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WUYI INTERNATIONAL PHARMACEUTICAL COMPANY LIMITED

武夷國際藥業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1889)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2012

The board (the “Board”) of directors (the “Directors”) of Wuyi International Pharmaceutical Company Limited (“Wuyi Pharmaceutical” or the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to the “Group”) for the six-month period ended 30 June 2012, together with the comparative figures for the corresponding period in 2011.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2012

	Notes	Six months ended 30 June 2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Turnover		273,803	268,709
Cost of sales		(177,126)	(168,351)
Gross profit		96,677	100,358
Other revenue and net income		1,896	2,822
Distribution costs		(34,135)	(32,211)
Administrative and other expenses		(22,500)	(21,591)
Profit before tax	4	41,938	49,378
Income tax	5	(11,426)	(12,644)
Profit for the period attributable to owners of the Company		30,512	36,734
Other comprehensive income for the period		—	—
Total comprehensive income for the period		30,512	36,734
Total comprehensive income for the period attributable to owners of the Company		30,512	36,734
Earnings per share			
– Basic and diluted	7	RMB1.8 cents	RMB2.1 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	732,662	468,715
Land use rights		65,840	66,555
Intangible assets		596	1,789
Deposits for the acquisition of non-current assets	9	28,900	154,500
Deferred tax assets		8,065	6,815
		<u>836,063</u>	<u>698,374</u>
Current assets			
Inventories		29,946	21,738
Trade and other receivables	10	123,773	121,830
Cash and cash equivalents		699,429	815,814
		<u>853,148</u>	<u>959,382</u>
Current liabilities			
Trade and other payables	11	95,628	89,029
Tax payable		7,782	7,612
		<u>103,410</u>	<u>96,641</u>
Net current assets		<u>749,738</u>	<u>862,741</u>
Total assets less current liabilities		1,585,801	1,561,115
Non-current liabilities			
Deferred tax liabilities		6,762	6,359
Payable for acquisition of property, plant and equipment		5,000	—
		<u>11,762</u>	<u>6,359</u>
Net assets		<u>1,574,039</u>	<u>1,554,756</u>
Capital and reserves			
Share capital	12	17,098	17,098
Reserves		1,556,941	1,537,658
Total equity		<u>1,574,039</u>	<u>1,554,756</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six-month period ended 30 June 2012

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 unaudited interim 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. CHANGE IN ACCOUNTING POLICIES

In the current period, the Group has adopted a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to the Group and effective for accounting periods beginning on or after 1 January 2012. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group’s accounting policies and amounts reported for the current period and prior periods/years.

The Group has not early adopted any new and revised HKFRSs that have been issued but are not yet effective. The directors anticipate that the application of these new and revised HKFRSs will have no material impact on the results and financial position of the Group.

3. 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 the six-month period ended 2012 and 2011, no revenue from transactions with a single external customer accounted for 10% or more of the Group’s total revenue.

4. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):

	Six months ended June 30	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
a) Staff costs **		
Directors' emoluments	1,460	1,542
Other staff retirement benefits scheme contributions	1,776	1,753
Other staff costs	14,512	14,255
	<u>17,748</u>	<u>17,550</u>
b) Other items		
Depreciation of property, plant and equipment **		
– owned by the Group	15,705	15,884
– held for use under a finance lease	–	2
	15,705	15,886
Amortisation of intangible assets	1,193	1,193
Amortisation of land use rights	715	703
Exchange gain included in other revenue	(28)	(344)
Operating lease payments in respect of rented premises	514	448
Research and development cost*	926	891
Cost of inventories#	177,126	168,351
Bank interest income	(1,868)	(2,478)
	<u>(1,868)</u>	<u>(2,478)</u>

Cost of inventories includes approximately RMB17,579,000 (six-month period ended 30 June 2011: RMB17,554,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

* Research and development costs includes approximately RMB901,000 (six-month period ended 30 June 2011: RMB871,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

5. INCOME TAX IN THE CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended June 30	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax-PRC corporate income tax		
– Provision for the period	12,273	13,539
Deferred tax		
– Current period	(847)	(895)
	<u>11,426</u>	<u>12,644</u>

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

Fujian Sanai Pharmaceutical Co., Ltd. and Fujian Sanai Pharmaceutical Trading Co., Limited, PRC limited liability companies, were subject to PRC corporate income tax at a rate of 25% applicable to the company on the assessable profits for the six-month period ended 30 June 2012 (six-month period ended 30 June 2011: 25%).

Pursuant to the Income Tax Law for the Foreign Investment Enterprises and Foreign Enterprises in the PRC, Fuzhou Sanai Pharmaceutical Co., Ltd. (“Fuzhou Sanai”), which qualified as Production Enterprises during the year 2008, 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.

Fuzhou Sanai, a wholly foreign owned enterprise, was located at specific economic development zones and was entitled to a preferential PRC corporate income tax rate of 15%. Pursuant to the State Council Circular on the Implementation of the Transitional Concession Policies for Corporate Income Tax (Guo Fa [2007] no. 39), enterprises eligible for preferential tax treatment shall gradually be subject to the new tax rate over a five-year transitional period until 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 the years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. The first year of profitable operations is the year ended 31 December 2008. Commencing from 1 January 2010, the profit generated from Fuzhou Sanai was subject to an income tax rate of 11% in 2010, 12% in 2011 and 12.5% in 2012, being half of the corporate income tax rate applicable. Such tax exemption will expire on 31 December 2012.

- b) No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong for the six-month period ended 30 June 2012 (six-month period ended 30 June 2011: Nil).
- c) The Group had no significant unprovided deferred tax assets or liabilities at 30 June 2012 and 2011.

6. DIVIDENDS

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

	Six months ended June 30	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous financial year, approved and paid during the interim period of HK0.8cents per share (six-month period ended 30 June 2011: HK1.6 cents per share)	13,678	27,356
	RMB'000	RMB'000
Approximately equivalent to	11,229	23,183
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Special dividend approved during the interim period: Nil (six-month period ended 30 June 2011: HK8.8 cents per share)	—	150,460
	RMB'000	RMB'000
Approximately equivalent to	—	127,508
The directors do not recommend payment of interim dividend for the six-month period ended 30 June 2012 (six-month period ended 30 June 2011: Nil).		

7. EARNINGS PER SHARE

a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period attributable to owners of the Company of approximately RMB30,512,000 (six-month period ended 30 June 2011: RMB36,734,000) and the weighted average number of 1,709,772,500 ordinary shares (six-month period ended 30 June 2011: 1,709,772,500 ordinary shares) in issue during the period.

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 six month period ended 30 June 2012 and 2011.

8. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2012, the Group has addition of property, plant and equipment of approximately RMB279,651,000 (six-month period ended 30 June 2011: RMB18,000), including transfer of deposits for the acquisition of non-current assets to construction in progress of approximately HK\$154,500,000 (six-month ended 30 June 2011: Nil).

9. DEPOSITS FOR THE ACQUISITION OF NON-CURRENT ASSETS

	Plant and machinery <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total
At 1 January 2011	16,000	30,000	46,000
Additions	–	124,500	124,500
Transfer to property, plant and equipment	(16,000)	–	(16,000)
At 31 December 2011 and 1 January 2012	–	154,500	154,500
Additions	–	28,900	28,900
Transfer to property, plant and equipment	–	(154,500)	(154,500)
At 30 June 2012			

The deposits represent amount prepaid to independent third parties for the construction of factory located at Fujian Province for own use in the Group's ordinary and usual course of business. During the current period, deposits amounted to RMB154,500,000 (six-month period ended 30 June 2011:Nil) were transferred to construction in progress under property, plant and equipment.

10. TRADE AND OTHER RECEIVABLES

	30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
Trade receivables	114,576	121,634
Loan and receivables	114,576	121,634
Prepayments and deposits	9,197	196
	123,773	121,830

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Age		
0 to 30 days	57,627	62,471
31 to 60 days	56,949	59,163
	<u>114,576</u>	<u>121,634</u>

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.

There is no trade and other receivables that are past due or impaired as at 30 June 2012 and 31 December 2011.

11. TRADE AND OTHER PAYABLES

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Trade payables		
– a related company *	1,065	1,127
– others	52,692	60,540
	<u>53,757</u>	61,667
Payroll and welfare payables	1,177	6,589
Payable for acquisition of property, plant and equipment	9,978	–
Accrued charges	5,131	5,731
Dividend payable	11,236	–
Other payables	5,450	5,388
	<u>86,729</u>	79,375
Financial liabilities measured at amortised cost	8,899	9,654
Other PRC tax payables	<u>95,628</u>	<u>89,029</u>

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

The ageing analysis of trade payables is as follows:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Age		
0 to 30 days	27,848	36,020
31 to 60 days	25,909	25,647
	53,757	61,667

12. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2011, 31 December 2011, 1 January 2012 and 30 June 2012	3,200,000,000	32,000
Issued and fully paid:		
At 1 January 2011, 31 December 2011, 1 January 2012 and 30 June 2012	1,709,772,500	17,098
	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Shown in the condensed consolidated statement of financial position at 30 June 2012 and 31 December 2011	17,098	17,098

13. CAPITAL COMMITMENTS

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of		
– intangible assets	8,100	8,100
– property, plant and equipment	5,600	80,820
	13,700	88,920

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The first half of 2012 is an important stage of the China government policy to deepen the health care reform and also the first year of full implementation of the planning and implementation scheme to deepen the pharmaceutical and healthcare systems during the period of the Twelfth Five-Year Plan. The State Council issued the “The planning and implementation scheme to deepen the pharmaceutical and healthcare systems reform during the period of the Twelfth Five-Year Plan” in March this year, in which the elimination of using excessive sales of drugs to support hospitals is taken as a half step. Subsequently, a new round of medical reform was in full swing in selected cities and the government put forward a number of policies, measures and guidelines to control the price of pharmaceuticals, which together with the increasing prices and the surge of production costs of raw materials, packaging, advertisements and labor costs in China, rendered the business environment of pharmaceutical enterprises very challenging and had a direct impact on the profit of enterprises. Facing the complicated market environment, Wuyi Pharmaceutical continued to focus on consolidating and deepening its core business and adjusted product prices according to market competition in order to maintain market share and secure a stable and healthy development of the Group.

In the face of the multiple challenges arisen from the State policies and market pressure, the Group adjusted the price of various products in the first half of the year, including N(2)-L-Alanyl-L-Glutamine Injectible and Xiangdan Injectibles. In comparison to the average price of the previous year, the largest decrease in price was over 15%. Therefore, the overall gross profit margin has decreased slightly.

For the six months ended 30 June 2012, the Group has achieved turnover of approximately RMB273.8 million, representing a 1.9% increase from the same period of last year (30 June 2011: approximately RMB268.7 million). The overall gross profit was approximately RMB96.7 million and the gross profit margin was approximately 35.3%, representing a decrease of approximately 2.0% from the same period of last year. Profits attributable to owners of the Company amounted to approximately RMB30.5 million, representing a decrease of approximately 16.9% from the same period of last year (30 June 2011: approximately RMB36.7 million). The board of directors does not recommend payment of interim dividend for 2012.

To cope with the implementation of the “Administrative Measures Governing the Production Quality of Pharmaceutical Products (2010 Revision)” (the “New GMP”) issued by the State Food and Drug Administration (“SFDA”), the Group advanced the construction and development of the new factory in Fujian Haixi Commercial Trading Development Zone and the construction of the infrastructure such as the administrative building is expected to be completed between the end of 2012 and the beginning of 2013, which will commence operation upon obtaining the new 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 first half of the year, the Group continued to place advertisements in televisions and journals so as to promote the quality and popularity of the products. In a fierce competitive industry environment, the sales of the product stabilized and slightly increased. For the six months ended 30 June 2012, the product has realized turnover of approximately RMB23.0 million, representing an increase of approximately 0.9% compared with the same period of last year, or approximately 8.4% of the total turnover of the Group during the period. The gross profit margin was approximately 60.7% which was substantially the same as that of last year.

ii. Omeprazole Enteric-Coated Capsules

The Group’s new product, Omeprazole Enteric-Coated Capsules which is specifically for inhibiting gastric acid secretion and helicobacter pylori reflux, has officially entered the market in June 2011. The products received a good response after entering the market and maintained a stable turnover due to the good efficacy of the product. For the six months ended 30 June 2012, turnover of the product was approximately RMB6.7 million, accounting for approximately 2.4% of the Group’s total turnover during the period. Gross profit margin amounted to 60.0%.

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

During the period, the number of the generic products of N(2)-L Alanyl-LGlutamine Injectable in the market had reduced, but the market competition was still fierce. Nevertheless, with the Group’s appropriate adjustments in sales strategies and product price, the sales of the product improved. The average unit price decreased by approximately 7.2% compared with last year. Despite of that, turnover of the product was approximately RMB34.4 million, representing an increase of approximately 12.1% compared with the same period last year, and gross profit margin amounted to approximately 48.1%.

iv. Other Products

Xiangdan Injectable (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 period, the Group continued to vigorously promote it in the rural market and hospitals. The average unit price of 10-ml Xiangdan Injectable was RMB3.9, represented a decrease of approximately 4.6% compared with the average unit sale price of last year. Turnover of the product was approximately RMB15.0 million, and gross profit margin amounted to 36.8%.

v. Development of New Medicines

The Group continued to promote the development of new medicines during the period, and conducted indication research on Perilla Oil Capsule with Fujian Medical University's Faculty of Medicine. The Group is focusing on the enhanced breakthrough discoveries of the medicine such as softening of blood vessels and protection of liver function and conducting clinical application study on fatty liver.

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 period. The new anti-hepatitis Compound Drug Liver & Gall Bladder Tablets codeveloped have completed toxicity test and entered into the stage of efficacy testing.

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

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 period. Sales revenue amounted to approximately RMB6.3 million, representing a year-on-year decrease of approximately 3.1%, accounting for approximately 2.3% of the Group's total turnover in the first half of 2012.

2. Sales Network and Marketing

The Group's sales network covers 21 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 amounted to 61 during the period. Changchun Bao Hua Pharmaceutical Co., Ltd. (長春寶華醫藥有限公司) and Shanxi Xinfutang Pharmaceutical Co., Ltd. (山西鑫福堂醫藥有限公司) were newly added distributors. The Group also continued to aggressively exploit the market in rural areas and distributed drugs to rural areas through Jointown Pharmaceutical Group (九洲通醫藥集團), generating sale revenue of approximately RMB27.1 million from that market during the period, which represented a year-on-year increase of approximately RMB1.6 million, and amounted to approximately 9.9% 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 period. In addition, 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

Looking forward to the second half of 2012, the development of China's pharmaceutical industry will face various opportunities and challenges. After the completion of the medical reform introduced by the China government, the "The planning and implementation scheme to deepen the pharmaceutical and healthcare systems reform during the period of the Twelfth Five-Year Plan" issued by the State Council will raise the overall drug usage and expand the drug distribution channels for pharmaceutical companies. In addition, it is expected that the output value of the bio-industry will reach RMB 3.6 trillion in the forthcoming "Bio-industry planning during the period of the Twelfth Five-Year Plan" which means that bio-industry will enter a period of rapid growth in the future. At the same time, the emphasis of bio-pharmaceutical in the next five years will be major diseases control and prevention using innovative medicines such as biotechnological medicine and chemical drugs, which marked the strong support from China government on the future development of the bio-pharmaceutical industry and bring more developing opportunities to pharmaceutical enterprises in the long term.

With the implementation of the New GMP since March 2011, the elimination of non-compliance enterprises within the industry has accelerated. Although the overall productivity of pharmaceutical enterprises will increase in the long term, the market competition will be intensified and bring certain pressure to product prices in the short term.

In respect of drug tendering, despite the changing of the "lower price prevail" model in Guangdong province since June 2012, it is expected the model will still be adopted by most provinces and further suppress product prices and profit margin of pharmaceutical enterprises. In addition, Ministry of Health will make amendments and expansions to the National Essential Drugs List in the second half of 2012, which will also exacerbate the downward adjustment in product prices. Together with the increasing raw materials prices, the profitability prospects of pharmaceutical enterprises will be facing more pressure.

In view of this, the Group will continue to adopt a steady development strategy while 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 alleviate the impact of the State policies on the industry and strive for a stable increase of turnover for 2012.

1. Actively establish new factory for capacity expansion

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 will actively carry out the construction of the new factory in Fujian Haixi Commercial Trading Development Zone. We expected to apply for GMP certification after completing the construction of infrastructure in 2013, and the expected maximum production capacity will increase up to three times after the capacity expansion. Also, the Group will build an integrated building in the area of the new factory with quality examination, research and development of new formula and office functions. Basic structures of the building will be completed from the end of 2012 to 2013 to cope with the increasing need for office arisen from its business expansion. The factory will commence trial production upon obtaining the New GMP certification from relevant authority.

2. Continuously promote new products and enhance product sales

In the second half of 2012, the Group will focus on promoting Omeprazole Enteric-Coated Capsules. 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 further 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. The Group will also actively promote other products to enhance turnover and expected the advertising expenses of the second half of the year will increase approximately RMB10 million compared with the first half of the year to maintain the marketing strategy of increasing the brand and products awareness of "Sanai".

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 increase the turnover 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 challenges actively, and promote existing products while constantly developing 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 State has for many times demanded pharmaceutical enterprises to lower medicine prices in recent years, which made prices reduction in medicine became regular pattern of the industry. In addition, with the impact of certain regions adopted the Bid Winning at Lowest Price tendering procurement model and increasingly intensified market competition, certain products unit prices had decreased for over 15%. In spite of this, the Group made every effort to improve its operation environment, especially in sales promotion in rural area market. During the period under review, the Group's turnover recorded approximately RMB273.8 million (30 June 2011: approximately RMB268.7 million), representing a slight increase of approximately 1.9% over last year.

Turnover for the first half of the year was still dominated by Western medicines, with a turnover of approximately RMB142.0 million, or approximately 51.9% of the overall turnover, representing an increase of approximately 3.8% over the same period of last year (30 June 2011: approximately RMB136.8 million, representing approximately 50.9% of the overall turnover). Turnover of the Modern Chinese medicines amounted to approximately RMB125.5 million, representing approximately 45.8% of the overall turnover, which were comparable with last year (30 June 2011: approximately RMB125.4 million, representing approximately 46.7% of the overall turnover). The difference in percentage of the turnover of Western medicines and Modern Chinese medicines were comparable with last year. In addition, the newly added pharmaceutical trading revenue in the second half of 2008 recorded a turnover of approximately RMB6.3 million, representing approximately 2.3% of total turnover (30 June 2011: approximately RMB6.5 million, representing approximately 2.4% of the overall turnover), a decrease of approximately 3.1% over the same period of last year.

Although our key product, Perilla Oil Capsule, has obtained approval from authorities in Fujian, Shanxi, Inner Mongolia and Xinjiang for listing in the medical insurance directory, it is still in the monitoring period, in addition to its being yet to be listed in the national medical insurance directory, its sales were affected to some extent. However, the Group had increased promotion by means of TV commercials and new medicine promotional seminars in the first half of the year and received certain promotional effects. Sales of this product for the period amounted to approximately RMB23.0 million, representing approximately 8.4% of the overall turnover, a slight increase of approximately 0.9% over the same period of last year (30 June 2011: approximately RMB22.8 million, representing approximately 8.5% of the overall turnover).

The highest sales volume during the period was again achieved by Western medicines, N(2)-L Alanine-L Glutamine Injectable, with a turnover of approximately RMB34.4 million, representing approximately 12.6% of the overall turnover (30 June 2011: approximately RMB30.7 million, representing approximately 11.4% of the overall turnover). Sales of the five top selling medicines amounted to approximately RMB105.3 million, representing approximately 38.5% of the overall turnover (30 June 2011: approximately RMB107.7 million, representing approximately 40.1% of the overall turnover).

2. Gross Profit and Gross Profit Margin

During the period under review, gross profit of the Group decreased to approximately RMB96.7 million, representing a decrease of approximately 3.6% over the same period of last year (30 June 2011: approximately RMB100.3 million). Gross profit margin decreased by approximately 2.0 percentage points to approximately 35.3% over the same period of last year (30 June 2011: approximately 37.3%). The main reasons for the decrease were in two aspects as follows:

- 1) The overall prices of raw materials and packaging materials rise continuously, and increased by approximately RMB16.6 million or approximately 12.0%. Relevant costs for the period amounted to RMB155.1 million (30 June 2011: approximately RMB138.5 million), the emerging costs pressure led to the increase in production costs; and
- 2) As mentioned above, the State has for many times demanded pharmaceutical enterprises to lower medicine prices in recent years, which made prices reduction in medicine became regular pattern of the industry. In addition, with the impact of certain regions adopted the Bid Winning at Lowest Price tendering procurement model and increasingly intensified market competition, certain products unit prices had to be adjusted with the maximum decrease of over 15% compared with last year's average prices in order to adapt to the market purchasing power and maintain market share, which affected the overall gross profit margin level.

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

3. Profit for the Period

During the period under review, profit amounted to approximately RMB30.5 million, representing a slight decrease of approximately 16.9% from the corresponding period in 2011 (30 June 2011: approximately RMB36.7 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 to cope with the environment, while the price inflation in Mainland China resulted in the increase in costs of raw materials, packaging materials and salary expenses, hence the profits of pharmaceutical enterprises were inevitably affected by the costs pressure.

In addition, distribution costs of the Group increased approximately 6.0% to approximately RMB34.1 million (30 June 2011: approximately RMB32.2 million). Under the model of Winning by Lower Price in tendering procurement of national drugs and increasingly intensified market competition, during the period, advertising and marketing expenses of our three wholly-owned subsidiaries in the PRC totaled approximately RMB22.8 million (30 June 2011: approximately RMB21.6 million). The main reasons for maintaining the advertising and marketing expenses were to increase the brand and product awareness of “Sanai” and contribute to a wide recognition of our

products by the public and patients. Advertising also helped in the exploration of new rural market and product promotion, especially the brand awareness of “Sanai” in rural market during the period. The management believes 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, our advertising and marketing expenses for the product during the period under review amounted to approximately RMB4.8 million (30 June 2011: approximately RMB3.6 million), which were used in television advertisement and academic promotion. The Group recruited experts and specialists to hold academic promotional seminars nationwide for practitioners in the industry. Through these seminars, doctors and patients had a clearer understanding of the pharmacology, efficacy and benefits of our products.

During the period under review, administrative and other expenses amounted to approximately RMB22.5 million (30 June 2011: approximately RMB21.6 million), representing a slight increase of approximately 4.2% compared to the same period of last year. The expenses were comparable with last year.

Finally, regarding our wholly-owned subsidiary in the PRC, Fujian Sanai has enjoyed a two years exemption and three years 50% reduction preferential tax arrangement of the Corporate Income Tax rate in the PRC since 2008, which continued until 2012. During the period under review, Fuzhou Sanai still enjoyed such preferential tax arrangement. Tax expenses of the Group were approximately RMB11.4 million (30 June 2011: approximately RMB12.6 million) in total and the effective tax rate was 27.2% (30 June 2011: approximately 25.6%). 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 RMB0.5 million (30 June 2011: approximately RMB0.5 million), and the deferred income tax expense was comparable with last year.

4. Liquidity, Financial Resources and Capital Structure

As at 30 June 2012, the Group had cash and cash equivalents of approximately RMB699.4 million (31 December 2011: approximately RMB815.8 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 RMB35.8 million (for the period ended 30 June 2011: approximately RMB72.4million). During the period under review, the Group did not use any financial instruments for hedging purpose.

The Group reviewed the capital structure by using a gearing ratio. The gearing ratio representing the total debt, which includes trade and other payables and payable for acquisition of property, plant and equipment, of the Group divided by total equity of the Group. The debt-to-equity ratio of the Group was approximately 6.4% as at 30 June 2012 (31 December 2011: approximately 5.7%).

5. Exposure to Fluctuation in Exchange Rates

During the period under review, the Group conducted its business transactions principally in Renminbi. The Group has not experienced any material difficulties or negative impacts on its operations as a result of fluctuations in currency exchange rates. Although the Group has certain bank balances denominated in Hong Kong dollars, the Group adopts a conservative financial policy and most of its bank deposits are in Renminbi and Hong Kong dollars. As at 30 June 2012, the Group did not have any bank liabilities, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group was not exposed to any material interest and exchange risks.

6. Significant Acquisitions and Disposal of Investments

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

7. The Number and Remuneration of Employees

As at 30 June 2012, the Group employed approximately 456 employees (31 December 2011: 463 employees). The Group determines staff remuneration in accordance with prevailing market salary scales, individual qualifications and performance. Remuneration packages including performance bonuses and entitlements to share options are reviewed on regular basis.

8. Charge on Group Assets

As at 30 June 2012, the Group had no charges on Group assets. (31 December 2011: Nil).

9. Contingent Liabilities

As at 30 June 2012, the Group did not have any contingent liabilities (31 December 2011: Nil).

10. Capital Expenditure

During the period under review, capital expenditure and deposits prepaid of the Group for additions to property, plant and equipment and for the construction and development of new factory located at Fuzhou Province for own use in our ordinary and usual course of business amounted to approximately RMB279.7 million and RMB28.9 million respectively (30 June 2011: approximately RMB18,000 and RMB5.0 million respectively).

11. Capital Commitments

As at 30 June 2012, the Group had capital expenditure contracted for but not provided in the financial statements amounted to approximately RMB13.7 million (31 December 2011: approximately RMB88.9 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 RMB683.0million.

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 had been utilized in the construction and acquisition of manufacturing equipment in Jiangyang factory.

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

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

For the six months ended 30 June 2012, the Group has continuously spent approximately RMB926,000 for research and development.

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

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2012. Accordingly, no closure of the Register of Members of the Company is proposed.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") as the Company's own code for securities transactions by its Directors. In addition, the Company has made specific enquiries of all Directors and each Director confirms that during the six months ended 30 June 2012, they have fully complied with the required standards as set out in the Model Code.

At no time during the first six months of 2012 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules and appointed three independent non-executive Directors including one with financial management expertise, details of their biographies were set out in the 2011 Annual Report of the Company.

SHARE OPTION SCHEME

The Company's share option scheme was adopted on 8 January 2007 by the way of passing resolutions by all the shareholders of the Company. For the six months ended 30 June 2012, no share option had been granted or exercised under the share option scheme.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed shares during the six months ended 30 June 2012.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES AND THE CORPORATE GOVERNANCE CODE

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

The Company has complied with the Code Provisions as set out in the Code on Corporate Governance Practices (the "CGP Code") during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code (the "CG Code") during the period from 1 April 2012 to 30 June 2012 as contained in Appendix 14 of the Listing Rules ensuring that the Company is up to the requirements as being diligent, accountable and professional.

In the opinion of the Board, the Company has complied with the CGP Code from the listing of the shares of the Company on 1 February 2007 to 31 March 2012 and the CG Code from 1 April 2012 to 30 June 2012 except for deviation from provision A.2.1 of the CGP Code and the CG Code in respect of the roles of chairman and chief executive officer (“CEO”) of the Company. The Board considered that vesting the roles of Chairman and the CEO in the same person facilitates the execution of the Company’s business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise. There are three independent non-executive Directors in the Board, all of them possess adequate independence and therefore the Board considers the Company has achieved balance of and provided sufficient protection to its interests.

REMUNERATION COMMITTEE

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

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 remuneration committee 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 remuneration committee.

NOMINATION COMMITTEE

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

AUDIT COMMITTEE

The audit committee comprises the three Independent Non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. On 24 August 2012, a meeting of the audit committee was held and the unaudited interim results for the six months ended 30 June 2012 were reviewed at such meeting.

REVIEW OF ACCOUNTS

Disclose of financial information in this announcement complies with Appendix 16 to the Listing Rules. The Audit Committee has reviewed the Group’s unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012 in conjunction with the Company’s external auditor in accordance with the Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The 2012 interim report will be dispatched to Shareholders as well as made available on our Company's website at www.wuyi-pharma.com and the Stock Exchange's website www.hkexnews.hk.

ACKNOWLEDGEMENT

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

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

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

Hong Kong, 28 August 2012

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