 22)	365,673	331,030
Research and development costs *	3,514	2,248

\# Cost of inventories includes RMB37,813,000 (2010: RMB36,212,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

* Research and development costs includes RMB2,194,000 (2010: RMB1,964,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

11. Directors' Emoluments

Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:

	2011				2010			
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to defined contribution retirement benefits scheme RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to defined contribution retirement benefits scheme RMB'000	Total RMB'000
Executive directors								
Lin Ou Wen	970	236	42	1,248	1,019	248	42	1,309
Lin Qing Ping	647	236	40	923	680	248	40	968
Xu Chao Hui	194	179	33	406	204	185	32	421
Non-executive directors								
Tang Bin	130	–	–	130	136	–	–	136
John Yang Wang	130	–	–	130	136	–	–	136
Independent non-executive directors								
Liu Jun	130	–	–	130	136	–	–	136
Lam Yat Cheong	130	–	–	130	136	–	–	136
Du Jian	130	–	–	130	136	–	–	136
	2,461	651	115	3,227	2,583	681	114	3,378

During the year, no emoluments were paid by the Group to the directors 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 (2010: Nil).

12. Individuals With Highest Emoluments

The five highest paid individuals of the Group for the year include:

	2011	2010
Number of directors	3	3
Number of other individuals	2	2
	5	5

The emoluments of the directors of the Company are disclosed in note 11. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other benefits	1,006	968
Contributions to defined contribution retirement benefits scheme	43	43
	1,049	1,011

The emoluments of the remaining individuals with the highest emoluments fell within the following band:

	Number of individuals	
	2011	2010
Emoluments band		
Nil-HK$1,000,000 (approximately equivalent to RMB830,000 (2010: RMB870,000))	2	2

13. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company includes a loss of approximately RMB38,875,000 (2010: RMB34,394,000) which has been dealt with in the financial statements of the Company.

14. Income Tax in The Consolidated Statement of Comprehensive Income

	2011 RMB'000	2010 RMB'000
Current tax-PRC corporate income tax		
Provision for the year (note 27(a))	27,005	18,577
Deferred taxation		
– Origination and reversal of temporary differences (note 27(b))	(5,965)	(2,845)
– Withholding tax at 5% on the distributable profits of the PRC subsidiaries (note 27(b))	899	1,314
	(5,066)	(1,531)
	21,939	17,046

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

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

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

Fuzhou Sanai, a wholly foreign owned enterprise, was located at a specific economic development zone and was entitled to a preferential PRC corporate income tax rate of 15%. Pursuant to the State Council Circular on the Implementation of the Transitional Concession Policies for Corporate Income Tax (Guo Fa [2007] no. 39), enterprises eligible for preferential tax treatment shall gradually be subject to the new tax rate over a five-year transitional period until 31 December 2012. Fuzhou Sanai was subject to corporate income tax rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. Fuzhou Sanai was exempted from PRC corporate income tax for 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 1 January 2010, the profit generated from Fuzhou Sanai was subject to income tax rates of 11% in 2010 and 12% in 2011, being half of the corporate income tax rate applicable. Such tax exemption will expire on 31 December 2012.

Fujian Sanai Pharmaceutical Trading Co., Limited ("Sanai Pharmaceutical Trading"), a PRC limited liability company, was subject to PRC corporate income tax at a rate of 25% applicable to the company on the assessable profits for the year (2010: 25%).

14. Income Tax in The Consolidated Statement of Comprehensive Income (Continued)

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 31 December 2011 (2010: Nil).

c) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2011 RMB'000	2010 RMB'000
Profit before tax	**78,809**	122,998
Notional tax on profit before tax, calculated at the rates applicable in the jurisdictions concerned	**20,170**	31,109
Tax effect of non-deductible expenses	**3,077**	7,624
Tax effect of non-taxable income	**–**	(4,366)
Tax effect of concessionary tax rates granted to the PRC subsidiaries	**(2,156)**	(18,434)
Tax effect of unrecognised temporary differences	**(51)**	(201)
Withholding tax at 5% on the distributable profits of the PRC subsidiaries (note 27(b))	**899**	1,314
Actual tax expense	**21,939**	17,046

15. Dividends

a) Dividends payable to owners of the Company attributable to the year:

	2011 HK$'000	2010 HK$'000
Final dividend proposed after the end of the reporting period of HK0.8 cent per share (2010: HK1.6 cents per share)	**13,678**	27,356
Special dividend proposed after the end of the reporting period of HK$ Nil (2010: HK8.8 cents per share)	**–**	150,460
	13,678	177,816
	RMB'000	RMB'000
Approximately equivalent to:		
– Final dividend	**11,120**	23,183
– Special dividend	**–**	127,508
	11,120	150,691

15. Dividends (Continued)

b) **On 28 March 2012, the Board resolved to propose a final dividend of HK0.8 cent (approximately equivalent to RMB0.7 cent) per share for the year ended 31 December 2011 to the shareholders on the register of members of the Company and is subject to the approval of the shareholders in the forthcoming Annual General Meeting of the Company. The final dividend proposed subsequent to the reporting period have not been recognised as liabilities at the end of the reporting period.**

c) **Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the year.**

	2011 HK$'000	2010 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.6 cents per share (2010: HK2.0 cents)	27,356	34,195
Special dividend in respect of the previous financial year, approved and paid during the year, of HK8.8 cents per share (2010: Nil)	150,460	–
	177,816	34,195
	RMB'000	RMB'000
Approximately equivalent to		
– Final dividend	23,183	29,996
– Special dividend	127,508	–
	150,691	29,996

16. Earnings Per Share

a) **Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately RMB56,870,000 (2010: RMB105,952,000) and the weighted average number of 1,709,772,500 ordinary shares (2010: 1,709,772,500 ordinary shares) in issue throughout the year.

b) **Diluted earnings per share**

Diluted earnings per share equals to basic earnings per share as there were no dilutive potential ordinary shares outstanding during both years ended 31 December 2011 and 2010.

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2010	66,646	44,389	6,796	242,240	70,000	430,071
Additions	–	52	224	11,891	–	12,167
At 31 December 2010 and 1 January 2011	66,646	44,441	7,020	254,131	70,000	442,238
Additions	–	39	–	1,857	128,612	130,508
Transfer (note 20)	–	–	–	–	16,000	16,000
At 31 December 2011	66,646	44,480	7,020	255,988	214,612	588,746
Accumulated depreciation						
At 1 January 2010	7,774	5,878	4,698	39,341	–	57,691
Charge for the year	2,138	4,327	899	23,257	–	30,621
At 31 December 2010 and 1 January 2011	9,912	10,205	5,597	62,598	–	88,312
Charge for the year	2,138	4,325	861	24,395	–	31,719
At 31 December 2011	12,050	14,530	6,458	86,993	–	120,031
Carrying amounts						
At 31 December 2011	54,596	29,950	562	168,995	214,612	468,715
At 31 December 2010	56,734	34,236	1,423	191,533	70,000	353,926

All of the Group's buildings are located on land held under medium-term leases in the PRC.

Included in the carrying amount of furniture, fixtures and equipment is an amount of RMB Nil (2010: RMB4,000) in respect of assets held under a finance lease.

18. Land Use Rights

The Group

	RMB'000
Cost	
At 1 January 2010	50,604
Transfer (note (ii))	17,109
Additions	2,922
At 31 December 2010, 1 January 2011 and 31 December 2011	70,635
Accumulated amortisation	
At 1 January 2010	1,524
Amortisation for the year	1,138
At 31 December 2010 and 1 January 2011	2,662
Amortisation for the year	1,418
At 31 December 2011	4,080
Carrying amount	
At 31 December 2011	66,555
At 31 December 2010	67,973

i) The balance of land use rights represent prepaid operating lease payments for land situated in the PRC under medium-term leases.

ii) In relation to the land use right deposit of RMB17,109,000, paid by the Group during the year ended 31 December 2008, the Group obtained the land use rights title in the year ended 31 December 2010 and the deposit was reclassified as land use rights accordingly (note 20).

19. Intangible Assets

The Group

	Patents	Product development costs	Total
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	16,230	7,977	24,207
Accumulated amortisation and impairment			
At 1 January 2010	3,209	2,160	5,369
Charge for the year	1,426	960	2,386
At 31 December 2010 and 1 January 2011	4,635	3,120	7,755
Charge for the year	1,426	960	2,386
Impairment loss recognised for the year	9,100	3,177	12,277
At 31 December 2011	15,161	7,257	22,418
Carrying amount			
At 31 December 2011	1,069	720	1,789
At 31 December 2010	11,595	4,857	16,452

The amortisation charged for the year is included in "administrative and other expenses" in the consolidated statement of comprehensive income.

The above intangible assets have finite useful lives and are amortised on a straight-line basis over its estimated useful life of five years, except for certain of the intangible assets which are not yet available for use.

The impairment loss recognised during the year solely relates to the Group's three products under development which are awaiting approval from State Food and Drug Administration ("SFDA"), the PRC governmental authority being responsible for regulation of food and drugs. Those three products under development have completed all technical assessments and major clinical researches since 2006 and awaiting approval for registration to new products from SFDA for more than five years. There was no indication of approval in the near future. Therefore, the Group fully impaired those three products under development and recognised impairment loss during the year amounted to RMB12,277,000 (2010: NIL). The impairment loss has been included in the line item in the consolidated statement of comprehensive income.

20. Deposits for the Acquisition of Non-Current Assets

The Group

	Deposits for the acquisition of			
	Plant and machinery RMB'000	**Construction in progress** RMB'000	**Land use rights** RMB'000	**Total** RMB'000
At 1 January 2010	–	–	17,109	17,109
Transfer (note 18)	–	–	(17,109)	(17,109)
Additions	16,000	30,000	–	46,000
At 31 December 2010 and 1 January 2011	16,000	30,000	–	46,000
Transfer (note 17)	(16,000)	–	–	(16,000)
Additions	–	124,500	–	124,500
At 31 December 2011	–	154,500	–	154,500

During the year, the Group prepaid RMB124,500,000 to independent third parties for the construction of buildings in factory located at Fujian Province with total contract price of RMB229,720,000.

21. Investments in Subsidiaries

	The Company	
	2011 **RMB'000**	2010 RMB'000
Unlisted shares, at cost	**214,786**	214,786

21. Investments in Subsidiaries(Continued)

Details of the Company's subsidiaries at 31 December 2011 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Proportion of ownership interest		Principal activity
			Directly	Indirectly	
Direct subsidiary:					
Wuyi International Pharmaceutical Investment Company Limited ("Wuyi BVI")	British Virgin Islands	10,000 ordinary shares of US$1 each	100%	–	Investment holding
Indirect subsidiaries:					
Wuyi International Pharmaceutical (Hong Kong) Company Limited	Hong Kong	1 ordinary share of HK$1 each	–	100%	Investment holding
Fujian Sanai	PRC wholly-foreign-owned enterprise for a term of 50 years commencing 18 January 2000	RMB290,780,000	–	100%	Develop, manufacture, marketing and sales of pharmaceutical products
Fuzhou Sanai	PRC wholly-foreign-owned enterprise for a term of 50 years commencing 24 December 2003	US$19,810,000	–	100%	Develop, manufacture, marketing and sales of pharmaceutical products
Sanai Pharmaceutical Trading	PRC limited liability company for a term of 50 years commencing 25 February 2008	RMB30,000,000	–	100%	Marketing and sales of pharmaceutical products

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

22. Inventories

	The Group	
	2011	2010
	RMB'000	RMB'000
Raw materials	**6,338**	4,609
Work in progress	**1,426**	1,347
Finished goods	**13,911**	11,290
Merchandise	**63**	66
	21,738	17,312

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Carrying amount of inventories sold (note 10)	**365,673**	331,030

23. Trade and Other Receivables

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**121,634**	171,451	**–**	–
Amount due from a subsidiary (note (ii))	**–**	–	**754,135**	943,040
Loans and receivables	**121,634**	171,451	**754,135**	943,040
Deposits and prepayments	**196**	203	**–**	–
	121,830	171,654	**754,135**	943,040

23. Trade and Other Receivables (Continued)

Notes:

i) The amount of the Group's and the Company's deposits and prepayments expected to be recovered after more than one year is RMB69,000 (2010: RMB201,000) and RMB Nil (2010: Nil) respectively. All of the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

ii) At 31 December 2011 and 2010, the amount due from a subsidiary is unsecured, interest-free and repayable on demand.

iii) The Group normally grants credit terms of 60 days to its customers. Further details on the Group's credit policy are set out in note 5(b)(iii). The following is an ageing analysis of trade receivables at the end of the reporting period:

	The Group	
	2011	2010
	RMB'000	RMB'000
Age		
0 to 30 days	**62,471**	87,121
31 to 60 days	**59,163**	84,330
	121,634	171,451

iv) Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

v) There is no trade and other receivables that are past due or impaired as at 31 December 2011 and 2010.

24. Cash and Cash Equivalents

Cash and cash equivalents of the Group and of the Company comprise cash at bank and in hand. During the year, the bank deposits of the Group carry interest at rates ranging from 0.01% to 0.5% (2010: 0.01% to 0.36%) per annum.

25. Trade and Other Payables

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables				
– a related company *	**1,127**	1,152	**–**	–
– others	**60,540**	73,839	**–**	–
	61,667	74,991	**–**	–
Payroll and welfare payables	**6,589**	5,654	**–**	–
Payable for acquisition of property, plant and equipment	**–**	3,500	**–**	–
Accrued charges	**5,731**	6,925	**18**	13
Other payables	**5,388**	5,094	**–**	–
Obligations under a finance lease (note 26)	**–**	5	**–**	–
Financial liabilities measured at amortised cost	**79,375**	96,169	**18**	13
Other PRC tax payables	**9,654**	13,388	**–**	–
	89,029	109,557	**18**	13

* 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.

The ageing analysis of trade payables is as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Age		
0 to 30 days	**36,020**	41,284
31 to 60 days	**25,647**	33,707
	61,667	74,991

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

26. Obligations Under a Finance Lease

At 31 December 2011, the Group had obligations under a finance leases payable as follows:

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under a finance lease within 1 year	**–**	5	**–**	5
Less: Total future finance charges	**–**	–		
Present value of lease obligations	**–**	5		
Less: Amount due within one year shown under trade and other payables (note 25)			**–**	(5)
Amount due after one year			**–**	–

It is the Group's policy to lease certain of its furniture, fixtures and equipment under a finance lease. The average lease term is 5 years. Interest rate underlying the obligations under the finance lease is fixed at its contract date at 5.6% (2010: 5.6%) per annum. During the year, the finance lease was expired, and the Group has purchased the leased asset at the expiry of the lease period with nil consideration.

27. Income Tax in the Consolidated Statement of Financial Position

a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2011	2010
	RMB'000	RMB'000
Provision for the PRC corporate income tax for the year (note 14)	**27,005**	18,577
PRC corporate income tax paid	**(19,393)**	(9,110)
	7,612	9,467

27. Income Tax in the Consolidated Statement of Financial Position

b) Deferred tax liabilities/(assets) recognised:

The following is the deferred tax liabilities/(assets) recognised and movements thereon during the year:

	The Group				
	Deferred product development costs and patents	Related depreciation in excess of depreciation allowance	Subtotal	Withholding tax on distributable profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	3,889	(1,671)	2,218	3,923	6,141
(Credited)/debited to the consolidated statement of comprehensive income for the year (note 14)	(310)	(2,535)	(2,845)	1,314	(1,531)
At 31 December 2010 and 1 January 2011	3,579	(4,206)	(627)	5,237	4,610
(Credited)/debited to the consolidated statement of comprehensive income for the year (note 14)	(3,356)	(2,609)	(5,965)	899	(5,066)
At 31 December 2011	223	(6,815)	(6,592)	6,136	(456)

Pursuant to the New CIT Laws, a 10% withholding tax is levied on dividends declared and paid to foreign investors from foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable tax rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008 onwards. The Group recognised deferred tax liabilities in respect of distributable earnings from its subsidiaries established in the PRC since 1 January 2008 with reference to the Group's dividend policy, no matter whether such earnings have been declared or not by the subsidiaries at the end of the reporting period. The directors of the Company will review the funding requirements of the Group from time to time and revise the dividend policy of its subsidiaries as appropriate.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The following is the analysis of the deferred tax balances for financial reporting purposes:

	The Group	
	2011	2010
	RMB'000	RMB'000
Deferred tax assets	**(6,815)**	(4,206)
Deferred tax liabilities	**6,359**	8,816
	(456)	4,610

c) The Group and the Company had no significant unrecognised deferred tax assets or liabilities at 31 December 2011 and 2010.

28. Share Capital and Reserves

a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital (note 28(b))	Share premium (note 28(c)(i))	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	17,098	929,533	277,279	1,223,910
Loss and total comprehensive loss for the year (note 13)	–	–	(34,394)	(34,394)
Dividends approved in respect of the previous year (note 15(c))	–	–	(29,996)	(29,996)
At 31 December 2010 and 1 January 2011	17,098	929,533	212,889	1,159,520
Loss and total comprehensive loss for the year (note 13)	–	–	(38,875)	(38,875)
Dividends approved in respect of the previous year (note 15(c))	–	–	(150,691)	(150,691)
At 31 December 2011	17,098	929,533	23,323	969,954

b) Share capital

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	3,200,000,000	32,000
Issued and fully paid:		
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	1,709,772,500	17,098

	2011 RMB'000	2010 RMB'000
Shown in the consolidated and company statements of financial position at 31 December	**17,098**	17,098

28. Share Capital and Reserves (Continued)

c) Nature and purpose of reserves

i) *Share premium*

Under the Companies Law (revised) of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

ii) *Special reserve*

Special reserve represents the aggregate of:

a) the difference between the consideration paid by a subsidiary of the Company, Wuyi BVI, for the acquisition of the entire equity interest in Fujian Sanai and the nominal value of the paid-in capital of Fujian Sanai pursuant to the Group reorganisation in preparation for the listing of the Company's shares in 2007;

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

c) the difference between the consideration paid for the acquisition of additional interests in Fuzhou Sanai and the carrying values of the underlying net assets attributable to the additional interests in Fuzhou Sanai pursuant to the Group reorganisation in preparation for the listing of the Company's shares in 2007.

iii) *Capital reserve*

Capital reserve represents the capital contributions from Mr. Lin Qing Ping, a director and shareholder of the Company; and Fuzhou Hongyu, a company controlled by Mr. Lin Ou Wen, also a director and shareholder of the Company.

iv) *Statutory surplus reserve*

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the Company's PRC subsidiaries are required to appropriate 10% of their profit after tax to the reserve until such reserve reaches 50% of the registered capital and thereafter any further appropriation is optional. 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 a capitalisation issue.

v) *Non-distributable reserve*

In accordance with the Articles of Association of Fujian Sanai, Fujian Sanai may appropriate funds to the non-distributable reserve at 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.

28. Share Capital and Reserves (Continued)

d) Distributable reserves of the Company

Under the Companies Law (revised) of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium if (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of its assets would thereby be less than the aggregate or its liabilities and its share capital account.

As at 31 December 2011, the Company's reserves available for distribution to shareholders amounted to approximately RMB952,856,000 (2010: RMB1,142,422,000) computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium of RMB929,533,000 (2010: RMB929,533,000), and retained profits of RMB23,323,000 (2010: RMB212,889,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

e) Capital 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 capital structure of the Group consists of debt, which includes trade and other payables; and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a semi-annual basis. During 2011, the Group's strategy was unchanged from 2010. The directors review the capital structure by considering the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debts or the redemption of existing debts.

The debt-to-equity ratio at December 2011 and 2010 was as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current liabilities				
Trade and other payables	**89,029**	109,557	**18**	13
Total debt	**89,029**	109,557	**18**	13
Total equity	**1,554,756**	1,648,577	**969,954**	1,159,520
Debt-to-equity ratio	**5.73%**	6.65%	**0%**	0%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

29. 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 may grant options to all full-time employees, 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 of the Group whom the Board considers, at 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 the shares on the Stock Exchange which represents 164,300,000 shares (excluding the over-allotment portion) or 9.6% of issued share capital of the Company, 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 shares 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 options and during the period as notified by the directors at the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest 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 shares.

Up to 31 December 2011, no options were granted under the Scheme.

30. Operating Lease Commitments

The Group as lessee

At the end of the reporting period, the Group was committed to make the following future minimum lease payments in respect of office properties under non-cancellable operating leases which are payable as follows:

	2011 **RMB'000**	2010 RMB'000
Within one year	**528**	901
In the second to fifth year inclusive	**39**	584
	567	1,485

The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. Lease payments usually reflect market rentals. None of the leases includes contingent rentals.

Significant leasing arrangements in respect of land held under operating leases are described in note 18.

31. Capital Commitments

	The Group 2011 RMB'000	The Group 2010 RMB'000
capital expenditure contracted for but not provided for in the financial statements in respect of the acquisition of		
– intangible assets	8,100	8,100
– property, plant and equipment	80,820	47,200
	88,920	55,300

32. Retirement Benefits Schemes

Defined contribution 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 the 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.

33. RELATED PARTY TRANSACTIONS

a) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions, and had balances due to related parties in trade and other payables as at the end of the reporting period.

			Transactions for the year ended 31 December		Balance as at 31 December 2011		Balance as at 31 December 2010	
Name of related party	Relationship with related party	Nature of transaction	2011	2010	Trade payables	Other payables	Trade payables	Other payables
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fuzhou Hongyu	A company controlled by Mr. Lin Ou Wen	Purchase of packaging materials	4,939	5,942	1,127	–	1,152	–
Mr. Lin Qin Xiang	Brother of Mr. Lin Ou Wen and Mr. Lin Qing Ping*	Property rentals paid	204	204	–	–	–	204

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

b) At the end of the reporting period, the Group committed Mr. Lin Qin Xiang to making the future minimum lease payments of RMB Nil (2010: RMB204,000) in respect of office properties under non-cancellable operating leases within one year.

c) The details of remuneration of key management personnel represent emoluments of directors of the Company paid during the year which are set out in note 11.

34. Possible Impact of New and Revised HKFRSs Issued But Not Yet Effective for the year ended 31 December 2011

Up to the date of issue of these financial statements, the HKICPA has issued the following new and revised HKFRSs which are not yet effective for the year ended 31 December 2011.

The Group has not early applied any of the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRS 7	Disclosures-Transfers of Financial Assets[1]
	Disclosures-Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax-Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

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

Five-Year Financial Summary

RESULTS

	Year ended 31 December				
	2007	2008	2009	2010	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	660,661	630,326	641,361	564,539	**569,285**
Cost of sales	(326,453)	(311,381)	(366,755)	(331,030)	**(365,673)**
Gross profit	334,208	318,945	274,606	233,509	**203,612**
Other revenue and net income	19,850	7,937	3,877	4,757	**9,621**
Distribution costs	(12,265)	(50,176)	(82,070)	(76,079)	**(75,013)**
Administrative and other expenses	(66,972)	(37,277)	(38,642)	(39,188)	**(47,134)**
Impairment loss on intangible assets	–	–	–	–	**(12,277)**
Finance costs	(2,535)	(2,377)	(1,234)	(1)	**–**
Profit before tax	272,286	237,052	156,537	122,998	**78,809**
Income tax	(170)	(28,166)	(22,324)	(17,046)	**(21,939)**
Profit for the year	272,116	208,886	134,213	105,952	**56,870**
Attributable to:					
Owners of the Company	272,116	208,886	134,213	105,952	**56,870**
Non-controlling interests	–	–	–	–	**–**
	272,116	208,886	134,213	105,952	**56,870**
Dividends paid	–	58,010	49,931	29,996	**150,691**
Earnings per share					
– Basic and diluted	RMB16.3 cents	RMB12.2 cents	RMB7.8 cents	RMB6.2 cents	**RMB3.3 cents**

ASSETS AND LIABILITIES

	As at 31 December				
	2007	2008	2009	2010	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	1,460,763	1,566,247	1,675,407	1,776,417	**1,657,756**
Total liabilities	(123,300)	(77,908)	(102,786)	(127,840)	**(103,000)**
Net assets	1,337,463	1,488,339	1,572,621	1,648,577	**1,554,756**