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武夷药业
Wuyi Pharmaceutical

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1889)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

FINANCIAL HIGHLIGHTS

Turnover was RMB 528.1 million for the year ended 31 December 2012

Gross profit was RMB 179.4 million for the year ended 31 December 2012

Gross profit margin was 34.0% for the year ended 31 December 2012

Loss for the year was RMB44.6 million for the year ended 31 December 2012

Loss per share was RMB2.6 cents for the year ended 31 December 2012

ANNUAL RESULTS

The board (the "Board") of directors (the Directors") of Wuyi International Pharmaceutical Company Limited ("Wuyi Pharmaceutical" or the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to the "Group") for the year ended 31 December 2012, together with the comparative figures of the year ended 31 December 2011.

The Group's financial information for the year ended 31 December 2012 in this announcement was prepared on the basis of the consolidated financial statements which have been reviewed by the Company's independent auditor and the Company's audit committee. The Group has agreed with the auditor as to the contents of this result announcement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Turnover	4	**528,119**	569,285
Cost of sales		**(348,713)**	(365,673)
Gross profit		**179,406**	203,612
Other revenue and net income	5	**3,169**	9,621
Distribution costs		**(86,879)**	(75,013)
Administrative and other expenses		**(44,486)**	(47,134)
Impairment loss on property, plant and equipment	10	**(108,050)**	–
Impairment loss on intangible assets	11	**–**	(12,277)
(Loss)/profit before tax	6	**(56,840)**	78,809
Income tax	7	**12,284**	(21,939)
(Loss)/profit for the year attributable to owners of the Company		**(44,556)**	56,870
Other comprehensive income for the year		**–**	–
Total comprehensive (loss)/income for the year attributable to owners of the Company		**(44,556)**	56,870
(Loss)/earnings per share – Basic and diluted	9	**RMB(2.6) cents**	RMB3.3 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	10	**646,320**	468,715
Land use rights		**65,126**	66,555
Intangible assets	11	–	1,789
Deposits for the acquisition of non-current assets	12	–	154,500
Deferred tax assets		**36,245**	6,815
		747,691	698,374
Current assets			
Inventories		**28,902**	21,738
Trade and other receivables	13	**90,532**	121,830
Cash and cash equivalents	14	**725,141**	815,814
		844,575	959,382
Current liabilities			
Trade and other payables	15	**78,395**	89,029
Tax payable		**2,573**	7,612
		80,968	96,641
Net current assets		**763,607**	862,741
Total assets less current liabilities		**1,511,298**	1,561,115
Non-current liabilities			
Payable for acquisition of property, plant and equipment		**6,000**	–
Deferred tax liabilities		**6,327**	6,359
		12,327	6,359
Net assets		**1,498,971**	1,554,756
Capital and reserves			
Share capital	16	**17,098**	17,098
Reserves		**1,481,873**	1,537,658
Total equity attributable to owners of the Company		**1,498,971**	1,554,756

1. GENERAL

Wuyi International Pharmaceutical Company Limited (the "Company") was incorporated and registered as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) 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 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, except for per share data.

2. CHANGES IN ACCOUNTING POLICY

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs") which are first effective for the current accounting period of the Company and its subsidiaries (together the "Group").

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA.

– Amendments to HKFRS 7, *Financial Instruments: Disclosures – Transfers of Financial Assets*; and

– Amendments to HKAS 12, *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The application of the amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

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

3. SEGMENT INFORMATION

The Group determines its operating segments based on the internal reports reviewed by the Group's 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 2012 and 2011, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

4. TURNOVER

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

	2012	2011
	RMB'000	*RMB'000*
Sales of pharmaceutical products	**528,119**	569,285

5. OTHER REVENUE AND NET INCOME

	2012 *RMB'000*	2011 *RMB'000*
Other revenue		
Bank interest income	**3,141**	5,122
Total interest income on financial assets not at fair value through profit or loss	**3,141**	5,122
Other net income		
Exchange gain, net	**28**	4,499
	3,169	9,621

6. (LOSS)/PROFIT BEFORE TAX

	2012 *RMB'000*	2011 *RMB'000*
(Loss)/profit before tax is arrived at after charging:		
Directors' emoluments	**3,218**	3,227
Other staff costs		
– Contributions to defined contribution retirement benefits scheme	**3,785**	3,544
– Salaries, wages and other benefits	**34,919**	34,962
Total staff costs *#	**41,922**	41,733
Depreciation of property, plant and equipment *#		
– owned by the Group	**30,645**	31,715
– held for own use under a finance lease	**–**	4
	30,645	31,719
Amortisation of intangible assets	**1,789**	2,386
Amortisation of land use rights	**1,429**	1,418
Auditor's remuneration	**603**	609
Operating lease payments in respect of rented premises	**1,160**	889
Cost of inventories #	**348,713**	365,673
Research and development costs *	**2,356**	3,514

Cost of inventories includes RMB38,130,000 (2011: RMB37,813,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

* Research and development costs includes RMB2,277,000 (2011: RMB2,194,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2012	2011
	RMB'000	*RMB'000*
Current tax-PRC corporate income tax		
– Provision for the year	**17,178**	27,005
Deferred taxation		
– Origination and reversal of temporary differences	**(29,653)**	(5,965)
– Withholding tax at 5% on the distributable profits of the PRC subsidiaries	**191**	899
	(29,462)	(5,066)
	(12,284)	21,939

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 Company Limited ("Fujian Sanai") and Fujian Sanai Pharmaceutical Trading Co., Limited were subject to PRC corporate income tax at a rate of 25% applicable to the companies on the assessable profits for the year (2011: 25%).

Fuzhou Sanai Pharmaceutical Company Limited ("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. In addition, 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, 12% in 2011 and 12.5% in 2012, being half of the corporate income tax rate applicable. Such tax exemption expired 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 year ended 31 December 2012 (2011: Nil).

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

	2012	2011
	RMB'000	*RMB'000*
(Loss)/profit before tax	**(56,840)**	78,809
Notional tax on profit before tax, calculated at the rates applicable in the jurisdictions concerned	**(13,728)**	20,170
Tax effect of non-deductible expenses	**2,634**	3,077
Tax effect of concessionary tax rates granted to the PRC subsidiaries	**(1,381)**	(2,156)
Tax effect of unrecognised temporary differences	**–**	(51)
Withholding tax at 5% on the distributable profits of the PRC subsidiaries	**191**	899
Actual tax (credit)/expense	**(12,284)**	21,939

8. DIVIDENDS

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

	2012	2011
	HK'000	*HK'000*
Final dividend proposed after the end of the reporting period: Nil (2011: HK0.8 cents per share)	–	13,678
	RMB'000	RMB'000
Approximately equivalent to: – Final dividend	**-**	11,120

b) The directors do not recommend payment of final dividend for the year ended 31 December 2012.

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

	2012	2011
	HK'000	*HK'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK0.8 cents per share (2011: HK1.6 cents)	**13,678**	27,356
Special dividend in respect of the previous financial year, approved and paid during the year: Nil (2011: HK8.8 cents per share)	**–**	150,460
	13,678	177,816
	RMB'000	*RMB'000*
Approximately equivalent to		
– Final dividend	**11,229**	23,183
– Special dividend	**–**	127,508
	11,229	150,691

9. (LOSS)/EARNINGS PER SHARE

a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company of approximately RMB44,556,000 (2011: profit of approximately RMB56,870,000) and the weighted average number of 1,709,772,500 ordinary shares (2011: 1,709,772,500 ordinary shares) in issue throughout the year.

b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share equals to basic (loss)/earnings per share as there were no dilutive potential ordinary shares outstanding during both years ended 31 December 2012 and 2011.

10. PROPERTY, PLANT AND EQUIPMENT

	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 2011	66,646	44,441	7,020	254,131	70,000	442,238
Additions	–	39	–	1,857	128,612	130,508
Transfer *(note 12)*	–	–	–	–	16,000	16,000
At 31 December 2011 and 1 January 2012	66,646	44,480	7,020	255,988	214,612	588,746
Additions	–	30	421	5	161,344	161,800
Transfer *(note 12)*	–	–	–	–	154,500	154,500
At 31 December 2012	66,646	44,510	7,441	255,993	530,456	905,046
Accumulated depreciation and impairment						
At 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 and 1 January 2012	12,050	14,530	6,458	86,993	–	120,031
Charge for the year	2,138	4,241	89	24,177	–	30,645
Impairment losses recognised in profit or loss	13,560	14,043	–	80,447	–	108,050
At 31 December 2012	27,748	32,814	6,547	191,617	–	258,726
Carrying amounts						
At 31 December 2012	38,898	11,696	894	64,376	530,456	646,320
At 31 December 2011	54,596	29,950	562	168,995	214,612	468,715

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

The impairment loss recognised during the year ended 31 December 2012 solely relates to the Group's part of the production equipment in one of the factories located in Jinayang city, Fujian Province of Fujian Sanai. Facing the multiple challenges arisen from the State policies and market pressures, which has led to a changing business environment with more challenges, the Board of Directors of the Company is aware that the need in lowering prices of certain products has brought about a decline in the sales amount of certain medicines; on the other hand, the pressure on the cost of sales has kept intensifying. Therefore, after reviewing the profitability of these production equipment, the Group recognised impairment loss during the year ended 31 December 2012 to RMB108,050,000 (2011: Nil), which has been included in the line item in the consolidated statement of comprehensive income. The recoverable amount of the relevant assets has been determined on the basis of their value in use with reference to the valuation report prepared by Roma Appraisals Limited, an independent valuer. The discount rate used in measuring value in use was approximately 8.0% per annum.

11. INTANGIBLE ASSETS

	Patents	Product development costs	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost			
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	16,230	7,977	24,207
Accumulated amortisation and impairment			
At 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 and 1 January 2012	15,161	7,257	22,418
Charge for the year	1,069	720	1,789
At 31 December 2012	16,230	7,977	24,207
Carrying amount			
At 31 December 2012	–	–	–
At 31 December 2011	1,069	720	1,789

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 ended 31 December 2011 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 ended 31 December 2011 to RMB12,277,000. The impairment loss has been included in the line item in the consolidated statement of comprehensive income.

12. DEPOSITS FOR THE ACQUISITION OF NON-CURRENT ASSETS

	Deposits for the acquisition of		
	Plant and machinery *RMB'000*	**Construction in progress** *RMB'000*	**Total** *RMB'000*
At 1 January 2011	16,000	30,000	46,000
Transfer *(note 10)*	(16,000)	–	(16,000)
Additions	–	124,500	124,500
At 31 December 2011 and 1 January 2012	–	154,500	154,500
Transfer *(note 10)*	–	(154,500)	(154,500)
At 31 December 2012	–	–	–

During the year ended 31 December 2011, the Group prepaid RMB124,500,000 to independent third parties for the construction of buildings in factory located at Fujian Province with a contract price of RMB229,720,000.

13. TRADE AND OTHER RECEIVABLES

	2012 *RMB'000*	2011 *RMB'000*
Trade receivables	**90,268**	121,634
Deposits	**264**	196
	90,532	121,830

i) The amount of the Group's deposits expected to be recovered after more than one year is RMB222,000 (2011: RMB69,000) and RMB Nil (2011: Nil) respectively. All of the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

ii) The Group normally grants credit terms of 60 days to its customers. The following is an ageing analysis of trade receivables at the end of the reporting period:

	2012	2011
	RMB'000	*RMB'000*
Age		
0 to 30 days	**44,661**	62,471
31 to 60 days	**45,607**	59,163
	90,268	121,634

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.

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

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Group comprise cash at bank and in hand. During the year, the bank deposits of the Group carry interest at rates ranging from nil to 0.5% (2011: 0.01% to 0.5%) per annum.

15. TRADE AND OTHER PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Trade payables		
– a related company *	**605**	1,127
– others	**42,935**	60,540
	43,540	61,667
Payroll and welfare payables	**6,443**	6,589
Payable for acquisition of property, plant and equipment	**11,374**	–
Accrued charges	**4,687**	5,731
Other payables	**5,478**	5,388
Financial liabilities measured at amortised cost	**71,522**	79,375
Other PRC tax payables	**6,873**	9,654
	78,395	89,029

* 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:

	2012 *RMB'000*	2011 *RMB'000*
Age		
0 to 30 days	**33,440**	36,020
31 to 60 days	**10,100**	25,647
	43,540	61,667

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

16. 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 31 December 2012	**3,200,000,000**	32,000
Issued and fully paid:		
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	**1,709,772,500**	17,098

	2012 *RMB'000*	2011 *RMB'000*
Shown in the consolidated statement of financial position at 31 December	**17,098**	17,098

17. CAPITAL COMMITMENTS

	2012 *RMB'000*	2011 *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
	8,100	88,920

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Reviewing the whole year of 2012, the development of China's medical industry has experienced various opportunities and challenges. At the beginning of the year, 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" ("Twelfth Five-Year Plan for Pharmaceutical Planning"), which is intended to raise the overall drugs usage and develop the drugs distribution channels for boosting product sales of pharmaceutical companies. With the implementation of the "Administrative Measures Governing the Production Quality of Pharmaceutical Products (2010 Revision)" (the "New GMP") since March 2011, the elimination of non-compliance enterprises within the industry has accelerated. In addition, the domestic products prices continued to rise sustainably, and the costs of production and sales such as pharmaceutical raw materials costs, packaging costs, advertising costs and labor costs also increased continuously; which made pharmaceutical enterprises facing a more difficult challenge while experiencing integration development. Under the complex market environment, Wuyi Pharmaceutical will continue the established policy of "consolidating its existing business and market; and strengthen the research and development of new drugs", strive to promote and expand the sales, maintain its market share, enhance operation effectiveness and commit to balance the relationship between short-term and long-term development.

In face of the multiple challenges arisen from the State policies and market competition, the Group adjusted the prices downward in order to maintain market competitiveness and market share. The overall prices of Western medicine and Chinese medicine have undergone price downward adjustments of approximately 1.6% and 1.1% respectively; and the unit price of some products tumbled the maximum by over 15.0%, thus the Group's overall sales turnover of pharmaceutical products declined. In addition, there was an impairment loss amounted to approximately RMB108.1 million in relation to part of the production facilities in one of the factories located in Jianyang city, Fujian Province, which was mainly attributable to non-cash accounting treatment on the impairment loss on these production facilities, and mainly to reflect the value in use of the assets. Therefore, such impairment loss will not affect the future either the performance of the Group's operations and sales; or affect the cash flow of the Group.

For year ended 31 December 2012, the Group has achieved turnover of approximately RMB528.1 million, representing a decrease of approximately 7.2% from the same period of last year (2011: approximately RMB569.3 million). The overall gross profit was approximately RMB179.4 million, representing a decrease over last year of approximately 11.9% and the gross profit margin was approximately 34.0%, representing a decrease of approximately 1.8 percentage points from the same period of last year. During the period under review, the Group recorded loss since its restructuring and listing, and the loss amounted to approximately RMB44.6 million (2011: the profit amounted to RMB56.9 million).

The Group considers its financial position is healthy, and a decline in gross profit margin will not affect the long-term development of the Group. Based on the confidence in future development and coping with the implementation of new GMP in an effective and timely manner, as disclosed in the announcement of change in use of proceeds on 3 December 2012, the Group will use the remaining net proceeds of approximately RMB$300.0 million from its global offering of shares in 2007 (the "Global Offering") on the construction of a new factory in Haixi Commercial Trading Development Zone, Jianyang City, Fujian Province, including the relevant capital expenditure for the application for and implementation of the new GMP certification on manufacturing facilities. The market competitiveness of the Group will even be greater as the part of the existing and new production facilities in the factories were already in line with the new GMP certification manufacturing facilities.

Development of Major Products

Perilla Oil Capsule

Perilla Oil Capsule is one of the key products 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. Currently, the Group has been actively expanding Perilla Oil Capsule to the markets of Jiangsu Province and Guangdong Province. 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 decreased. For the year ended 31 December 2012, turnover of the product was approximately RMB44.5 million, representing a slight decrease of 2.4% over last year, accounting for approximate 8.4% of the Group's total turnover during the year (2011: approximately RMB45.6 million, accounting for 8.0% of the total turnover).

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 was welcomed by customers and its sales steadily increased since its launch. For the year ended 31 December 2012, turnover of the product was approximately RMB10.7 million, representing a great increase of 87.7% from the same period of last year, accounting for approximate 2.0% of the Group's total turnover during the year.

N(2)-L Alanyl-LGlutamine Injectible

N(2)-L Alanyl-LGlutamine Injectible is the Group's product with the highest sales turnover. For the year ended 31 December 2012, turnover of the product was approximately RMB63.0 million, accounting for approximately 11.9% of the Group's total turnover during the year (2011: approximately 68.8 million, accounting for approximately 12.1% of the total turnover). During the year, the market competition of N(2)-L Alanyl-LGlutamine Injectible was still fierce; however, by virtue of the Group's appropriate adjustments in sales strategies, the sales performance of the products remained stable.

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 promote it in the rural market and hospitals. The sales of the products remained stable. Turnover of 2-ml and 10-ml Xiangdan Injectible was approximately RMB12.1 million and RMB34.6 million, and gross profit margin was 2.4% and 37.1% respectively.

Erythromycin Enteric-coated Capsules is the product of the Group, mainly used in the treatment of inflammation and various types of infection. The sales performance of the product was outstanding during the year. Turnover of the product reached approximately RMB7.9 million and the gross profit margin amounted to 37.5%.

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

Development of New Medicines

The Group continued to work and cooperate with the relevant colleges and prompt the research and development of new drugs step-by-step. The Group conducted indication research on Perilla Oil Capsule with Fujian Medical University's Faculty of Medicine, and 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 in process steadily during the year.

Another new product of the Company, Pazufl oxacin Mesilate Injectible, was still undergoing approval preocedures in the year.

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 RMB12.6 million, representing a year-on-year decrease of approximately 3.1%, accounting for approximately 2.4% of the Group's total turnover in 2012.

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 64 during the period. 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 RMB55.7 million from that market during the period, amounted to approximately 10.5% of our total turnover, which recorded a slight increase as compared with that of last year.

During the year, the Group has paid close attention to the promotion of new type of rural cooperative medical care ("New Rural Cooperation") over the country. Fujian Province has tried and implemented the Essential Drugs List of the New Rural Cooperation first; and a number of the Group's products have been incorporated into the list.

To boost the brand awareness of the product, the Group promoted its brand image and product quality through television advertisements during the year. Meanwhile, the Group also introduced the unique curativeness of the products via academic and new medicine promotion seminars as well as medicine fairs. The Group will continue its efforts on expanding its sales network by different channels.

OUTLOOKS AND FUTURE DEVELOPMENT

Looking forward to 2013, with the approaching deadline of the implementation of the New GMP and the promotion of "Twelfth Five-Year Plan for Pharmaceutical Planning", the phenomenon of the "Strong always strong; Weak remain weak" mechanism started to become apparent in the marketing competition.

With the approaching deadline of the implementation of new GMP, the elimination rate within the pharmaceutical industry has accelerated. The degree of concentration and standardization of the pharmaceutical industry has gradually enhanced. 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.

"Twelfth Five-Year Plan for Pharmaceutical Planning" focused on the establishment of universal basic medical insurance, basic drugs system and reforms in public hospitals. The participation rate of basic medical insurance has gradually increased; employees' medical insurance and medical insurances for urban residents and New Rural Cooperation covered a population of 1.3 billion, which formed a huge potential for the pharmaceutical market. Under this plan, consolidating the basic drugs system, improving the National Essential Drugs List, facilitating the pharmaceutical production and distribution, getting rid of "Supporting medical industry by pharmaceutical business", strengthening the public welfare of the public hospitals and improving the drug procurement process will become inevitable, which will be beneficial for expanding the sales channel of drugs and facilitating the products sales of pharmaceutical enterprises.

In respect of drug tendering, the National Development and Reform Commission issued a series of measures and ways to control the price difference between the pharmaceutical wholesale price and product price of pharmaceutical enterprises, in order to solve the problem of unreasonably high mark-up for retail price of drugs after distributing to market, which further standardizes the production and distribution order of drugs. The innovated mechanism of drug procurement program and the focus of the combined effect of drug quality and price, will gradually change to drug tendering model of Bid Winning at Lowest Price, which is favorable for long-term healthy development of the pharmaceutical enterprises and even the entire industry.

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 small communities in cities so as to alleviate the impact of the State policies on the industry and strive for a stable increase of turnover for 2013.

Actively establish new factory to match up with New GMP implementation

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. The construction of an integrated building with the functions of quality examination, research and development of new formula and office operation was completed. The purchase and installation of equipment will be conducted from 2013 to 2014, and the maximum capacity will greatly be enhanced after commencement. The Group continues to facilitate the construction of supporting facilities and plans to apply for GMP certification in 2013, with full confidence in getting the approval of the relevant certification.

Deepen sales network to collaborate and enhance sales

The Group will continue to make use of the nationwide distribution network of Jointown Pharmaceutical Group Co., Ltd. to further deepen the sales pipelines. In 2013, 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 promotion 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.

At the same time, the Group plans to launch large infusion products to urban markets in the year 2013 to 2014, mainly for hospitals nearby, which is helpful for collaborating the sales with the Group's other products.

Increase market penetration and enlarge the coverage of rural markets

The Group's existing sales network has extensively covered the rural market; and distributes products in rural communities in a dozen of southern provinces in China, the Group's sales turnover in the rural market increased steadily. The Group was listed in the medical insurance directory of New Rural Cooperation of Fujian Province, and increased the penetration in community and rural markets by following with the latest trend of national medical reform and New Rural Cooperation, and strived to cover the 2A and 2B grade county hospitals, health centers in villages and towns and rural markets with delivery channels.

The group will cope with the challenges actively. We shall adhere to the principle of losing no time and making the best of time to grasp accurately the market development direction, promoting the existing products and persist in research and development of new drugs; so as to maintain the corporate positive and sustainable development and maximize the returns to shareholders.

Financial Review

1. Turnover

Turnover of the Group was approximately RMB528.1 million (2011: RMB569.3 million), representing a decrease of approximately 7.2% over last year. As disclosed in the 2012 Interim Report and the profit warning announcement of the Company dated 28 August 2012 and 1 February 2013 respectively, the State has for many times demanded pharmaceutical enterprises to lower medicine prices since 2010, which made prices reduction in medicine became regular pattern of the industry. In addition, with the impact of the tendering procurement model of Bid Winning at Lowest Price adopted by certain regions and increasingly intensified market competition, the unit price of some products decreased by over 15%. 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 market 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 RMB254.3 million (first half of the year: approximately RMB273.8 million), representing a decrease of approximately 7.1% compared with the first half of the year.

Turnover for 2012 continued to be dominated by Western medicines. Under the impact of further regulations and quality requirements on various aspects imposed by SFDA, we recorded a turnover of approximately RMB270.1 million in this section, accounting for approximately 51.1% of the overall turnover, which is similar to last year's proportion, but the actual amount decreased by approximately 7.3% over last year (2011: approximately RMB291.3 million, representing approximately 51.2% of the overall turnover). Turnover of Chinese medicines amounted to approximately RMB245.4 million, accounting for approximately 46.5% of the overall turnover, which is similar to last year's proportion, but the actual amount decreased by approximately 7.4% over last year (2011: approximately RMB265.0 million, representing approximately 46.5% of the overall turnover). The gap difference 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 RMB12.6 million, representing approximately 2.4% of the overall turnover (2011: approximately RMB13.0 million, representing approximately 2.3% of the overall turnover) and a decrease of approximately 3.1% over 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, as it is yet to be listed in the national medical insurance directory, its sales were affected to a certain extent. Sales for the year amounted to approximately RMB44.5 million, representing approximately 8.4% of the overall turnover, a slight decrease of approximately 2.4% over last year (2011: approximately RMB45.6 million, representing approximately 8.0% of the overall turnover).

The highest sales volume during the year was again achieved by the Western medicine, N(2)-L Alanyl-LGlutamine Injectible, with a turnover of approximately RMB63.0 million, representing approximately 11.9% of the overall turnover (2011: approximately RMB68.8 million, representing approximately 12.1% of the overall turnover). Sales of the five top selling medicines amounted to approximately RMB202.7 million, representing approximately 38.4% of the overall turnover (2011: approximately RMB226.7 million, representing approximately 39.8% of the overall turnover).

2. Gross Profit and Gross Profit Margin

Gross profit of the Group decreased approximately 11.9% over last year to approximately RMB179.4 million (2011: approximately RMB203.6 million). Gross profit margin decreased by approximately 1.8 percentage points over last year to approximately 34.0% (2011: approximately 35.8%). The two main reasons for the decrease of gross profit margin are as follows:

1) Despite a decrease of approximately 7.2% in the overall turnover, the overall prices of raw materials and packaging materials continued to rise while costs decreased by only 4.2% over last year, and such cost pressure has significantly led to an increase in production costs, which amounted to RMB290.2 million for the year, representing 83.2% of the overall cost of sales (2011: approximately RMB303.0 million, representing 82.9% of the overall cost of sales); 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 a regular pattern of the industry. Moreover, with the impact of certain regions adopting the Bid Winning at Lowest Price tendering procurement model and increasingly intensified market competition, unit price of certain products had to be adjusted downward with the maximum reduction 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 level of overall gross profit margin.

Other components of cost of sales, including raw materials, packaging materials, depreciation, energy and fuel costs, and direct labor cost remained in essentially the same proportion as compared with last year, except that such related amount decreased in line with sales.

In addition, as part of our large volume injectible, small volume injectible and tablet plants and certain public utilities had to be upgraded to meet the requirements of the new GMP certification (Administrative Measures Governing the Production Quality of Pharmaceutical Products) implemented by SFDA, the Group has increased capital expenditure for construction and development of plants and new production facilities since 2010. Depreciation charges for the year were approximately RMB29.0 million, representing 8.3% (2011: approximately RMB29.3 million, representing approximately 8.0%) of the overall cost, which is similar to last year's proportion.

3. Loss for the Year

This was the first financial year the Group incurred a loss since its restructuring and listing, which amounted to RMB44.6 million (2011: profit of approximately RMB 56.9 million). As a number of related measures, guidelines and quality 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 Bid Winning at Lowest Price in the tendering procurement for national drugs led to a further decrease in sales prices of pharmaceutical products, and the price inflation in Mainland China resulted in an increase in costs of raw materials, packaging materials and salary expenses, hence the profit of pharmaceutical enterprises was inevitably affected.

As disclosed in the Company's profit warning announcement dated 1 February 2013, the Board is of the view that one of the factories located in Jianyang city, Fujian would incur a potential impairment loss which is mainly attributable to the decline in turnover and gross profit.

In addition, distribution costs of the Group increased approximately 15.9% to approximately RMB86.9 million (2011: approximately RMB75.0 million). Affected by the tendering procurement model of Bid Winning at Lowest Price and increasingly intensified market competition, the advertising and marketing expenses of our three wholly-owned subsidiaries in the PRC for the year totalled approximately RMB63.7 million (2011: approximately RMB53.0 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 and recognition of "Sanai" in rural market during the year. The management believed that the effects of advertising will be achieved soon.

Administrative and other expenses decreased 5.5% over last year to RMB44.5 million (2011: approximately RMB 47.1 million) were comparable with 2011.

Impairment loss on property, plant and equipment assets for the year amounted to RMB108.1 million and is disclosed as a separate item in the consolidated statement of comprehensive income. Such impairment loss related to the part of the production facilities in one of the factories located in Jianyang city, Fujian Province of Fujian Sanai, a wholly-owned subsidiary of the Company. Facing the multiple challenges arisen from the State policies and market pressures, which has led to a changing business environment with more challenges, the Board is aware that the need in lowering prices of certain products has brought about a decline in the sales amount of our medicines; on the other hand, the pressure on the cost of sales has kept intensifying. Therefore, after reviewing the profitability of the production equipment, the Board decided to make impairment for the production equipment to reflect the value in use of such asset. However, the Board considered the impairment of such fixed asset as a non-cash and non-recurring expense with no impact on the Group's cash flow or business and production operations.

Finally, one of our wholly-owned foreign funded subsidiaries in the PRC, Fuzhou Sanai, has enjoyed a preferential tax arrangement at half of the Corporate Income Tax rate in the PRC since 2008, which continued until 2012. During the year, Fuzhou Sanai was still entitled to such preferential tax arrangement. Tax credit of the Group were approximately RMB12.3 million (2011: tax expenses of approximately RMB21.9 million) in total and the effective tax rate was (27.6)% (2011: approximately 27.8%), which included withholding deferred income tax for the provision of undistributed profits for the three wholly-owned subsidiaries in the PRC amounting to approximately RMB0.2 million (2011: approximately RMB0.9 million).

4. Liquidity, Financial Resources and Capital Structure

As at 31 December 2012, the Group had cash and cash equivalents of approximately RMB725.1 million (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 RMB61.8 million (2011: approximately RMB117.5 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 represented the total debt, which includes trade and other payable and payables for acquisition of property, plant and equipment of the Group divided by total equity of the Group. The gearing ratio of the Group was approximately 5.6% as at 31 December 2012 (2011: approximately 5.7%).

5. Exposure to Fluctuation in Exchange Rates

For the year ended 31 December 2012, 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 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. Material Acquisitions and Disposal of Investments

For the year ended 31 December 2012, 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 2012, the Group employed approximately 441 employees (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 31 December 2012, the Group had no charges on Group assets (2011: Nil).

9. Contingent Liabilities

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

10. Capital Expenditure

For the year ended 31 December 2012, capital expenditure and deposits prepaid of the Group for property, plant and equipment and for the construction and development of the new factory at Fujian Province for own use in our ordinary and usual course of business amounted to approximately RMB161.8 million and RMB Nil (2011: approximately RMB130.5 million and RMB124.5 million respectively).

11. Capital Commitments

As at 31 December 2012, the Group's capital expenditure contracted for but not provided in the financial statements amounted to approximately RMB8.1 million (2011: approximately RMB88.9 million).

12. Change of Use of Proceeds

As announced by the Company on 3 December 2012, the Board has resolved to change the intended application of the remaining net proceeds of approximately RMB360.0 million, representing approximately 53.0% of the net proceeds from the Global Offering, the Board believed that such change will facilitate efficient allocation of financial resources of the Company and strengthen the future development of the Group and is fair and reasonable and in the interests of the Company and its shareholders as a whole.

			RMB million
	Usage	**Before change**	**After change**
1	Capital expenditure for construction of phase II production line for Perilla Oil Capsule in Fuzhou factory	154.0	–
2	Acquisition of equipment for and construction of a new 1,000-ton per year production line for extraction of highly concentrated α–Linolenic acid as raw material for production of Perilla Oil Capsule	113.0	–
3	Research and development in new drugs development and to establish a research and development center in Fuzhou	79.7	–
4	Enhancement of information systems and commerce platform	12.0	–
5	Capital expenditure for the new GMP certification manufacturing facilities located in a new factory in Haixi Commercial Trading Development Zone	–	300.0
6	Advertising in TV commercial channels		58.7
	Total	358.7	358.7

13. 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. 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.

For the year ended 31 December 2012, the Group has continuously spent approximately RMB926,000 for research and development.

The remaining balance of net proceeds of approximately RMB 358.7 million was placed in short term deposits with licensed commercial banks in the PRC as at 31 December 2012.

DIVIDEND

The Board does not recommend payment of any final dividend for the year ended 31 December 2012 to the shareholders.

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 year ended 31 December 2012, they have fully complied with the required standards as set out in the Model Code.

At no time during the year ended 31 December 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 year ended 31 December 2012, no share option has been granted under the share option scheme.

ANNUAL GENERAL MEETING

The 2013 Annual General Meeting of the Company will be held on 6 June 2013, Thursday and the Notice of Annual General Meeting will be published and dispatched in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 29 May 2013 to Thursday, 6 June 2013 (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, 28 May 2013.

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

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

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the Code Provisions as set out in the Code on Corporate Governance Practices (the "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 31 December 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 31 December 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.

AUDIT COMMITTEE

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

The principal duties of the AC include the review and supervision of the Company's financial reporting system, financial statements and internal control procedures. The AC also monitors the appointment of the Company's external independent auditor. The Company's annual result announcement and annual report for the year ended 31 December 2012 have been reviewed by AC in the meeting on 21 March 2013, with no disagreement among all AC members, and with recommendation to the Board for approval.

The AC shall meet at least twice a year. During the year 2012, two meetings (on 23 March 2012 and 24 August 2012) were held and Mr. Lam Yat Cheong (Chairman), Mr. Liu Jun ans Mr. Du Jian, being all members of the AC were present. At the meetings, the consolidated financial statements of the Company for the financial year ended 31 Decmeber 2011 and for the period ended 30 June 2012 were reviewed, and with recommendation to the Board for further approval.

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 and one Executive Director. The Board has delegated the authority to the RC to review and recommend to the Board the compensation scheme of the Company to the Directors as well as to the senior management staff.

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

The RC has conducted a meeting on 3 December 2012 in which Mr. Lam Yat Cheong (Chairman), Mr. Lin Ou Wen, Mr. Liu Jun and Mr. Du Jian, being all members of the RC were present. The RC assisted the Board to review the remuneration of the Executive Directors and senior management and approved the remuneration packages of the Executive Directors for the year 2013.

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

The terms of reference of the RC are available for inspection on the Company's website at www.wuyi-pharma.com 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 CEO. The Board shall provide sufficient resources to the NC to enable it to discharge its duties.

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

On 3 December 2012, 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 were present to perform appraisal of the Directors so as to recommend to the Board for re-election in the forthcoming annual general meeting of the Company and review the independence of the Independent Non-executive Directors.

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

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

ACKNOWLEGEMENT

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, 25 March 2013

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.