



武夷药业
Wuyi Pharmaceutical

Wuyi International Pharmaceutical Company Limited

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

Annual Report 2012



Life • Nature • Science

Contents

Corporate Information	2
Financial Highlights	3
Chairman's Statement	4
Management Discussion and Analysis	8
Corporate Governance Report	16
Directors and Senior Management	22
Directors' Report	24
Independent Auditor's Report	30
Consolidated Statement of Comprehensive Income	31
Consolidated Statement of Financial Position	32
Statement of Financial Position	33
Consolidated Statement of Changes in Equity	34
Consolidated Statement of Cash Flows	35
Notes to the Financial Statements	36
Five-Year Financial Summary	76

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lin Ou Wen (*Chairman*)

Mr. Lin Qing Ping

Mr. Xu Chao Hui

Non-executive Directors

Mr. Tang Bin

Mr. John Yang Wang

Independent Non-executive Directors

Mr. Liu Jun

Mr. Lam Yat Cheong

Mr. Du Jian

COMPANY SECRETARY

Mr. Kung Wai Chiu, Marco

FCPA (Practising), FCCA, FTIHK, ACIS, ACS and CTA (HK)

AUTHORIZED REPRESENTATIVES

Mr. Lin Ou Wen

Mr. Kung Wai Chiu, Marco

FCPA (Practising), FCCA, FTIHK, ACIS, ACS and CTA (HK)

AUDIT COMMITTEE

Mr. Lam Yat Cheong (*Chairman*)

Mr. Liu Jun

Mr. Du Jian

REMUNERATION COMMITTEE

Mr. Lam Yat Cheong (*Chairman*)

Mr. Lin Ou Wen

Mr. Liu Jun

Mr. Du Jian

NOMINATION COMMITTEE

Mr. Lin Ou Wen (*Chairman*)

Mr. Lin Qing Ping

Mr. Liu Jun

Mr. Lam Yat Cheong

Mr. Du Jian

AUDITOR

CCIF CPA Limited

Certified Public Accountants

SOLICITOR

Gallant Y. T. Ho & Co.

PRINCIPAL BANKER

Bank of Communications Co., Ltd.

REGISTERED OFFICE

4th Floor

P.O. Box 2804

George Town

Grand Cayman

Cayman Islands

PLACE OF BUSINESS

Room 2805, 28th Floor

Central Plaza

18 Harbour Road

Wanchai

Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICES

Principal share registrar and transfer office

Royal Bank of Canada Trust Company (Cayman) Limited

4th Floor, Royal Bank House

24 Shedden Road, George Town,

Grand Cayman KY1-1110

Cayman Islands

Hong Kong branch share registrar and transfer office

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai, Hong Kong

STOCK CODE

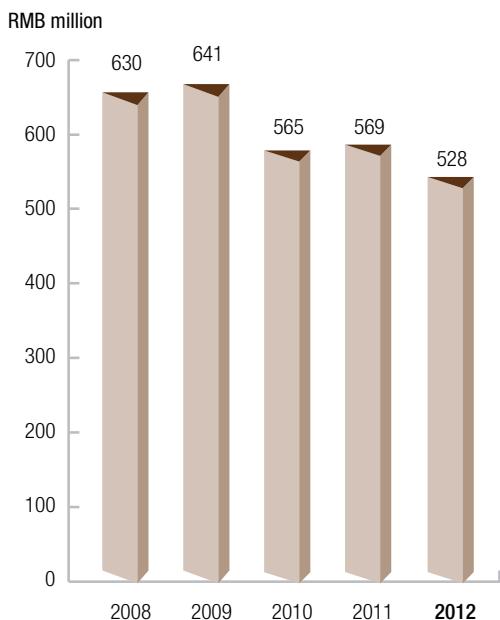
1889

WEBSITE

www.wuyi-pharma.com

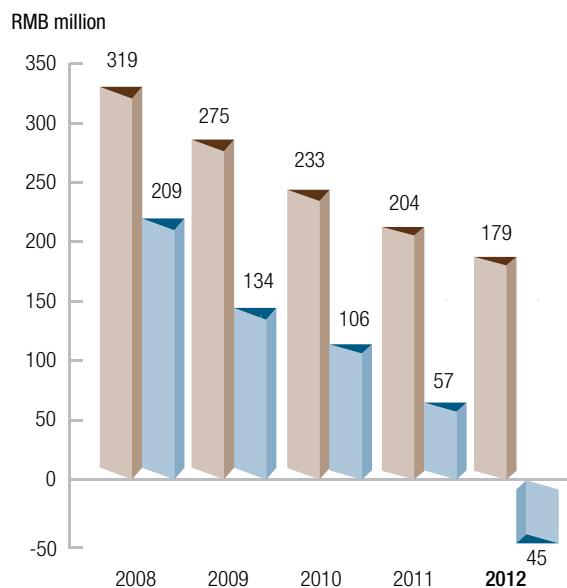
Financial Highlights

Turnover

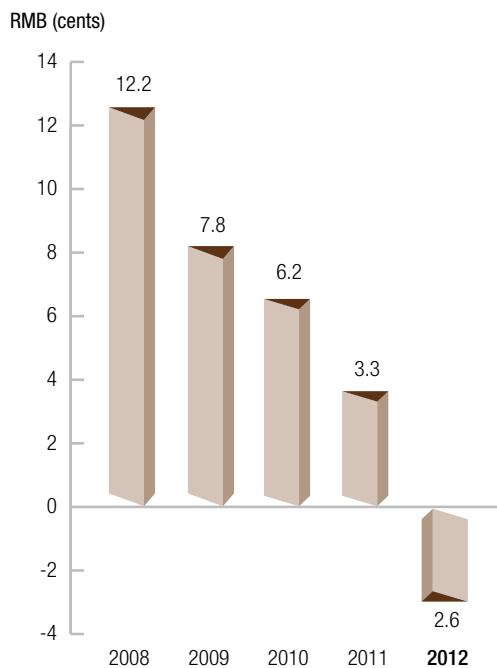


Gross Profit & Net Profit/(Loss)

Gross Profit Net Profit/(loss)

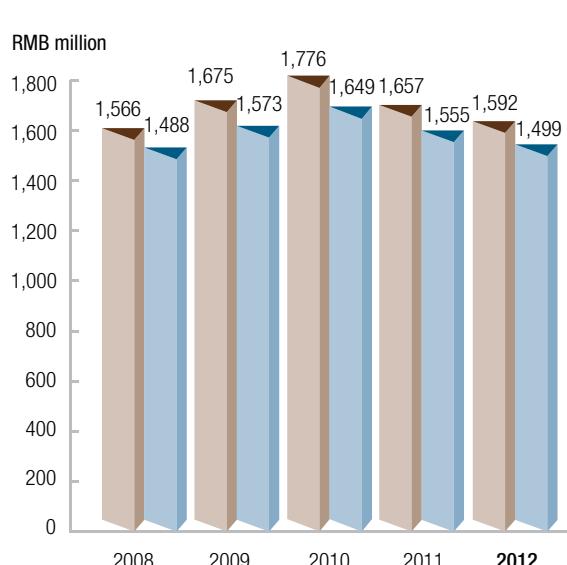


Earnings/(Loss) per share - Basic and diluted



Total Assets & Net Assets

Total Assets Net Assets



Chairman's Statement



To all Shareholders

On behalf of the Board of Directors, I am pleased to present to the shareholders the annual results of Wuyi International Pharmaceutical Company Limited ("Wuyi Pharmaceutical" or the "Company") and its subsidiaries (collectively, the "Group") for the financial year ended 31 December 2012.

BUSINESS REVIEW

In 2012, the medical industry was facing the pressure from two aspects, the policy and the market, throughout the year. Regarding the policy, the State Drug Safety Plan (2011-2015) (國家藥品安全規劃(二零一一—二零一五年)) stipulated the overall objectives and goals of drug safety during the "Twelfth Five-year" period, requiring 100% compliance of pharmaceutical production with the requirement of the Administrative Measures Governing the Production Quality of Pharmaceutical Products (2010 Revision) (the "New GMP"). With a more in-depth implementation of the New GMP, the speed of weeding out the non-compliance pharmaceutical enterprises has been accelerated. Companies shall put more hard work and efforts on its own development and renewal of equipment. Regarding the market, there was a constant domestic inflation with the production and sales cost such as the raw materials of drugs, packaging cost, advertising cost and labour cost continued to rise. All these intensified the

competition of the whole industry. Overall, 2012 was a difficult time for the development of pharmaceutical enterprises.

The State policies and market pressure caused the constant decline in the price of pharmaceutical products. In order to maintain competitiveness and market shares, the Group has lowered its drug price in 2012. Generally the price of western medicine was down about 1.6%, the price of Chinese patent medicine was down about 1.1% and the unit price of some products was even lowered by over 15%, which brought certain impact on the profit of the Group. In view of this, the Group strived to promote sales, drive the sales volume, maintain the market share, continue to enhance the operating efficiency and maintain the established principle in "consolidating the existing drug businesses and market, continuing to strengthen the research and development of new medicine" so as to fight for long term development.

Chairman's Statement

The Group understood very well that although the implementation of the New GMP will intensify the competition of the industry, the measure is an effective one in facilitating the healthy development of the medical industry, which will uplift the degree of concentration and standardization in the industry and prompt medical enterprises to adjust their business structure, strengthen the R&D of new drugs, enhance the competitiveness of product portfolio as well as improve product quality. Hence, the Group attached great importance to the upgrade of its equipment and production capacity based on the requirement of the New GMP. In December 2012, the Group decided to put part of the remaining net proceeds from the global offering in advancing the construction of the new factory in Haixi, including the relevant capital expenditure for the application for and implementation of the New GMP certification on manufacturing facilities. The newly constructed factory will not only enhance the production capacity of the Group, but also meet the requirement of the New GMP which is very favourable for the long term development of the Group.

Exposed to a harsh external environment, the overall profit of the Group was affected to a certain extent. During the year, the Group achieve a turnover of approximately RMB528.1 million, representing a decrease of approximately 7.2% as compared with previous year, while the total gross profit was RMB179.4 million, representing a decrease of 11.9% over the previous year, with a gross profit margin of approximately 34.0%, representing a year on year decrease of about 1.8 percentage points. This is the first financial year for the Group to incur a loss since its restructuring and listing. In addition, there was impairment loss in the production equipment in one of the factories located in Jiangyang in Fujian Province. Therefore, the Group particularly appointed an independent valuer to conduct assessment and the impairment loss of the relevant property, plant and equipment was approximately RMB108.1 million. The relevant impairment loss involved part of the production equipment in one of the factories of the Group. 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 expense with no impact on the Group's cash flow or business and production operations. Given the resilience in economic condition domestically and internationally, coupled with the aging population in China and the rising health awareness of the public, it is reasonable for the Group to consider that the development momentum of the medical industry will start rebounding. Consequently, the Group is fully confident in its financial position and future development.

The Group adopted the most effective way to promote its products, including television advertisements, academic and new medicine promotion seminars as well as medicine fairs etc. With multiple forms of promotion and targeted promotional strategies, the brand awareness of the Group's products was enhanced steadily.

Through the sound sales network of the Group, the sales of its products remained fairly stable during the period under review. Of which, Omeprazole Enteric-Coated Capsules, the product which has officially entered the market in June 2011 achieved remarkable sales results during the period under review. The turnover had a significant increase of 87.7% as compared with last year and our products have seized market shares in rural and urban community.

Regarding research and development, the research and development of new drugs under the cooperation between the Group and major faculties of medicine was advanced step-by-step.

Chairman's Statement

OUTLOOK

In the long run, with the approaching deadline of the implementation of the New GMP and the in-depth promotion of "Twelfth Five-Year Plan for Pharmaceutical Planning", the importance of scale and core competitiveness of enterprises was further highlighted and the overall production capability and comprehensive strength of the medical industry will be enhanced. Meanwhile, with the continued improvement in the health insurance system in China and the enhancement in residents' ability to pay, the demand from the domestic market for basic medical treatment in China is gradually released. China has become one of the fastest-growing regions of the global drug consumption. With the dual drive of market and policies, the pharmaceutical market in China has great potential for development and the domestic consumption for drugs will continue to boom.

In the middle and short term, pharmaceutical enterprises shall face the throes of structural adjustment inevitably. The Group will remain cautious, seek for breakthrough in strategies, complete the changes in operating mode, enhance production capacity and product quality, fortified the core competitiveness of the enterprises and adapt to market changes with the most cost-effective way.

The Group possesses a nationwide sales network all over the major provinces and cities, autonomous regions and municipalities directly under the Central Government, with an excellent network coverage especially in those affluent coastal provinces and municipalities in the east and the northeastern area. The sales network also spread in rural communities in over 10 provinces in southern China. The Group follows the relevant policies of New Rural Cooperative Medical Scheme of the State, devotes more effort in developing the rural market in China and also added part of the Essential Drug List of the New Rural Cooperation used in the first provincial and municipal trial and implementation. In the future, the Group will continue to enhance the market penetration in the community and rural areas and expand the coverage to a wider rural market with accessibility in order to raise the market coverage and sales of its products.

Last but not the least, I would like to express my heart-felt gratitude on behalf of the Board to Wuyi Pharmaceutical's management teams and all the staff for their unfailing hard work and brilliant contributions during the year. Under such a difficult operating environment which needs exploration, the Group was able to join forces as a unity to overcome the challenges. I have to thank shareholders for their ongoing support to the Group. We will continue with our hard work, dedicate to enhance the operating efficiency and safeguard shareholder's interests.

LIN OU WEN

Chairman

Hong Kong, 25 March 2013



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).





Management Discussion and Analysis

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 RMB300.0 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 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 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 Injectable 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 Injectable 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.

Management Discussion and Analysis

Another new product of the Company, Pazufi oxacin Mesilate Injectable, was still undergoing approval procedures 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 year. 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 year. 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 year, 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 Injectable, 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 injectable, small volume injectable 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.

Management Discussion and Analysis

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 RMB56.9 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 RMB47.1 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 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 (21.6)% (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%).

Management Discussion and Analysis

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.

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

6. Material Acquisitions and Disposal of Investments

For the year ended 31 December 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.

Usage	RMB million	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

Management Discussion and Analysis

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 Jianyang 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 RMB358.7 million was placed in short term deposits with licensed commercial banks in the PRC as at 31 December 2012.

Corporate Governance Report

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.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the provisions as set out in the Code on Corporate Governance Practices ("CGP Code") during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code ("CG Code") during the period from 1 April 2012 to 31 December 2012 as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), ensuring that the Company is up to the requirements of 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 of the Company as further elaborated below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. In addition, the Company has made specific enquiries of all Directors and each Director had confirmed that during the year 31 December 2012, they have fully complied with the required standards.

BOARD OF DIRECTORS

The Board currently consists of eight members, with three Executive Directors (namely Mr. Lin Ou Wen (Chairman of the Group), Mr. Lin Qing Ping and Mr. Xu Chao Hui), two Non-executive Directors (namely Mr. Tang Bin and Mr. John Yang Wang) and three Independent Non-executive Directors (namely Mr. Lam Yat Cheong, Mr. Liu Jun and Mr. Du Jian). All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director are shown on pages 22 to 23 of this report.

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

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

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

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

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

Corporate Governance Report

In respect of the corporate governance functions, during the year under review, the Board formulated the terms of reference on the corporate governance duties and performed corporate governance duties in accordance with the terms of reference. To be specific, the Board mainly performed the following corporate governance duties during the Year under review:

- To develop and review the Company's policies and practices on corporate governance and make recommendations;
- To review and monitor the training and continuous professional development of Directors and senior management;
- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- To develop, review and monitor the code of conduct applicable to directors and employees;
- To review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

BOARD ATTENDANCE

In 2012, the Board convened four Board meetings and one general meeting.

Attendance record of the Directors is as follows:

Directors	Number of attendance of Board meetings	Number of attendance of general meeting
Executive Directors		
Mr. Lin Ou Wen (<i>Chairman</i>)	4/4	1/1
Mr. Lin Qing Ping	4/4	1/1
Mr. Xu Chao Hui	4/4	0/1
Non-executive Directors		
Mr. Tang Bin	4/4	1/1
Mr. John Yang Wang	4/4	0/1 *
Independent Non-executive Directors		
Mr. Lam Yat Cheong	4/4	1/1
Mr. Liu Jun	4/4	1/1
Mr. Du Jian	4/4	1/1

Under provision A.6.7 of the Code, independent non-executive directors and other non-executive directors should also attend general meetings. Due to other business engagements, Mr. John Yang Wang (a non-executive Director) could not attend the annual general meeting of the Company held on 7 June 2012 (the "2012 AGM"). However, there were other executive Directors, non-executive Director and independent non-executive Director present at the 2012 AGM to enable the Board to develop a balanced understanding of the views of shareholders of the Company and to answer questions raised at the 2012 AGM.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

In full compliance with Rules 3.10(1) and (2) of the Listing Rules, during the year ended 31 December 2012, the Company has appointed three Independent Non-executive Directors, at least one of whom has appropriate professional accounting qualifications. The Company has received from each Independent Non-executive Director an annual confirmation of his independence, and the Company considers such directors to be independent in accordance with each and every guideline set out under the Listing Rules.

Corporate Governance Report

All Non-executive Directors (including Independent Non-executive Directors) are appointed for a term of one year from 1 February except Mr. Du Jian, his appointment term is from 11 June. The appointment contract will be renewed every year and are subject to retirement by rotation and re-election by shareholders in accordance with the articles of association of the Company. The responsibilities of the Non-executive Directors include, without limitation: regular attendance at meetings of the Board and of board committees of which they are members; provision of independent opinions at meetings of the Board and other board committees; resolution of or taking the lead where there is potential conflict of interests; service on the Audit Committee, the Remuneration Committee and Nomination Committee; and scrutinizing and monitoring the performance of the Company.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

On appointment to the Board, each Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior executives to enrol in a wide range of professional development courses and seminars relating to the Listing Rules, companies ordinance/act and corporate governance practices organised by professional bodies, independent auditors and/or chambers in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, Directors are provided with written training materials to develop and refresh their professional skills; the company secretary of the Company ("Company Secretary") also organises and arranges seminars on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties. During the year, the Company organised for the Directors and executives an in-house workshop on corporate governance and updates on laws, rules and regulations.

According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the CG Code on continuous professional development during the period from 1 April to 31 December 2012:

Directors	Corporate Governance/ Updates on Laws, Rules and regulations		Accounting/Financial/ Management or Other Professional Skills	
	Attend		Attend	
	Read Materials	Seminars/Briefings	Read Materials	Seminars/Briefings
Executive Directors				
Mr. Lin Ou Wen	√		√	√
Mr. Lin Qing Ping	√		√	
Mr. Xu Chao Hui	√			
Non-executive Directors				
Mr. Tang Bin	√		√	√
Mr. John Yang Wang	√			√
Independent Non-executive Directors				
Mr. Liu Jun	√		√	
Mr. Lam Yat Cheong	√		√	√
Mr. Du Jian	√		√	√

DIRECTORS' AND OFFICERS' LIABILITY

The Company has renewed Directors' and Officers' liabilities insurance for all the Directors and the senior management of the Company for the year 2012/2013. The insurance covers them against costs, charges, expenses and liabilities incurred arising out of the corporate activities.

Corporate Governance Report

BOARD COMMITTEES

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

Directors	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors			
Mr. Lin Ou Wen (<i>Chairman</i>)	-	Member	Chairman
Mr. Lin Qing Ping	-	-	Member
Mr. Xu Chao Hui			
Non-executive Directors			
Mr. Tang Bin	-	-	-
Mr. John Yang Wang	-	-	-
Independent Non-executive Directors			
Mr. Lam Yat Cheong	Chairman	Chairman	Member
Mr. Liu Jun	Member	Member	Member
Mr. Du Jian	Member	Member	Member

AUDIT COMMITTEE

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

The principal duties of the AC include the review and supervision of the Company's financial reporting system, financial statements and internal control procedures. The AC also monitors the appointment of the Company's external independent auditor. The terms of reference of the AC are available for inspection on the Company's website at www.wuyi-pharma.com.

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 and 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 December 2011 and for the period ended 30 June 2012 were reviewed, and with recommendation to the Board for approval. The annual result announcement and annual report for the year ended 31 December 2012 has also reviewed by the AC in the meeting on 21 March 2013.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee ("the RC") with written terms of reference. The RC comprises three Independent Non-executive Directors and an Executive Director with their names shown above. 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 will 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, present and has assisted the Board to review the remuneration of the Executive Directors and senior management and approved the remuneration packages of the Executive Directors for the year 2013. The terms of reference of the RC are available for inspection on the Company's website at www.wuyi-pharma.com.

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

Corporate Governance Report

The Company has adopted a share option scheme for the senior management and employees on 8 January 2007, which serves as incentives or rewards to attract, retain and motivate staff. Details of the share option scheme are set out in note 27 to the financial statements.

NOMINATION COMMITTEE

The Company has established a Nomination Committee ("the NC") with written terms of reference. The NC comprises three Independent Non-executive Directors and two Executive Directors with their names shown above.

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

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, 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.

AUDITOR'S REMUNERATION

CCIF CPA Limited is the auditor of the Company and only provides audit service to the Group during the Year. The fee for the audit of the Group's financial statements for the year ended 31 December 2012 was HK\$750,000.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Board acknowledges their responsibility for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements. The Board acknowledges their responsibilities for the preparation of the consolidated financial statements of the Company for the year ended 31 December 2012, which give a true and fair view of the state of affairs of the Company and of the results and cash flows for that period. In preparing these consolidated financial statements, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

CCIF CPA Limited, the auditor of the Company, has presented their responsibilities in the independent auditor's report as set out on page 30.

INTERNAL CONTROLS

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

Corporate Governance Report

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

In September 2012 and March 2013, the Company's internal control system reports which were prepared by the internal audit department were reviewed and approved by the Board. The Board is satisfied with the effectiveness of the Company's internal control system, including financial, operational and compliance controls and risk management functions.

COMPANY SECRETARY

The company secretary, Mr. Kung Wai Chiu, Marco, undertook not less than 15 hours of professional training during the Year in accordance with Rule 3.29 of the Listing Rules.

COMMUNICATIONS WITH SHAREHOLDERS

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

SHAREHOLDERS RIGHT

Procedures to convene an extraordinary general meeting and put forward proposals at general meeting

Pursuant to the articles of association of the Company, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Any requisition to convene an extraordinary general meeting or proposal to be put forward at the general meeting can be addressed to the principal place of business in Hong Kong of the Company at Room 2805, 28th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. The requisitionists must state in their request(s) the objects of the extraordinary general meeting to be convened, and such request must be signed by all the requisitionists. Upon receipt, the Company will verify the requisitionists' particulars and if the request is in order, the Company will convene the extraordinary general meeting in accordance with its articles of association.

CHANGE OF ARTICLES OF ASSOCIATION

During the Year there is no significant change to the articles of association of the Company.

Directors and Senior Management

Executive Directors

Mr. Lin Ou Wen, aged 56, is the Chairman and Chief Executive Officer and founding shareholder. Mr. Lin graduated from Fujian Normal University with a bachelor's degree in physics in 1983. He is a senior economist. In 2000, he, together with other founding shareholders, established Fujian Sanai and has since then been appointed as the Chairman, Chief Executive Officer and executive Director. In January 2004, he established Fuzhou Sanai and has been appointed as the Chairman and Director. In March 2006, he further established Wuyi International Pharmaceutical Investment Company Limited ("Wuyi BVI") and has since been appointed as the Chairman and Director. He has over 11 years of experience in the pharmaceutical industry. He is the younger brother of Mr. Lin Qing Ping.

Mr. Lin Qing Ping, aged 63, is a General Manager, Chief Operating Officer and founding shareholder. Mr. Lin graduated from Wuhan University with a bachelor's degree in management in 1982. He is a senior economist. He has been a Director of various companies, namely, Fuzhou Sanai and Wuyi BVI since January 2004 and July 2006. He has over 24 years of experience in business management and 14 years' experience in the pharmaceutical industry with a thorough understanding in the pharmaceutical industry. He is elder brother of Mr. Lin Ou Wen.

Mr. Xu Chao Hui, aged 43, is an Executive Director. He graduated from Fuzhou University with a diploma in social work and management in 2004. He joined the Company in July 2000. He has been a Director of Wuyi BVI since July 2006.

Non-executive Directors

Mr. Tang Bin, aged 55, is a Non-executive Director. He obtained a bachelor's degree in law from Jiangxi University in 1986. He joined the Company in January 2000. He has been appointed as a Director of Fuzhou Sanai since January 2004 and a Director of Wuyi BVI since July 2006.

Mr. John Yang Wang, aged 43, is a Non-executive Director. He obtained a Bachelor of Arts in International Relations from Tufts University in 1992. Mr. Wang has a M.A.L.D. degree in International law and business from The Fletcher School of Law and Diplomacy in 1994. He has over 19 years of experience in investment banking and consulting.

Independent Non-executive Directors

Mr. Liu Jun, aged 46, is an Independent Non-executive Director. He obtained a diploma in finance and a master's degree in economics from Xiamen University in 1988 and 1997 respectively. He received a master's degree in business administration from The Open University of Hong Kong in 2000.

Mr. Lam Yat Cheong, aged 51, is an Independent Non-executive Director. He graduated from Hong Kong Baptist University in 1992 with a bachelor's degree in business administration and a diploma in accounting. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has been registered as a Certified Public Accountant (Practising) and a Certified Tax Adviser in Hong Kong since 2000 and 2010 respectively.

Mr. Du Jian, aged 72, is an Independent Non-executive Director. He graduated from the Fujian College of Traditional Chinese Medicine in 1965 and obtained a diploma in traditional Chinese medicine. Before he was appointed as the Independent Non-executive Director in June 2009, he had worked as a teacher, physician, lecturer, associate professor, professor, chief physician and doctoral advisor at the Fujian College of Traditional Chinese Medicine from September 1965 to April 2008. Mr. Du worked as a vice president of the college from November 1983 to December 1986 and was promoted and acted as the president of the college from January 1987 to April 2008. In addition, he has acted as a vice president of the Institute of Integrated Traditional and Western Medicine from May 2008 up to the present.

Senior Management

Mr. Chen Zhi Chuan, aged 48, is the Chief Financial Officer in charge of financial management. He graduated from Fuzhou University with a bachelor's degree in Finance in 1988. He has over 10 years of experience in the pharmaceutical industry.

Mr. Cheng Shi De, aged 54, is the Deputy General Manager in charge of production. He graduated from Anhui Province Medical School with a bachelor's degree in pharmacy in 1982. He is a senior engineer. He has over 28 years of experience in the pharmaceutical industry.

Directors and Senior Management

Mr. Chen Gui Dong, aged 47, is the manager of Research and Development. He is a senior engineer. He obtained a bachelor's degree in chemistry from Tianjin University in 1991, and was awarded a diploma in business management by Nankai University. He has over 23 years of experience in the pharmaceutical industry.

Ms. Yang Ai Min, aged 37, is the manager of Sales and Marketing. She graduated from Fujian Medical University with a bachelor's degree in pharmacy in 1998. She has over 12 years of experience in the pharmaceutical industry.

Company Secretary

Mr. Kung Wai Chiu, Marco, aged 39, is the Company Secretary and Financial Controller of the Company. Mr. Kung graduated from Hong Kong Lingnan University in 1997 with a bachelor's degree in business administration. He further obtained two master's degrees in business administration from the University of Wollongong, Australia, in 2005 and in corporate governance from the Hong Kong Polytechnic University in 2008, respectively. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He is also a Chartered Secretary of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. He has been registered as a Certified Public Accountant (Practising) and a Certified Tax Adviser in Hong Kong since 2007 and 2010 respectively. He has over 12 years' experience in business advisory services and financial management. He joined the Group since August 2006.

Directors' Report

The Directors would like to present their annual report together with the audited accounts of the Company for the year ended 31 December 2012.

Principal Activities

The Company is an investment holding company. The principal activities of its major subsidiaries are set out in note 20 to the consolidated financial statement.

Results and Appropriations

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 31.

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

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 2013, 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.

Reserves

As at 31 December 2012, the Company's reserve available for distribution amounted to RMB950,873,000 (2011: RMB952,856,000). Movements in the reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity on page 34 and in note 26 to the financial statements respectively.

Property, Plant and Equipment

Movements in the property, plant and equipment of the Company during the year are set out in note 16 to the financial statements.

Share Capital

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

Pre-emptive Rights

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

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

The Company has not purchased, sold or redeemed any of its listed securities during the year end of 31 December 2012.

Directors

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

Executive Directors:

Mr. Lin Ou Wen	<i>(Chairman and Chief Executive Officer)</i>
Mr. Lin Qing Ping	<i>(General Manager and Chief Operating Officer)</i>

Mr. Xu Chao Hui

Non-executive Directors

Mr. Tang Bin
Mr. John Yang Wang

Independent Non-executive Directors

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

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

Directors' Report

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

Annual Confirmation of Independence

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

Biographical Details of the Directors and the Senior Management

The biographical details of the Directors and Senior Management are set out on pages 22 to 23 of this Annual Report.

Directors' Service Contracts

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

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

- (i) the amount of remuneration is determined on a case by case basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group;
- (ii) non-cash benefits may be provided at the discretion of the Board to the relevant Directors under their remuneration package; and
- (iii) the Executive Directors may be granted, at the discretion of the Board, the share option scheme adopted by the Company, as part of their remuneration package.

Management Contracts

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

Retirement Benefits Scheme

Details of the retirement benefits scheme is set out in note 30 to the financial statements.

Directors' interests in Contracts of Significance

Save as disclosed in section under "Continuing Connected Transaction" on pages 27 to 28 of this report, none of the Directors had a material interest, either directly or indirectly, in any contracts of significance to the business of the Company. There is no contract of significance between the Company, its holding company or any of its subsidiaries or its controlling shareholder during the year.

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

As at 31 December 2012, the interests or short positions of the Directors and Chief Executives in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules were as follows:

Name of Directors	Company/name of associated corporation	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
Mr. Lin Ou Wen	The Company	Interest of controlled corporation (Note 2)	447,202,900 (L) 447,202,900 (\$)	26.16% 26.16%
		Interest of spouse (Note 3)	42,687,627 (L) 42,687,627 (\$)	2.5% 2.5%
Mr. Lin Qing Ping	The Company	Interest of controlled corporation (Note 4)	280,352,000 (L) 280,352,000 (\$)	16.4% 16.4%

Notes:

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

Directors' Report

2. These shares are registered in the name of Thousand Space Holdings Limited, which is wholly owned by Mr. Lin Ou Wen who is deemed to be interested in all the Shares in which Thousand Space Holdings Limited is interested by virtue of the SFO.
3. 136,951,000 Shares are registered in the name of Orient Day Management Limited, which is owned as to 23.38%, 45.45% and 31.17% by Mr. Lin Qing Mei, Mr. Liu Dao Hua and Ms. Xue Mei respectively. Mr. Lin Ou Wen is deemed to be interested in all the Shares referred to in note 2 above, in which Ms. Xue Mei, his spouse, is interested by virtue of the SFO.
4. These shares are registered in the name of Bright Elite Management Limited, which is wholly owned by Mr. Lin Qing Ping who is deemed to be interested in all the Shares in which Bright Elite Management Limited is interested by virtue of the SFO.

Save as disclosed above, none of the Directors or Chief Executive of the Company is aware of any other Director or Chief Executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of the Company or any associated corporation as at 31 December 2012.

Directors' Right to Acquire Shares or Debentures

At no time during the year ended 31 December 2012 was rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

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

As at 31 December 2012, the interests and short positions of the following shareholders, other than a Director or Chief Executive of the Company, in the shares or underlying shares or debentures of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO are as follows:

Name of Shareholder	Company/name of subsidiary	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
Bright Elite Management Limited	The Company	Beneficial owner	280,352,000 (L) 280,352,000 (S)	16.4% 16.4%
Mr. Lin Qing Ping	The Company	Interest of controlled corporation (Note 2)	280,352,000 (L) 280,352,000 (S)	16.4% 16.4%
Thousand Space Holdings Limited	The Company	Beneficial owner	447,202,900 (L) 447,202,900 (S)	26.16% 26.16%
Mr. Lin Ou Wen	The Company	Interest of controlled corporation (Note 3)	447,202,900 (L) 447,202,900 (S)	26.16% 26.16%
		Interest of spouse (Note 4)	42,687,627 (L) 42,687,627 (S)	2.5% 2.5%
Ms. Xue Mei	The Company	Interest of spouse (Note 4)	447,202,900 (L) 447,202,900 (S)	26.16% 26.16%
		Interest of controlled corporation (Note 4)	42,687,627 (L) 42,687,627 (S)	2.5% 2.5%
Orient Day Management Limited	The Company	Beneficial owner	136,951,000 (L) 136,951,000 (S)	8.01% 8.01%
Mr. Liu Dao Hua	The Company	Interest of controlled corporation (Note 4)	136,951,000 (L) 136,951,000 (S)	8.01% 8.01%
Pope Investments LLC	The Company	Beneficial Owner (Note 5)	102,400,000 (L)	5.99%
Pope Asset Management, LLC	The Company	Interest of controlled corporation (Note 5)	136,652,500 (L)	7.99%
Wells William P	The Company	Interest of controlled corporation (Note 5)	102,400,000 (L)	5.99%
Credit Suisse (Hong Kong) Limited	The Company	Beneficial Owner (Note 6)	133,545,000 (L) 66,772,500 (S)	7.81% 3.9%
Credit Suisse (International) Holding AG	The Company	Interest of controlled corporation (Note 6 and 7)	133,545,000 (L) 66,772,500 (S)	7.81% 3.9%
Credit Suisse	The Company	Interest of controlled corporation (Note 6 and 7)	133,545,000 (L) 66,772,500 (S)	7.81% 3.9%
CCB Financial Holdings Limited	The Company	Interest of controlled corporation (Note 8)	885,097,000(L)	51.77%
CCB International (Holdings) Limited	The Company	Interest of controlled corporation (Note 8)	885,097,000(L)	51.77%
CCB International Asset Management Limited	The Company	Interest of controlled corporation (Note 8)	885,097,000(L)	51.77%

Directors' Report

Name of Shareholder	Company/name of subsidiary	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding	
CCB International Assets Management (Cayman) Limited	The Company	Interest of controlled corporation (Note 8)	885,097,000(L)	51.77%	(6) These Shares are registered in the name of Credit Suisse (Hong Kong) Limited, which is owned as to 94.75% by Credit Suisse (International) Holding AG, which is in turn wholly owned by Credit Suisse. Therefore, Credit Suisse (Hong Kong) Limited, Credit Suisse (International) Holding AG and Credit Suisse are deemed to be interested in all the Shares in which Credit Suisse (Hong Kong) Limited is interested for the purpose of the SFO.
CCB International Group Holdings Limited	The Company	Interest of controlled corporation (Note 8)	885,097,000(L)	51.77%	(7) These Shares are registered in the name of Credit Suisse (Hong Kong) Limited, which is owned as to 94.75% by Credit Suisse (International) Holding AG, which is in turn wholly owned by Credit Suisse. Therefore, Credit Suisse (Hong Kong) Limited, Credit Suisse (International) Holding AG and Credit Suisse are deemed to hold or hold a short position of 66,772,500 Shares as defined under Part XV of the SFO.
Central Huijin Investment Ltd.	The Company	Interest of controlled corporation (Note 8)	885,097,000(L)	51.77%	
China Construction Bank Corporation	The Company	Interest of controlled corporation (Note 8)	885,097,000(L)	51.77%	
Huifu Holdings Limited	The Company	Person having a security interest in shares (Note 8)	885,097,000(L)	51.77%	(8) Huifu Holdings Limited is interested in these Shares due to its security interest. Huifu Holdings Limited is wholly owned by CCB International Asset Management Limited, which is in turn wholly owned by CCB International Assets Management (Cayman) Limited, which is in turn wholly owned by CCB International (Holdings) Limited, which is in turn wholly owned by CCB Financial Holdings Limited, which is in turn wholly owned by CCB International Group Holdings Limited, which is in turn wholly owned by China Construction Bank Corporation, which is in turn owned as to 57.1% by Central Huijin Investment Ltd.
Pope Asset Management, LLC	The Company	Investment manager (Note 9)	101,707,882(L)	5.95%	(9) These Shares are registered in the name of Pope Asset Management, LLC based on the last notice for disclosure of interests filed on 19 December 2012.

Notes:

- (1) The letters "L" and "S" denote long position and short position in the shares.
- (2) These shares are registered in the name of Bright Elite Management Limited, which is wholly owned by Mr. Lin Qing Ping who is deemed to be interested in all the Shares in which Bright Elite Management Limited is interested by virtue of the SFO.
- (3) These shares are registered in the name of Thousand Space Holdings Limited, which is wholly owned by Mr. Lin Ou Wen who is deemed to be interested in all the Shares in which Thousand Space Holdings Limited is interested by virtue of the SFO.
- (4) These shares are registered in the name of Orient Day Management Limited, which is owned as to 23.38%, 45.45% and 31.17% by Mr. Lin Qing Mei, Mr. Liu Dao Hua and Ms. Xue Mei, spouse of Mr. Lin Ou Wen, respectively, therefore Mr. Liu Dao Hua is deemed to be interested in the Shares held by Orient Day Management Limited for the purpose of the SFO. Ms. Xue Mei is the spouse of Mr. Lin Ou Wen, therefore, she is deemed to be interested in the Shares of which Mr. Lin Ou Wen is deemed to be interested in for the purpose of the SFO and vice versa.
- (5) These Shares are registered in the name of Pope Investments LLC, which is controlled by Pope Asset Management, LLC, which is in turn controlled by Wells William P based on the last notice for disclosure of interests filed on 1 February 2007.

Save for the disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under 336 by the SFO as at 31 December 2012.

Continuing Connected Transaction

Sale and Purchase Agreements for Industrial Products and Materials

Fuzhou Hongyu Packing Co., Ltd. ('Fuzhou Hongyu') has historically provided and will continue to provide the packaging materials to the Group on an arm's length basis for the pharmaceutical products manufactured by the Group in our ordinary course of business. The principal business of Fuzhou Hongyu is manufacturing of compound bags, packaging boxes, paper boxes and printing of packaging accessories.

Directors' Report

On 2 December 2011, Fujian Sanai Pharmaceutical Co. Ltd. ("Fujian Sanai") and Fuzhou Sanai Pharmaceutical Co. Ltd. ('Fuzhou Sanai'), both the subsidiaries of the Company, have entered into a sale and purchase agreement with Fuzhou Hongyu in respect of the sale and purchase of packaging materials from Fuzhou Hongyu for a term of 3 years from 1 January 2012 to 31 December 2014.

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

Pursuant to the sale and purchase agreement, Fujian Sanai or Fuzhou Sanai (as the case may be) will pay to Fuzhou Hongyu for the packaging materials by transferring the payment to the bank account designated by Fuzhou Hongyu within 60 days upon the receipt of the packaging materials. Under the sale and purchase agreement, the credit period can be extended for further term of 6 months with the consent of Fuzhou Hongyu.

By reference to (i) the actual amounts of the continuing connected transactions under the old sale and purchase agreement in the recent years; (ii) the estimated demand for packaging materials for the products of Fujian Sanai from Fuzhou Hongyu for the term of the current sale and purchase agreement; and (iii) the estimated demand for packaging materials for the products of Fuzhou Sanai from Fuzhou Hongyu for the term of the current sale and purchase agreement, the annual caps are set at RMB10,000,000 for each of the years ending 31 December 2012, 2013 and 2014.

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

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

- (a) in the usual and ordinary course of businesses of the Group;
- (b) on normal commercial terms; and
- (c) in accordance with the relevant written agreements governing on terms that are fair and reasonable and in the interests of the shareholders as a whole.

The related party transactions are disclosed in the note 31 to the financial statements and have complied with the disclosure requirements under Chapter 14A of the Listing Rules if applicable.

Share Options

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

No share options had been granted or exercised during the year ended 31 December 2012. As at 31 December 2012, no share options of the Company were outstanding.

Directors' and Management's Emoluments

Particulars of directors' emoluments on an individual and named basis and emoluments of the members of senior management by band and the five highest paid individuals in the Group are set out in note 10, and 11 respectively to the financial statements.

Major Customers and Suppliers

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

	2012 %	2011 %
Turnover		
The largest customer	4.1	4.0
Five largest customers in aggregate	18.1	16.5
Purchases		
The largest supplier	12.8	12.6
Five largest suppliers in aggregate	47.1	49.0

Directors' Report

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

Corporate Governance

Report for the corporate governance principles and practices adopted by the Company is set out on pages 16 to 21 of this report.

Sufficiency of Public Float

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

Donations

During this year, the Group made charitable donations amounting to RMB33,000 (2011: RMB196,300).

Model Code for Securities Transactions

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

Competing Interests

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

Audit Committee

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

The Audit Committee has reviewed the accounting principles and practice adopted by the Company as well as the audited financial statement of the Company for the year ended 31 December 2012 before recommending to the Board for approval.

Auditor

The financial statements of the Company for the year ended 31 December 2012 have been audited by Messrs. CCIF CPA Limited.

On behalf of the Board



LIN OU WEN

Chairman

Hong Kong, 25 March, 2013

Independent Auditor's Report



CCIF

CCIF CPA LIMITED

9/F Leighton Centre
77 Leighton Road
Causeway Bay Hong Kong

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

We have audited the consolidated financial statements of Wuyi International Pharmaceutical Company Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 31 to 75, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited

Certified Public Accountants
Hong Kong, 25 March 2013

Sze Chor Chun, Yvonne
Practising Certificate Number P05049

Consolidated Statement of Comprehensive Income

For the Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Turnover	7	528,119	569,285
Cost of sales		(348,713)	(365,673)
Gross profit		179,406	203,612
Other revenue and net income	8	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	16	(108,050)	–
Impairment loss on intangible assets	18	–	(12,277)
(Loss)/profit before tax	9	(56,840)	78,809
Income tax	13	12,284	(21,939)
(Loss)/profit for the year attributable to owners of the Company	12	(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	15	RMB(2.6) cents	RMB3.3 cents

Consolidated Statement of Financial Position

As at 31 December 2012

Non-current assets

	Notes	2012 RMB'000	2011 RMB'000
Property, plant and equipment	16	646,320	468,715
Land use rights	17	65,126	66,555
Intangible assets	18	—	1,789
Deposits for the acquisition of non-current assets	19	—	154,500
Deferred tax assets	25(b)	36,245	6,815
		747,691	698,374

Current assets

Inventories	21	28,902	21,738
Trade and other receivables	22	90,532	121,830
Cash and cash equivalents	23	725,141	815,814
		844,575	959,382

Current liabilities

Trade and other payables	24	78,395	89,029
Tax payable	25(a)	2,573	7,612

Net current assets

Total assets less current liabilities

Non-current liabilities

Payable for acquisition of property, plant and equipment	25(b)	6,000	—
Deferred tax liabilities		6,327	6,359

Net assets

Capital and reserves

Share capital	26(b)	17,098	17,098
Reserves		1,481,873	1,537,658

Total equity attributable to owners of the Company

Approved and authorised for issue by the board of directors on 25 March 2013 and signed on its behalf by:

Lin Ou Wen
Chairman and Chief Executive Officer

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

Statement of Financial Position

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Investments in subsidiaries	20	214,786	214,786
Current assets			
Other receivables	22	752,591	754,135
Cash and cash equivalents	23	611	1,051
		753,202	755,186
Current liabilities			
Other payables	24	17	18
Net current assets		753,185	755,168
Total assets less current liabilities		967,971	969,954
Capital and reserves	26		
Share capital		17,098	17,098
Reserves		950,873	952,856
Total equity		967,971	969,954

Approved and authorised for issue by the board of directors on 25 March 2013 and signed on its behalf by:

Lin Ou Wen
Chairman and Chief Executive Officer

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

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2012

At 1 January 2011

Profit and total comprehensive income for the year

Transfers

Dividends approved in respect of the previous year (note 14(c))

At 31 December 2011 and 1 January 2012

Loss and total comprehensive loss for the year

Transfers

Dividends approved in respect of the previous year (note 14(c))

At 31 December 2012

Attributable to owners of the Company

	Share capital (note 26(b)) RMB'000	Share premium (note 26(c)(i)) RMB'000	Special reserve (note 26(c)(ii)) RMB'000	Capital reserve (note 26(c)(iii)) RMB'000	Statutory surplus reserve (note 26(c)(iv)) RMB'000	Non-distributable reserve (note 26(c)(v)) RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2011	17,098	929,533	(124,106)	53,000	207,233	23,752	542,067	1,648,577
Profit and total comprehensive income for the year	-	-	-	-	-	-	56,870	56,870
Transfers	-	-	-	-	17,982	-	(17,982)	-
Dividends approved in respect of the previous year (note 14(c))	-	-	-	-	-	-	(150,691)	(150,691)
At 31 December 2011 and 1 January 2012	17,098	929,533	(124,106)	53,000	225,215	23,752	430,264	1,554,756
Loss and total comprehensive loss for the year	-	-	-	-	-	-	(44,556)	(44,556)
Transfers	-	-	-	-	11,308	-	(11,308)	-
Dividends approved in respect of the previous year (note 14(c))	-	-	-	-	-	-	(11,229)	(11,229)
At 31 December 2012	17,098	929,533	(124,106)	53,000	236,523	23,752	363,171	1,498,971

Consolidated Statement of Cash Flows

For the Year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
Operating activities		
(Loss)/profit before tax	(56,840)	78,809
Adjustments for:		
Interest income	(3,141)	(5,122)
Depreciation of property, plant and equipment	30,645	31,719
Amortisation of intangible assets	1,789	2,386
Amortisation of land use rights	1,429	1,418
Impairment loss on intangible assets	–	12,277
Impairment loss on property, plant and equipment	108,050	–
	81,932	121,487
Changes in working capital		
Increase in inventories	(7,164)	(4,426)
Decrease in trade and other receivables	31,298	49,824
Decrease in trade and other payables	(22,008)	(20,523)
	84,058	146,362
Cash generated from operations	(22,217)	(28,860)
Net cash generated from operating activities	61,841	117,502
Investing activities		
Interest received	3,141	5,122
Purchase of property, plant and equipment	(144,426)	(130,508)
Payment for deposits for the acquisition of non-current assets	–	(124,500)
Net cash used in investing activities	(141,285)	(249,886)
Financing activities		
Dividends paid to owners of the Company	(11,229)	(150,691)
Repayment of obligations under a finance lease	–	(5)
Net cash used in financing activities	(11,229)	(150,696)
Net decrease in cash and cash equivalents	(90,673)	(283,080)
Cash and cash equivalents at 1 January	815,814	1,098,894
Cash and cash equivalents at 31 December	725,141	815,814
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	725,141	815,814

Notes to the Financial Statements

For the Year ended 31 December 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, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Cayman Companies Law") 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.

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. Summary of Significant Accounting Policies

a) Statement of compliance

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

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries.

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates. These financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand except for per share data. RMB is the Company's functional and the Group's presentation currency.

Notes to the Financial Statements

For the Year ended 31 December 2012

3. Summary of Significant Accounting Policies (Continued)

b) Basis of preparation of the financial statements (Continued)

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

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

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

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 4 to the financial statements.

c) Subsidiaries

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

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

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

d) Revenue recognition

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

i) Sale of goods

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

ii) Interest income

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

Notes to the Financial Statements

For the Year ended 31 December 2012

3. Summary of Significant Accounting Policies (Continued)

e) Leased assets

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

i) Classification of assets leased to the Group

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

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

ii) Assets acquired under finance leases

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

iii) Operating lease charges

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

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

Notes to the Financial Statements

For the Year ended 31 December 2012

3. Summary of Significant Accounting Policies (Continued)

e) Leased assets (Continued)

(iv) Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lumpsum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the statement of financial position and is amortised over the lease term on a straight-line basis.

f) Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods, or for administrative purposes, other than construction in progress, are stated in the statement of financial position at cost less any accumulated depreciation and any accumulated impairment losses.

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

Buildings	3.33% or over the unexpired term of lease, if shorter
Furniture, fixtures and equipment	10%-20%
Motor vehicles	20%
Plant and machinery	10%-20%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Notes to the Financial Statements

For the Year ended 31 December 2012

3. Summary of Significant Accounting Policies (Continued)

g) Intangible assets

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

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

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

Product development costs	5 years
Patents	5 years

Both the period and method of amortisation are reviewed annually.

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

h) Inventories

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

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

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

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

Notes to the Financial Statements

For the Year ended 31 December 2012

3. Summary of Significant Accounting Policies (Continued)

i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 3(l)).

j) Trade and other payables

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

k) Cash and cash equivalents

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

l) Impairment of assets

i) Impairment of investments in equity securities and other receivables

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

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

Notes to the Financial Statements

For the Year ended 31 December 2012

3. Summary of Significant Accounting Policies (Continued)

I) Impairment of assets (Continued)

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

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

- For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 3(I)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 3(I)(ii).
- For trade receivables and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.
- If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

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

ii) ***Impairment of other assets***

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

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

Notes to the Financial Statements

For the Year ended 31 December 2012

3. Summary of Significant Accounting Policies (Continued)

i) Impairment of assets (Continued)

ii) *Impairment of other assets (Continued)*

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

- Calculation of recoverable amount

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

iii) *Interim financial reporting and impairment*

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

Notes to the Financial Statements

For the Year ended 31 December 2012

3. Summary of Significant Accounting Policies (Continued)

m) Income tax

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

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

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

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

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

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

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

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

Notes to the Financial Statements

For the Year ended 31 December 2012

3. Summary of Significant Accounting Policies (Continued)

m) Income tax (Continued)

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

n) Translation of foreign currencies

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

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

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

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

In the case of a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Notes to the Financial Statements

For the Year ended 31 December 2012

3. Summary of Significant Accounting Policies (Continued)

o) Employee benefits

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

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

ii) ***Share-based payments***

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

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

iii) ***Termination benefits***

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

p) Provisions and contingent liabilities

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

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

Notes to the Financial Statements

For the Year ended 31 December 2012

3. Summary of Significant Accounting Policies (Continued)

q) Related parties

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

- i) has control or joint control over the Group;
- ii) has significant influence over the Group; or
- iii) is a member of the key management personnel of the Group or the Group's parent.

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

- i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- iii) Both entities are joint ventures of the same third party.
- iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- vi) The entity is controlled or jointly controlled by a person identified in note 3(q)(a).
- vii) A person identified in note 3(q)(a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

r) Segment reporting

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

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

Notes to the Financial Statements

For the Year ended 31 December 2012

4. Accounting Judgements and Estimates

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

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

i) *Useful lives of intangible assets*

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

ii) *Useful lives of property, plant and equipment*

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

iii) *Income taxes*

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

b) Key sources of estimation uncertainty

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

i) *Impairment of intangible assets*

The policy for impairment of intangible assets of the Group is based on an evaluation of their recoverable amount with reference to expected future cash flows based on management's estimation. A considerable amount of judgement is required in estimating the expected future cash flows from the Group's pharmaceutical products under development. If the recoverable amounts are less than the carrying amounts of the intangible assets, impairment may be required. During the year, impairment loss on intangible assets recognised in profit or loss amounted to nil (2011: RMB12,277,000) (note 18).

The carrying amount of intangible assets as at 31 December 2012 was nil (2011: RMB1,789,000) (note 18).

Notes to the Financial Statements

For the Year ended 31 December 2012

4. Accounting Judgements and Estimates (Continued)

b) Key sources of estimation uncertainty (Continued)

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

The Group assesses whether there are any indicators of impairment for all non-current assets (other than intangible assets and deferred tax assets) at the end of each reporting period. Non-current assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. During the year, impairment loss on property, plant and equipment recognised in profit or loss amounted to RMB108,050,000 (2011: Nil) (note 16).

The carrying amount of non-current assets (other than intangible assets and deferred tax assets) as at 31 December 2012 was RMB711,446,000 (2011: RMB689,770,000) (note 16, 17 and 19).

iii) ***Estimated provision for impairment of trade and other receivables***

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

The carrying amount of trade receivables as at 31 December 2012 was RMB90,268,000 (2011: RMB121,634,000) (note 22).

iv) ***Estimated net realisable value of inventories***

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

The carrying amount of inventories as at 31 December 2012 was RMB28,902,000 (2011: RMB21,738,000) (note 21).

v) ***Recoverability of deferred tax assets***

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences (including tax losses) can be utilised. The assessment on the probability of whether the recognised deferred tax assets can be fully recovered involves the uses of judgement and estimates. As at 31 December 2012, the Group has recognised deferred tax assets of RMB36,245,000 (2011: RMB6,815,000) (note 25(b)). The management considers that the Group is capable of generating sufficient taxable profit from its future business operations for utilising the deductible temporary differences.

Notes to the Financial Statements

For the Year ended 31 December 2012

4. Accounting Judgements and Estimates (Continued)

b) Key sources of estimation uncertainty (Continued)

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

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

The Group has made provision for withholding tax on dividends expected to be remitted from group entities incorporated in the PRC, based on the Group's general dividend policy for the net profits generated by the Group's PRC subsidiaries after 1 January 2008. The Group provided withholding tax for such undistributed profits as deferred tax liabilities. The directors of the Company will regularly review the dividend distribution policy of its subsidiaries from time to time.

5. Financial Instruments

a) Categories of financial instruments

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Financial assets				
Trade and other receivables	90,268	121,634	752,591	754,135
Cash and cash equivalents	725,141	815,814	611	1,051
Loans and receivables	815,409	937,448	753,202	755,186
Financial liabilities measured at amortised cost				
Trade and other payables	60,148	79,375	17	18
Payable for acquisition of property, plant and equipment	17,374	–	–	–
	77,522	79,375	17	18

b) Financial risk management objectives and policies

Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors manage and monitor these risks to ensure appropriate measures are implemented on a timely and effective manner.

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

i) *Currency risk*

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

Notes to the Financial Statements

For the Year ended 31 December 2012

5. Financial Instruments (Continued)

b) Financial risk management objectives and policies (Continued)

i) Currency risk (Continued)

A) Exposure to currency risk (Continued)

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

	The Group				The Company	
	2012		2011		2012	2011
	USD'000	HKD'000	USD'000	HKD'000	HKD'000	HKD'000
Cash and cash equivalents	6	2,119	6	3,352	611	1,051
Other payables	-	(749)	-	(790)	(17)	(18)
Net exposure arising from recognised assets and liabilities	6	1,370	6	2,562	594	1,033

B) Sensitivity analysis

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

A positive number below indicates a decrease in loss/increase in profit for the year and increase in the total equity where RMB weakens by 5% against the relevant currency. For a 5% strengthening of RMB against the relevant currency, there would be an equal and opposite impact on the loss/profit for the year and the total equity. The analysis is performed on the same basis for 2011.

	The Group		The Company	
	Effect on loss/profit for the year and total equity		Effect on profit/loss for the year and total equity	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
USD	-	-	-	-
HKD	68	128	30	52
	68	128	30	52

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

Notes to the Financial Statements

For the Year ended 31 December 2012

5. Financial Instruments (Continued)

b) Financial risk management objectives and policies (Continued)

ii) Interest rate risk

The Group's and the Company's cash flow interest rate risks relate primarily to variable-rate bank balances. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risks. However, the management of the Company will consider hedging significant interest rate exposures should the need arises.

Sensitivity analysis

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

At 31 December 2012, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would decrease the Group's loss for the year/increase the Group's profit for the year and increase the total equity by approximately RMB5,759,000 (2011: RMB6,499,000). For a general decrease of 100 basis points in interest rates, with all other variables held constant, there would be an equal and opposite impact on the loss/profit for the year and the total equity.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for the amount of variable-rate bank balances in existence at that date. The 100 basis points increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis is performed on the same basis for 2011.

The interest rate exposure to variable-bank balances of the Company is considered to be insignificant by the management.

iii) Credit risk

- a) At 31 December 2012, the Group's and the Company's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, arises from the carrying amounts of trade and other receivables and cash and cash equivalents as carried in the consolidated statement of financial position. In order to minimise credit risks, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.
- b) In respect of bank balances, the Group has diversified its exposure into different financial institutions. Substantially all of the Group's bank balances are held in major financial institutions of high credit ratings located in the PRC, and are exposed to low credit risk in this aspect.
- c) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the end of the reporting period, the Group had no significant concentrations of credit risk which individual trade and other receivables balance exceeds 10% of the total trade and other receivables at the end of the reporting period.
- d) The Company's credit risk is primarily attributable to due from a subsidiary. The Company reviews the recoverable amount of individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amount.

Notes to the Financial Statements

For the Year ended 31 December 2012

5. Financial Instruments (Continued)

b) Financial risk management objectives and policies (Continued)

iv) Liquidity risk

To manage liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the directors to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group held cash and cash equivalents amounting to approximately RMB725,141,000 at 31 December 2012 (2011: RMB815,814,000).

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

The Group

	Weighted average effective interest rate	Less than 6 months %	6-12 months RMB'000	1-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at the end of the reporting period RMB'000
2012						
Trade payables	Nil	43,540	-	-	43,540	43,540
Other payables	Nil	16,608	-	-	16,608	16,608
Payable for acquisition of property, plant and equipment	Nil	6,874	4,500	6,000	17,374	17,374
		67,022	4,500	6,000	77,522	77,522
2011						
Trade payables	Nil	61,667	-	-	61,667	61,667
Other payables	Nil	17,708	-	-	17,708	17,708
		79,375	-	-	79,375	79,375

Notes to the Financial Statements

For the Year ended 31 December 2012

5. Financial Instruments (Continued)

b) Financial risk management objectives and policies (Continued)

iv) Liquidity risk (Continued)

The Company

	Weighted average effective interest rate %	Less than 6 months RMB'000	6-12 months RMB'000	1-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at the end of the reporting period RMB'000
2012						
Other payables	Nil	17	-	-	17	17
2011						
Other payables	Nil	18	-	-	18	18

c) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values as at 31 December 2012 and 2011 respectively.

6. 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 has only one single segment being 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 analysis by product and geographical information 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.

7. Turnover

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

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

Notes to the Financial Statements

For the Year ended 31 December 2012

8. 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

9. (Loss)/Profit Before Tax

	2012 RMB'000	2011 RMB'000
(Loss)/profit before tax is arrived at after charging:		
Directors' and chief executive officer's emoluments (note 10)	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 **# (note 16)		
– 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 (note 18)	1,789	2,386
Amortisation of land use rights (note 17)	1,429	1,418
Auditor's remuneration	603	609
Operating lease payments in respect of rented premises	1,160	889
Cost of inventories # (note 21)	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.

Notes to the Financial Statements

For the Year ended 31 December 2012

10. Directors' and Chief Executive Officer's Emoluments

Directors' and chief executive officer's emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:

	2012				2011			
	Contributions to defined contribution				Contributions to defined contribution			
	Salaries and other benefits	retirement benefits	Total		Salaries and other benefits	retirement benefits	Total	
	Fees RMB'000	RMB'000	RMB'000	RMB'000	Fees RMB'000	RMB'000	RMB'000	RMB'000
Executive directors								
Lin Ou Wen (Chief executive officer)	951	248	45	1,244	970	236	42	1,248
Lin Qing Ping	635	248	44	927	647	236	40	923
Xu Chao Hui	190	186	36	412	194	179	33	406
Non-executive directors								
Tang Bin	127	-	-	127	130	-	-	130
John Yang Wang	127	-	-	127	130	-	-	130
Independent non-executive directors								
Liu Jun	127	-	-	127	130	-	-	130
Lam Yat Cheong	127	-	-	127	130	-	-	130
Du Jian	127	-	-	127	130	-	-	130
	2,411	682	125	3,218	2,461	651	115	3,227

During the year, no emoluments were paid by the Group to the directors and chief executive officer as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors and chief executive officer has waived any emoluments during the year (2011: Nil).

Notes to the Financial Statements

For the Year ended 31 December 2012

11. Individuals with Highest Emoluments

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

	2012	2011
Number of directors	3	3
Number of other individuals	2	2
	5	5

The emoluments of the directors of the Company are disclosed in note 10. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other benefits	1,179	1,006
Contributions to defined contribution retirement benefits scheme	47	43
	1,226	1,049

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

Emoluments band	Number of individuals	
	2012	2011
Nil – HK\$1,000,000 (approximately equivalent to RMB813,000 (2011: RMB830,000))	2	2

12. (Loss)/Profit Attributable to Owners of the Company

The consolidated (loss)/profit attributable to owners of the Company includes a profit of approximately RMB9,246,000 (2011: a loss of approximately RMB38,875,000) which has been dealt with in the financial statements of the Company (note 26(a)).

Notes to the Financial Statements

For the Year ended 31 December 2012

13. Income Tax in the Consolidated Statement of Comprehensive Income

	2012 RMB'000	2011 RMB'000
Current tax – PRC corporate income tax		
Provision for the year (note 25(a))	17,178	27,005
Deferred tax (note 25(b))	(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 ("Sanai Pharmaceutical Trading") 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 (credit)/expense and accounting (loss)/profit at applicable tax rates:

	2012 RMB'000	2011 RMB'000
(Loss)/profit before tax	(56,840)	78,809
Notional tax on (loss)/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 (note 25(b))	191	899
Actual tax (credit)/expense	(12,284)	21,939

Notes to the Financial Statements

For the Year ended 31 December 2012

14. Dividends

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

	2012 HK\$'000	2011 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 the payment of a 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 HK\$'000	2011 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 – Special dividend	11,229	23,183
	–	127,508
	11,229	150,691

15. (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.

Notes to the Financial Statements

For the Year ended 31 December 2012

16. Property, Plant and Equipment

The Group

	Buildings RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2011	66,646	44,441	7,020	254,131	70,000	442,238
Additions	–	39	–	1,857	128,612	130,508
Transfer (note 19)	–	–	–	–	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 19)	–	–	–	–	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.

Notes to the Financial Statements

For the Year ended 31 December 2012

16. Property, Plant and Equipment (Continued)

The impairment loss recognised during the year ended 31 December 2012 solely relates to part of the Group's production facilities in one of the factories located in Jianyang city, Fujian Province, the PRC. Facing the multiple challenges arisen from the policies of the PRC government 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 facilities, the Group recognised impairment loss during the year ended 31 December 2012 amounted 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.

17. Land Use Rights

The Group

	RMB'000
Cost	
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	70,635
Accumulated amortisation	
At 1 January 2011	2,662
Amortisation for the year	1,418
At 31 December 2011 and 1 January 2012 Amortisation for the year	4,080
At 31 December 2012	1,429
	5,509
Carrying amount	
At 31 December 2012	65,126
At 31 December 2011	66,555

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

Notes to the Financial Statements

For the Year ended 31 December 2012

18. Intangible Assets

The Group

	Patents RMB'000	Product development costs RMB'000	Total 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 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 amounted to RMB12,277,000. The impairment loss has been included in the line item in the consolidated statement of comprehensive income.

Notes to the Financial Statements

For the Year ended 31 December 2012

19. Deposits for the Acquisition of Non-Current Assets

The Group

	Deposits for the acquisition of		
	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2011	16,000	30,000	46,000
Transfer (note 16)	(16,000)	–	(16,000)
Additions	–	124,500	124,500
At 31 December 2011 and 1 January 2012	–	154,500	154,500
Transfer (note 16)	–	(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 factory buildings located at Fujian Province, the PRC with a contract price of RMB229,720,000.

20. Investments in Subsidiaries

	The Company	
	2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	214,786	214,786

Notes to the Financial Statements

For the Year ended 31 December 2012

20. Investments in Subsidiaries (Continued)

Details of the Company's subsidiaries at 31 December 2012 are as follows:

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

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

Notes to the Financial Statements

For the Year ended 31 December 2012

21. Inventories

	The Group	
	2012 RMB'000	2011 RMB'000
Raw materials	8,758	6,338
Work in progress	3,844	1,426
Finished goods	16,280	13,911
Merchandise	20	63
	28,902	21,738

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

	The Group	
	2012 RMB'000	2011 RMB'000
Carrying amount of inventories sold (note 9)	348,713	365,673

22. Trade and Other Receivables

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Trade receivables	90,268	121,634	—	—
Amount due from a subsidiary (note (ii))	—	—	752,591	754,135
Loans and receivables	90,268	121,634	752,591	754,135
Deposits	264	196	—	—
	90,532	121,830	752,591	754,135

Notes to the Financial Statements

For the Year ended 31 December 2012

22. Trade and Other Receivables (Continued)

Notes:

- i) The amount of the Group's deposits expected to be recovered after more than one year is RMB222,000 (2011: RMB69,000). All of the other trade and other receivables are expected to be recovered or recognised as expenses within one year.
- ii) At 31 December 2012 and 2011, the amount due from a subsidiary is unsecured, interest-free and repayable on demand.
- iii) The Group normally grants credit terms of 60 days to its customers. Further details on the Group's credit policy are set out in note 5(b)(ii). The following is an ageing analysis of trade receivables at the end of the reporting period, presented based on the invoice date:

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

- iv) Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.
- v) There is no trade and other receivables that are past due or impaired as at 31 December 2012 and 2011.

23. Cash and Cash Equivalents

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

Notes to the Financial Statements

For the Year ended 31 December 2012

24. Trade and Other Payables

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Trade payables				
– a related company *	605	1,127	–	–
– others	42,935	60,540	–	–
	43,540	61,667	–	–
Payroll and welfare payables				
Payable for acquisition of property, plant and equipment	6,443	6,589	–	–
Accrued charges	11,374	–	–	–
Other payables	4,687	5,731	17	18
	5,478	5,388	–	–
Financial liabilities measured at amortised cost	71,522	79,375	17	18
Other PRC tax payables	6,873	9,654	–	–
	78,395	89,029	17	18

* 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 based on the invoice date is as follows:

Age	The Group	
	2012 RMB'000	2011 RMB'000
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 within one year or are repayable on demand.

Notes to the Financial Statements

For the Year ended 31 December 2012

25. Income Tax in the Consolidated Statement of Financial Position

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

	The Group	
	2012 RMB'000	2011 RMB'000
Provision for the PRC corporate income tax for the year (note 13)	17,178	27,005
PRC corporate income tax paid in respect of provision for the year	(14,605)	(19,393)
	2,573	7,612

b) Deferred tax liabilities/(assets) recognised:

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

	The Group				
	Related Deferred product development costs and patents RMB'000	Impairment depreciation in excess of depreciation allowance RMB'000	Withholding loss on property plant and equipment RMB'000	Withholding tax on distributable profits RMB'000	Total RMB'000
At 1 January 2011	3,579	(4,206)	-	5,237	4,610
(Credited)/debited to the consolidated statement of comprehensive income for the year (note 13)	(3,356)	(2,609)	-	899	(5,066)
At 31 December 2011 and 1 January 2012	223	(6,815)	-	6,136	(456)
(Credited)/debited to the consolidated statement of comprehensive income for the year (note 13)	(223)	(2,418)	(27,012)	191	(29,462)
At 31 December 2012	-	(9,233)	(27,012)	6,327	(29,918)

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

Notes to the Financial Statements

For the Year ended 31 December 2012

25. Income Tax in the Consolidated Statement of Financial Position (Continued)

b) Deferred tax liabilities/(assets) recognised: (Continued)

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

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

	The Group	
	2012 RMB'000	2011 RMB'000
Deferred tax assets	(36,245)	(6,815)
Deferred tax liabilities	6,327	6,359
	(29,918)	(456)

- c) The Group and the Company had no significant unrecognised deferred tax assets or liabilities at 31 December 2012 and 2011.

26. Share Capital and Reserves

a) Movements in components of equity

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

The Company

	Share capital (note 26(b)) RMB'000	Share premium (note 26c)(i) RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2011	17,098	929,533	212,889	1,159,520
Loss and total comprehensive loss for the year (note 12)	-	-	(38,875)	(38,875)
Dividends approved in respect of the previous year (note 14(c))	-	-	(150,691)	(150,691)
At 31 December 2011 and 1 January 2012	17,098	929,533	23,323	969,954
Profit and total comprehensive income for the year (note 12)	-	-	9,246	9,246
Dividends approved in respect of the previous year (note 14(c))	-	-	(11,229)	(11,229)
At 31 December 2012	17,098	929,533	21,340	967,971

Notes to the Financial Statements

For the Year ended 31 December 2012

26. Share Capital and Reserves (Continued)

b) 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 and company statements of financial position at 31 December	17,098	17,098

c) Nature and purpose of reserves

i) Share premium

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

ii) Special reserve

Special reserve represents the aggregate of:

- a) the difference between the consideration paid by a subsidiary of the Company, Wuyi BVI, for the acquisition of the entire equity interest in Fujian Sanai and the nominal value of the paid-in capital of Fujian Sanai pursuant to the Group reorganisation in preparation for the listing of the Company's shares in 2007;
- b) the difference between the nominal amount of the shares issued by the Company and the amount of share capital of Wuyi BVI acquired pursuant to the Group reorganisation in preparation for the listing of the Company's shares in 2007; and
- c) the difference between the consideration paid for the acquisition of additional interests in Fuzhou Sanai and the carrying values of the underlying net assets attributable to the additional interests in Fuzhou Sanai pursuant to the Group reorganisation in preparation for the listing of the Company's shares in 2007.

Notes to the Financial Statements

For the Year ended 31 December 2012

26. Share Capital and Reserves (Continued)

c) Nature and purpose of reserves (Continued)

iii) *Capital reserve*

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

iv) *Statutory surplus reserve*

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the Company's PRC subsidiaries are required to appropriate 10% of their profit after tax to the reserve until such reserve reaches 50% of the registered capital and thereafter any further appropriation is optional. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of a capitalisation issue.

v) *Non-distributable reserve*

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

d) Distributable reserves of the Company

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

As at 31 December 2012, the Company's reserves available for distribution to shareholders amounted to approximately RMB950,873,000 (2011: RMB952,856,000) computed in accordance with the Cayman Companies Law and the Company's Articles of Association. This includes the Company's share premium of RMB929,533,000 (2011: RMB929,533,000), and retained profits of RMB21,340,000 (2011: RMB23,323,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

e) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes trade and other payables and payable for acquisition of property, plant and equipment; and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a semi-annual basis. During 2012, the Group's strategy was unchanged from 2011. The directors review the capital structure by considering the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debts or the redemption of existing debts.

Notes to the Financial Statements

For the Year ended 31 December 2012

26. Share Capital and Reserves (Continued)

e) Capital management (Continued)

The debt-to-equity ratio at December 2012 and 2011 was as follows:

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Current liabilities				
Trade and other payables	78,395	89,029	17	18
Non-current liabilities				
Payable for acquisition of property, plant and equipment	6,000	–	–	–
Total debt	84,395	89,029	17	18
Total equity	1,498,971	1,554,756	967,971	969,954
Debt-to-equity ratio	5.63%	5.73%	0%	0%

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

27. Equity-Settled Share Option Scheme

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

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue on the date of listing of the shares on the Stock Exchange which represents 164,300,000 shares (excluding the over-allotment portion) or 9.6% of issued share capital of the Company, without prior approval from the Company's shareholders. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under this Scheme shall not in aggregate exceed 30% of the shares in issue from time to time. No option may be granted under this Scheme and any other share option scheme of the Company if such limit is exceeded. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's shares in issue or with an aggregate value in excess of HK\$5,000,000 must be approved in advance by the Company's shareholders.

Notes to the Financial Statements

For the Year ended 31 December 2012

27. Equity-Settled Share Option Scheme (Continued)

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

Up to 31 December 2012, no options were granted under the Scheme.

28. Operating Lease Commitments

The Group as lessee

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

	2012 RMB'000	2011 RMB'000
Within one year	1,216	528
In the second to fifth year inclusive	1,726	39
	2,942	567

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

Significant leasing arrangements in respect of land held under operating leases are described in note 17.

29. Capital Commitments

	The Group	
	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

Notes to the Financial Statements

For the Year ended 31 December 2012

30. Retirement Benefits Schemes

Defined contribution scheme

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$25,000 (HK\$20,000 prior to June 2012). Contributions to the plan vest immediately.

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

31. Related Party Transactions

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

Name of related party	Relationship with related party	Nature of transaction	Transactions for the year ended 31 December		Balance as at 31 December 2012		Balance as at 31 December 2011	
			2012 RMB'000	2011 RMB'000	Trade payables RMB'000	Other payables RMB'000	Trade payables RMB'000	Other payables RMB'000
Fuzhou Hongyu	A company controlled by Mr. Lin Ou Wen	Purchase of packaging materials	4,886	4,939	605	-	1,127	-
Mr. Lin Qin Xiang	Brother of Mr. Lin Ou Wen and Mr. Lin Qing Ping*	Property rentals paid	408	204	-	-	-	-

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

- b) At the end of the reporting period, the Group committed Mr. Lin Qin Xiang to make the future minimum lease payments in respect of office premises under non-cancellable operating leases within one year of RMB408,114 (2011: Nil) and in the second to fifth year of RMB408,114 (2011: Nil).

c) **Key management personnel remuneration**

Remuneration for key management personnel of the Group, representing amounts paid to the Company's directors as disclosed in note 10 is as follows:

	2012 RMB'000	2011 RMB'000
Short-term employee benefits	3,093	3,112
Post-employment benefits	125	115
	3,218	3,227

Notes to the Financial Statements

For the Year ended 31 December 2012

32. Possible Impact of Amendments, New Standards And Interpretations Issued But Not Yet Effective for the year ended 31 December 2012

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle ¹
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities ¹
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities ²
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosure of Interests in Other Entities ¹
HKFRS 13	Fair Value Measurement ¹
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ⁴
HKAS 19 (as revised in 2011)	Employee Benefits ¹
HKAS 27 (as revised in 2011)	Separate Financial Statements ¹
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ¹
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ²
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ¹

¹ Effective for annual periods beginning on or after 1 January 2013.

² Effective for annual periods beginning on or after 1 January 2014.

³ Effective for annual periods beginning on or after 1 January 2015.

⁴ Effective for annual periods beginning on or after 1 July 2012.

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

Five-Year Financial Summary

RESULTS

	Year ended 31 December				
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000
Turnover	630,326	641,361	564,539	569,285	528,119
Cost of sales	(311,381)	(366,755)	(331,030)	(365,673)	(348,713)
Gross profit	318,945	274,606	233,509	203,612	179,406
Other revenue and net income	7,937	3,877	4,757	9,621	3,169
Distribution costs	(50,176)	(82,070)	(76,079)	(75,013)	(86,879)
Administrative and other expenses	(37,277)	(38,642)	(39,188)	(47,134)	(44,486)
Impairment loss on property, plant and equipment	–	–	–	–	(108,050)
Impairment loss on intangible assets	–	–	–	(12,277)	–
Finance costs	(2,377)	(1,234)	(1)	–	–
Profit/(loss) before tax	237,052	156,537	122,998	78,809	(56,840)
Income tax	(28,166)	(22,324)	(17,046)	(21,939)	12,284
Profit/(loss) for the year	208,886	134,213	105,952	56,870	(44,556)
Attributable to:					
Owners of the Company	208,886	134,213	105,952	56,870	(44,556)
Dividends paid	58,010	49,931	29,996	150,691	11,229
Earnings/(loss) per share					
– Basic and diluted	RMB12.2 cents	RMB7.8 cents	RMB6.2 cents	RMB3.3 cents	RMB(2.6) cents

ASSETS AND LIABILITIES

	As at 31 December				
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000
Total assets	1,566,247	1,675,407	1,776,417	1,657,756	1,592,266
Total liabilities	(77,908)	(102,786)	(127,840)	(103,000)	(93,295)
Net assets	1,488,339	1,572,621	1,648,577	1,554,756	1,498,971