武夷药业
Wuyi Pharmaceutical

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

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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

FINANCIAL HIGHLIGHTS

Turnover was RMB532.3 million for the year ended 31 December 2013

Gross profit was RMB142.4 million for the year ended 31 December 2013

Gross profit margin was 26.8% for the year ended 31 December 2013

Loss for the year was RMB3.6 million for the year ended 31 December 2013

Loss per share was RMB0.2 cents for the year ended 31 December 2013

ANNUAL RESULTS

The board (the "Board") of directors (the Directors") of Wuyi International Pharmaceutical Company Limited ("Wuyi Pharmaceutical" or the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to the "Group") for the year ended 31 December 2013, together with the comparative figures of the year ended 31 December 2012.

The Group's financial information for the year ended 31 December 2013 in this announcement was prepared on the basis of the consolidated financial statements which have been reviewed by the Company's independent auditor and the Company's audit committee. The auditor has agreed with the Group as to the financial results of this result announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	**2013** **RMB'000**	2012 RMB'000
Turnover	*4*	**532,341**	528,119
Cost of sales		**(389,917)**	(348,713)
Gross profit		**142,424**	179,406
Other revenue and net income	*5*	**2,094**	3,169
Distribution costs		**(84,875)**	(86,879)
Administrative and other expenses		**(47,048)**	(44,486)
Finance costs		**(127)**	–
Impairment loss on property, plant and equipment	*10*	**(10,419)**	(108,050)
Profit/(loss) before tax	*6*	**2,049**	(56,840)
Income tax	*7*	**(5,604)**	12,284
Loss for the year attributable to owners of the Company		**(3,555)**	(44,556)
Other comprehensive income for the year		**–**	–
Total comprehensive loss for the year attributable to owners of the Company		**(3,555)**	(44,556)
Loss per share			
– Basic and diluted	*9*	**RMB(0.2) cents**	RMB(2.6) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	10	**849,540**	646,320
Land use rights		**63,696**	65,126
Intangible assets		**–**	–
Deferred tax assets		**49,330**	36,245
		962,566	747,691
Current assets			
Inventories		**31,435**	28,902
Trade and other receivables	11	**103,652**	90,532
Cash and cash equivalents	12	**512,419**	725,141
		647,506	844,575
Current liabilities			
Trade and other payables	13	**87,858**	78,395
Secured bank loan	14	**15,000**	–
Tax payable		**5,028**	2,573
		107,886	80,968
Net current assets		**539,620**	763,607
Total assets less current liabilities		**1,502,186**	1,511,298
Non-current liabilities			
Payable for acquisition of property, plant and equipment		**–**	6,000
Deferred tax liabilities		**6,770**	6,327
		6,770	12,327
Net assets		**1,495,416**	1,498,971
Capital and reserves			
Share capital	15	**17,098**	17,098
Reserves		**1,478,318**	1,481,873
Total equity attributable to owners of the Company		**1,495,416**	1,498,971

1. GENERAL

Wuyi International Pharmaceutical Company Limited (the "Company") was incorporated and registered as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and acts as an investment holding company. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited on 1 February 2007. The addresses of the registered office and principal place of business of the Company are 4/F., Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands and Room 2805, 28/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong respectively. The principal activities of its principal subsidiaries are the development, manufacturing, marketing and sales of pharmaceutical products.

The financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Company, rounded up to the nearest thousand, except for per share data.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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 or available for early adoption 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 HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures

The Group has not applied any new HKFRSs that is not yet effective for the current accounting period with the exception of the Amendments to HKAS 36-Recoverable Amount Disclosures for Non-Financial Assets, which modify the disclosure requirements for impaired non-financial assets. The amendments are effective for annual periods beginning on or after 1 January 2014, but as permitted by the amendments, the Group has adopted the amendments early. The disclosures about the Group's impaired non-financial assets in note 10 have conformed to the amended disclosure requirements.

The application of other new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. SEGMENT INFORMATION

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

The Group 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 People's Republic of China (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 2013 and 2012, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

4. TURNOVER

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

	2013	2012
	RMB'000	*RMB'000*
Sales of pharmaceutical products	**532,341**	528,119

5. OTHER REVENUE AND NET INCOME

	2013	2012
	RMB'000	*RMB'000*
Other revenue		
Bank interest income	**2,094**	3,141
Total interest income on financial assets not at fair value through profit or loss	**2,094**	3,141
Other net income		
Exchange gain, net	**–**	28
	2,094	3,169

6. PROFIT/(LOSS) BEFORE TAX

	2013	2012
	RMB'000	*RMB'000*
Profit/(loss) before tax is arrived at after charging the following:		
(a) Finance costs		
Interest on bank borrowing wholly repayable within five years	**127**	–
(b) Staff costs		
Directors' and chief executive officer's emoluments	**3,384**	3,218
Other staff costs		
– Contributions to defined contribution retirement benefits scheme	**4,473**	3,785
– Salaries, wages and other benefits	**42,552**	34,919
Total staff costs *#	**50,409**	41,922
(c) Other items		
Depreciation of property, plant and equipment *#	**61,333**	30,645
Amortisation of intangible assets	**–**	1,789
Amortisation of land use rights	**1,430**	1,429
Auditor's remuneration	**625**	603
Net exchange loss included in administrative and other expenses	**52**	–
Operating lease payments in respect of rented premises	**1,194**	1,160
Cost of inventories #	**389,917**	348,713
Research and development costs *	**3,469**	2,356

Cost of inventories includes RMB70,476,000 (2012: RMB38,130,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

* Research and development costs includes RMB3,388,000 (2012: RMB2,277,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2013	2012
	RMB'000	*RMB'000*
Current tax – PRC corporate income tax		
Provision for the year	**18,246**	17,178
Deferred taxation	**(12,642)**	(29,462)
	5,604	(12,284)

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 福建省三愛醫藥貿易有限公司 (Fujian Sanai Pharmaceutical Trading Co., Limited) were subject to PRC corporate income tax at a rate of 25% applicable to the companies on the assessable profits for the year (2012: 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. Commencing from 2013, Fuzhou Sanai was subject to corporate income tax rate of 25% on the assessable profit for the year.

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 2013 (2012: Nil).

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

	2013	2012
	RMB'000	*RMB'000*
Profit/(loss) before tax	**2,049**	(56,840)
Notional tax on profit/(loss) before tax, calculated at the rates applicable in the jurisdictions concerned	**1,443**	(13,728)
Tax effect of non-deductible expenses	**3,718**	2,634
Tax effect of concessionary tax rates granted to the PRC subsidiaries	**–**	(1,381)
Withholding tax at 5% on the distributable profits of the PRC subsidiaries	**443**	191
Actual tax expense/(credit)	**5,604**	(12,284)

8 DIVIDENDS

a) The directors do not recommend the payment of a final dividend for both years ended 31 December 2013 and 2012.

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

	2013	2012
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year: Nil (2012: HK0.8 cents per share)	–	13,678
	RMB'000	*RMB'000*
Approximately equivalent to final dividend	–	11,229

9 LOSS PER SHARE

a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately RMB3,555,000 (2012: RMB44,556,000) and the weighted average of 1,709,772,500 ordinary shares (2012: 1,709,772,500 ordinary shares) in issue throughout the year.

b) Diluted loss per share

Diluted loss per share equals basic loss per share as there were no dilutive potential ordinary shares outstanding during both years ended 31 December 2013 and 2012.

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2012	66,646	44,480	7,020	255,988	214,612	588,746
Additions	–	30	421	5	161,344	161,800
Transfer	–	–	–	–	154,500	154,500
At 31 December 2012 and 1 January 2013	66,646	44,510	7,441	255,993	530,456	905,046
Additions	–	76	–	–	274,896	274,972
At 31 December 2013	66,646	44,586	7,441	255,993	805,352	1,180,018
Accumulated depreciation and impairment						
At 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 and 1 January 2013	27,748	32,814	6,547	191,617	–	258,726
Charge for the year	7,893	7,131	116	46,193	–	61,333
Impairment losses recognised in profit or loss	1,711	2,234	–	6,474	–	10,419
At 31 December 2013	37,352	42,179	6,663	244,284	–	330,478
Carrying amounts						
At 31 December 2013	29,294	2,407	778	11,709	805,352	849,540
At 31 December 2012	38,898	11,696	894	64,376	530,456	646,320

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

Impairment

The impairment loss recognised during the year ended 31 December 2013 solely relates to part of the Group's production facilities in one of the factories located in Jianyang City, Fujian Province, the PRC. The Board of Directors of the Company is aware that due to keen competition, there was a need to lower the selling prices of certain products which brought about a decline in their sales amount. On the other hand, the pressure on the cost of sales remained intensifying. Therefore, after reviewing the profitability of the production facilities to these products, the Group recognised an impairment loss during the year ended 31 December 2013 amounting to RMB10,419,000 (2012: RMB108,050,000), which has been included in the consolidated statement of profit or loss and other comprehensive income. The recoverable amount of the relevant assets of RMB4,572,000 (2012: RMB72,069,000) has been determined on the basis of their value in use with reference to the valuation prepared by Roma Appraisals Limited, an independent valuer. The discount rate used in measuring value in use was approximately 8.7% (2012: 8.0%) per annum.

Changes in estimates

During the year, the Group performed a review to reassess the useful lives and residual values of property, plant and equipment not fully depreciated in one of the factories in Jianyang City, Fujian Province, the PRC, based on the current expectation of the Group's operational management and the future economic benefits embodied in these assets. The reassessment has resulted in changes in the estimated useful lives and residual values of these assets. The Group considers this to be a change in accounting estimate and has therefore accounted for the changes prospectively from 1 January 2013.

The table below shows the details of estimated useful lives and net residual values of property, plant and equipment before and after 1 January 2013:

	Before reassessment		**As reassessed**	
Category of property, plant and equipment	**Estimated useful lives (years)**	**Estimated residual value (%)**	**Estimated useful live (years)**	**Estimated residual value (%)**
Buildings	30	4	1-1.33	0
Furniture, fixtures and equipment	5-10	4	1.33	0
Plant and machinery	5-10	4	1-1.33	0

The approximate effect of the change in estimates on profit before income tax expense in the current and future years is as follows:

	2013	**2014**	**2015**	**2016**	**2017**	**Later**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Decrease)/increase in profit before income tax expense	(48,833)	(2,334)	8,068	8,042	7,440	27,616

11. TRADE AND OTHER RECEIVABLES

	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**103,436**	90,268
Deposits	**216**	264
	103,652	90,532

Notes:

i) The amount of the Group's deposits expected to be recovered after more than one year is RMB216,000 (2012: RMB222,000). All of the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

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

	2013	2012
	RMB'000	*RMB'000*
Age		
0 to 30 days	**53,336**	44,661
31 to 60 days	**50,100**	45,607
	103,436	90,268

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

iii) There is no trade and other receivables that are past due or impaired as at 31 December 2013 and 2012.

12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Group comprise cash at bank and on hand. During the year, the bank deposits of the Group carried interest at rates ranging from Nil to 0.35% (2012: Nil to 0.5%) per annum.

13. TRADE AND OTHER PAYABLES

	2013	2012
	RMB'000	*RMB'000*
Trade payables		
– a related company *	**727**	605
– others	**47,032**	42,935
	47,759	43,540
Payroll and welfare payables	**9,453**	6,443
Payable for acquisition of property, plant and equipment	**8,963**	11,374
Accrued charges	**7,251**	4,687
Other payables	**6,186**	5,478
Financial liabilities measured at amortised cost	**79,612**	71,522
Other PRC tax payables	**8,246**	6,873
	87,858	78,395

* The related company is 福州宏宇包裝工業有限公司 (Fuzhou Hongyu Packing Co., Ltd.), a company controlled by Mr. Lin Ou Wen who is a director, the chief executive officer and shareholder of the Company.

The ageing analysis of trade payables based on the invoice date is as follows:

	2013	2012
	RMB'000	*RMB'000*
Age		
0 to 30 days	**34,282**	33,440
31 to 60 days	**13,477**	10,100
	47,759	43,540

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

14. SECURED BANK LOAN

The analysis of the carrying amount of secured bank loan is as follows:

	2013	2012
	RMB'000	*RMB'000*
Secured bank loan	**15,000**	–

At 31 December 2013, interest-bearing bank loan is due for repayment within 1 year and carried at amortised cost.

The amount due is based on the scheduled repayment date as stipulated in the respective loan agreement.

At 31 December 2013, land use rights with a net book value of approximately RMB41,141,000 was pledged to a bank as collateral against the bank loan. The bank loan carries interest at fixed rate of 6.6% (2012: Nil) per annum and is repayable within 1 year. The security will be released upon full settlement of the loan.

15. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013	3,200,000,000	32,000
Issued and fully paid:		
At 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013	1,709,772,500	17,098

	2013	2012
	RMB'000	*RMB'000*
Shown in the consolidated statement of financial position at 31 December	**17,098**	17,098

16. CAPITAL COMMITMENTS

	2013	2012
	RMB'000	*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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Looking back in 2013, after the medical reform, China's pharmaceutical industry has undergone relocation and adjustment in interest, out of which, the correction in the basic drug system based on "priority in quality and reasonable price", expansion of the Essential Drug List, usage of basic drugs in second and third grade hospitals were all key support to the development of pharmaceutical industry which is favourable in meeting medical demand of the public, which is in turn beneficial to the pharmaceutical industry as a whole. Meanwhile, the drop in medicine price, the antibiotics limit, stringent regulation on drug quality and cost pressure brought by environmental protection have caused obvious impact on the industry. Since the implementation of the Administrative Measures Governing the Production Quality of Pharmaceutical Products (2010 Revision) (the "New GMP") in March 2011, the speed of weeding out the non-compliance pharmaceutical enterprises has been accelerated. In addition, the constant domestic inflation as well as the on-going increase in production and sales cost such as the raw materials of drugs, packaging cost, advertising cost and labour cost all intensified the challenges faced by the industry while facing the industry reform. Amid such complicated market environment, the Group continued to adhere to the principle of "consolidating the existing drug businesses and market, continuing to strengthen the research and development of new medicine" not only to expand sales channel but also to enhance its competitiveness and maintain market share.

Under multiple challenges caused by State policies and market pressure, the Group lowered the drug price for twice in 2013 to maintain competitiveness and market share. The overall price of western medicine was down about 4.1% and that for Chinese patent medicine was down about 0.3%. Nevertheless, the unit prices of certain products were down over 9.0%. Furthermore, since the manufacturing facilities located in a new factory in Haixi Commercial Trading Development Zone in Jianyang city, Fujian Province of Fujian Sanai, a wholly-owned subsidiary of the Company, has obtained GMP certification, the production line of the Group is scheduled to relocate to the new factory. The property, plant and equipment not fully depreciated in the original factory in Jianyang city, Fujian Province of Fujian Sanai ("the original factory") shall terminate operation due to the Group's relocation. Pursuant to relevant accounting principles, the impairment charge of assets of the property, plant and equipment of the original factory was approximately RMB10.4 million. The board considers this to be changes in accounting estimates and financial forecast assumption, and is therefore irrelevant to the Group's operation and sales performance and is also causing no impact to the Group's cash flow.

For year ended 31 December 2013, the Group has achieved turnover of approximately RMB532.3 million, representing a slight increase of approximately 0.8% from the same period of last year (2012: approximately RMB528.1 million). The overall gross profit was approximately RMB142.4 million, representing a decrease over last year of approximately 20.6% and the gross profit margin was approximately 26.8%, representing a decrease of approximately 7.2 percentage points from the same period of last year. During the year, the Group recorded loss of approximately RMB3.6 million (2012: the loss amounted to RMB44.6 million).

The Group considers its financial position is healthy. Based on the confidence in future development and coping with the implementation of new GMP in an effective and timely manner, the Group will continue to invest the capital expenditure in the related projects of new GMP production facilities certification application and implementation, and is expected to continue the investment of the related capital expenditure in 2014. Since the existing and new production facilities of the Group's factories are already in line with the new GMP requirements, which enable the Group become more competitive in the market.

Development of Major Products

2ml Chaihu Zhusheye

The Group began to promote 2ml Chaihu Zhusheye to the market, the performance was more prominent in August 2013, reaching a turnover of approximately RMB6.6 million, representing 1.2% of total turnover of the Group during the period.

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, Perilla Oil Capsule was listed in the medical insurance directory of Fujian Province, Shaanxi Province, Shanxi Province, Inner Mongolia and Xinjiang; and the Company is striving for listing Perilla Oil Capsule in the national health insurance directory in 2015. For the year ended 31 December 2013, turnover of the product was approximately RMB43.7 million, representing a slight decrease of 1.8% over last year, accounting for approximate 8.2% of the Group's total turnover during the year (2012: approximately RMB44.5 million, accounting for 8.4% of the total turnover).

Omeprazole Enteric-Coated Capsules

Omeprazole Enteric-Coated Capsules is specifically for inhibiting gastric acid secretion and helicobacter pylori reflux. The products was welcomed by customers and its sales steadily increased since its launch. As the Group lowered the product prices, the sales of this product increased substantially. For the year ended 31 December 2013, the product generated turnover of approximately RMB15.2 million, representing a great increase of 42.1% from the same period of last year, accounting for approximate 2.9% 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 2013, the product generated turnover of approximately RMB60.1 million, accounting for approximately 11.3% of the Group's total turnover during the year (2012: approximately 63.0 million, accounting for approximately 11.9% of the total turnover). During the year, the market competition of N(2)-L Alanyl-LGlutamine Injectible was still fierce; however, by virtue of the Group's appropriate adjustments in sales strategies, the sales performance of the products remained stable.

Other Products

Xiangdan Injectible (specifically for cardiovascular and cerebrovascular diseases) is another popular product of the Group. It won a considerable share in the rural market with the advantages of outstanding efficacy and reasonable price. During the year, the Group continued to promote it in the rural market and hospitals, and thus lowered the product price. Turnover of 10-ml Xiangdan Injectible was approximately RMB30.9 million, and gross profit margin reached 29.6%.

Erythromycin Enteric-coated Capsules is the product of the Group, mainly used in the treatment of inflammation and various types of infection. During the year, turnover the product was approximately RMB9.3 million and the gross profit margin reached 29.4%

Development of New Medicines

During the year, 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 Sanai, Fujian Medical University's Faculty of Medicine, and entered into an agreement with Fujian Sanai and Peking University's Faculty of Medicine to conduct efficacy studies of anti-hepatitis hepatobiliary drugs, currently, a more satisfactory clinical results was obtained after having more than 100 cases' studies.

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

Sales agency for drugs

Fujian Sanai Pharmaceutical Trading Co., Limited 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, which was similar to that of last year, accounting for approximately 2.3% of the Group's total turnover in 2013.

Sales Network and Marketing

The Group's sales network covers 21 key provinces, cities, autonomous regions and municipalities around the country, mainly covering the more affluent coastal cities and provinces of the eastern region and the northeastern region of China. The number of distributors for the Group amounted to 61 during the 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.

The Group continued to boost the brand awareness of the product by promoting its brand image and product quality through television advertisements during the year. However, given the rise in advertising costs, the Group will invest in advertising more selectively to reduce the related expenses appropriately, and strive for achieving the maximum efficiency by minimum costs. Meanwhile, the Group also continued to introduce the unique curativeness of the products via academic and new medicine promotion seminars as well as medicine fairs.

Meanwhile, the Group will continue to strengthen its internal control, to eliminate "gray marketing"; adopt healthy, safe and transparent communications strategy; consistently support against the corruption of medical industry of China; while reducing costs and expanding market share, and strive for enhancing the awareness of the Group's products.

OUTLOOKS AND FUTURE DEVELOPMENT

Looking forward to 2014, given the on-going development in China's economy, the State's enhanced input in pharmaceutical industry, acceleration in urbanization and intensifying aging population, and the continuous growth in demand in the medical market, the pharmaceutical industry will remain in a generally positive trend.

Nevertheless, challenges and pressures remain. The further implementation of the medical reform and cost pressures brought by the new GMP certification will bring new challenges for pharmaceutical firms.

Looking forward, China will remain to be the pharmaceutical market with the highest growth rate in the world. However, despite the higher rigid demand in China's pharmaceutical market, the change in policy environment and intensifying market competition will cause certain pressure on product prices. This combined with the further implementation of reforms in medical insurance system shall bring challenges to the development of the industry.

In light of the above, 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 industrial policies and other objective factors on the development of the Group. Since the implementation of new GMP, the speed of weeding out the non-compliance pharmaceutical enterprises has been accelerated. The Group will identify suitable enterprises for mergers and acquisitions in due time so as to enhance the Group's competitiveness. In addition, the Group intends to expand its key business activities to mine management and mineral products trading. Such new businesses shall provide more business opportunities and expand the source of revenue for the Group, which in turn shall maximize shareholders' return.

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 as well as to enhance the Group's overall competitiveness in the future, the Group will actively implement the construction of the new factory in Fujian Haixi Commercial Trading Development Zone (Wuyi new district). Application of GMP certification completed in early 2014 and has obtained the certificate, sales of relevant drugs can commence. The Group is in full confidence in enhancing its maximum production capacity upon commencement of operation as well as in the sales of GMP certified drugs.

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 more detailed and in-depth. In 2014, the Group will continue to deepen its sales network with more effort on the promotion of its key products, Perilla Oil Capsule, to be listed in the medical insurance directories of more provinces so as to acquire more market share.

Meanwhile, the new large infusion products which obtained the GMP certification is scheduled to commence operation in 2014. The Group is of the opinion that there is still space for upward adjustment in price and certain market demand for this product. The Group will increase its production volume to boost the Group's revenue.

Increase market penetration and deepen rural markets

The Group's existing sales network has extensively covered the rural market, to distribute products in rural communities in a dozen of southern provinces in China. The Group plans to mainly promote lower priced products to increase penetration and hence their sales volume. 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 and accurately grasp the development direction of the market, promoting the existing products and persist in research and development of new drugs, so as to maintain sustainable and optimal development of the enterprise while striving for maximum return for the shareholders.

Expand business to mine management and mineral products trading

Besides enhancing the Group's competitiveness in the drug industry, the Group has always been exploring other business opportunities in order to expand its source of revenue and enhance its financial performance.

The Group has issued an announcement disclosing its continuing connected transactions on 20 February 2014, where two wholly owned subsidiaries of the Group have entered into a management and operation agreement and a purchase agreement with Platinum Group Metals Corporation (the "PGMC").

PGMC is a company in the Philippines owned by Mr. Lin Ou Wen, chairman and chief Executive Officer of the Group, as to 40% and by independent third parties as to 60%. PGMC's principal business is nickel and iron ore mining in Mindanao, Philippines. Its key product is nickel. China is currently the largest consumer market of PGMC. In addition, PGMC also exports its products to other countries.

Pursuant to the management and operation agreement, the Group shall provide management and operational consultation services to PGMC, which includes monitoring on the daily management and operation of PGMC mines, allocation of management staff, and provision of on-the-job training and technical support. PGMC shall pay management fee according to its sales in tonnes.

Pursuant to the purchase agreement, PGMC agreed to sell and the Group agreed to purchase PGMC's products in accordance with the provisions of the purchase agreement. Product price shall be determined according to the prevailing market price. In February 2014, the Group has established an experienced management team in the management of mining projects and metal products trading to prepare the Group for entering the mining industry.

As additional time is required to finalise the information to be included in the Circular, the Group has issued an announcement for delay in despatch of the circular relating to these continuing connected transactions on 14 March 2014. This announcement discloses the despatch date of the Circular will be postponed to a date falling on or before 31 March 2014.

FINANCIAL REVIEW

1. Turnover

Facing a number of factors affecting the pharmaceutical industry, including the drug price cut, management practices clinical use of antibiotics, the strict control of drug quality, cost pressure by environmental impact, the business environment remains difficult. In addition, In such an extremely challenging business environment and under multiple challenges arisen from the State policies and market pressures, the Group lowered the medical prices twice for some products in September and November respectively in 2013, in order to maintain market competitiveness. Generally the price of western medicine and Chinese patent medicine was down about 4.1% and 0.3% respectively, and the unit price of some products was even lowered by over 9.0%. Nevertheless, the Group still managed to improve the business operation. Turnover of the Group was approximately RMB532.3 million (2012: RMB528.1 million, representing a slight increase of approximately 0.8% over last year. Turnover of the second half year was approximately RMB304.4 million (Turnover of the first half year was approximately RMB227.9 million), representing an increase of approximately 33.6%.

Turnover for 2013 continued to be dominated by western medicines. Under the impact of further regulations and quality requirements on various aspects imposed by China Food and Drug Administration ("CFDA") we recorded a turnover of approximately RMB270.7 million in this section, accounting for approximately 50.9% of the overall turnover, which is similar to last year's proportion. The turnover increased slightly approximately 0.2% over last year (2012: approximately RMB270.1 million, representing approximately 51.1% of the overall turnover). Turnover of Chinese medicines amounted to approximately RMB249.0 million, accounting for approximately 46.8% of the overall turnover, which is similar to last year's proportion, the turnover increased slightly approximately 1.5% (2012: approximately RMB245.4 million, accounting for 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 pharmaceutical trading revenue recorded a turnover of approximately RMB12.6 million, representing approximately 2.3% of the overall turnover (2012: approximately RMB12.6 million, representing approximately 2.4% of the overall turnover), which is similar to last year's proportion.

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 RMB43.7 million, representing approximately 8.2% of the overall turnover, a slight decrease of approximately 1.8% over last year (2012: approximately RMB44.5 million, representing approximately 8.4% of the overall turnover).

The highest sales volume during the year was again achieved by the Western medicine, N(2)-L Alanyl-LGlutamine Injectible, with a turnover of approximately RMB60.1 million, representing approximately 11.3% of the overall turnover (2012: approximately RMB63.0 million, representing approximately 11.9% of the overall turnover). Sales of the five top selling medicines amounted to approximately RMB195.2 million, representing approximately 36.7% of the overall turnover (2012: approximately RMB202.7 million, representing approximately 38.4% of the overall turnover).

2. Gross Profit and Gross Profit Margin

Gross profit of the Group decreased approximately 20.6% over last year to approximately RMB142.4 million (2012 approximately RMB179.4 million). Gross profit margin decreased by approximately 7.2 percentage points over last year to approximately 26.8% (2012: approximately 34.0%). The three main reasons for the decrease of gross profit margin are as follows:

1) Cost of sales: the overall prices of raw materials and packaging materials rose continuously in particular for direct labor cost increased to approximately RMB12.0 million over the same period of last year, increased approximately 42.9% (2012: approximately RMB8.4 million), and such cost pressure has significantly led to an increase in production costs;

2) Increase in depreciation expenses in cost of sales: During the year, management has reassessed the useful lives, residual values and depreciation method of such manufacturing equipment in accordance with the Group's accounting policies. Further explanation on this re-estimate is included in the property, plant and equipment of note 10 to the Financial Statements. Therefore, the decrease in useful lives resulted in increase in depreciation expense. Depreciation charges for the period increased significantly to approximately RMB57.6 million, representing 14.8% (2012: approximately RMB29.0 million, representing approximately 8.3%) of the overall cost, an increase of approximately 98.6% over the same period of last year; and

3) Turnover: as mentioned above, facing a number of factors affecting the pharmaceutical industry, including the drug price cut, management practices clinical use of antibiotics, the strict control of drug quality, cost pressure by environmental impact, the business environment remains difficult. In order to maintain the market purchasing power and our market share, the Group lowered the medical prices twice for some products. Generally the price of western medicine and Chinese patent medicine was down about 4.1% and 0.3% respectively, and the unit price of some products was even lowered by over 9.0%. Hence the overall gross profit margin of drugs was affected.

The proportion of other components including energy and fuel costs, and other costs increased slightly over the last year due to the increase in sales, except for cost of sales including raw materials, packaging materials, direct labor cost and depreciation, remained in essentially the same proportion as compared with last year, except that such related amount decreased in line with sales.

3. Loss for the Year

After the medical reform, China's pharmaceutical industry has undergone relocation and adjustment in interest, out of which, the correction in the basic drug system based on "priority in quality and reasonable price", expansion of the Essential Drug List, usage of basic drugs in second and third grade hospitals were all key support to the development of pharmaceutical industry which is favourable in meeting medical demand of the public, which is in turn beneficial to the pharmaceutical industry as a whole. Nevertheless, the drop in medicine price, the antibiotics limit, more stringent regulation on drug quality and cost pressure brought by environmental protection during the reforming process have caused obvious impact on the industry. In addition, the cost pressure as a result of the increase in costs of raw materials, packaging materials and labour cost due to domestic inflation significantly caused unavoidable impact on the profit of drug manufacturers. During the financial year, the Group recorded a loss of approximately RMB3.6 million (2012: loss of approximately RMB44.6 million).

In addition, distribution costs of the Group decreased approximately 2.3% to approximately RMB84.9 million (2012: approximately RMB86.9 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 totaled approximately RMB58.7 million (2012: approximately RMB63.7 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 increased 5.6% over last year to RMB47.0 million (2012: approximately RMB44.5 million) were comparable with 2012.

Impairment loss on property, plant and equipment assets for the year amounted to RMB10.4 million (2012: Impairment loss amounted to approximately RMB108.0 million) and is disclosed as a separate item in the consolidated statement of profit or loss and other comprehensive income. Such impairment loss related to the part of the production facilities in one of the original factories, ("Original Factory") of Fujian Sanai, a wholly-owned subsidiary of the Company located in Jianyang city, Fujian Province. Since the new factory ("New Factory") of Fujian Sanai in Haixi Commercial Trading Development Zone in Jianyang city, Fujian Province, has obtained GMP certification, the production line of the Fujian Sanai is scheduled to relocate from the Original Factory to the New Factory. As a result, management's current expectation and the future economic benefits realized by such assets shall be reviewed according to relevant accounting principles. Impairment loss shall be calculated for the property, plant and equipment for the year due to the suspension in production of the Original Factory due to relocation. As at 31 December 2013, the carrying value of property, plant and equipment of the Original Factory was approximately RMB0.5 million (2012: RMB67.0 million). Nevertheless, the Board is of the opinion that the impairment loss in such fixed assets were non-cash expenditure and therefore causes no impact on the Group's cash flow and business and production operation.

Finally, one of our wholly foreign owned 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 not entitled to such preferential tax arrangement. Tax expenses of the Group were approximately RMB5.6 million (2012: tax credit of approximately RMB12.3 million) in total and the effective tax rate was (273.5)% (2012: approximately (21.6)%), which included withholding deferred income tax for the provision of undistributed profits for the three wholly-owned subsidiaries in the PRC amounting to approximately RMB0.4 million (2012: approximately RMB0.2 million).

4. Liquidity, Financial Resources and Capital Structure

As at 31 December 2013, the Group had cash and cash equivalents of approximately RMB512.4 million (2012: approximately RMB725.1 million). As as 31 December 2013, The Group's secured bank loan which is secured by land use right, amounted to approximately RMB15.0 million (2012: Nil). The loan was dominated in Reminbi, carried interest at fixed rate 6.6% (2012: Nil) per annum and is repayble within 1 year. 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 RMB53.7 million (2012: approximately RMB61.8 million). During the year, the Group did not use any financial instruments for hedging purpose.

The Group reviewed the capital structure by using a gearing ratio. The gearing ratio representing the total debt, which includes trade and other payable, secured bank loan 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 6.9% as at 31 December 2013 (2012: approximately 5.6%).

5. Exposure to Fluctuation in Exchange Rates

For the year ended 31 December 2013, 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 prudent financial policy and most of its bank deposits are in Renminbi and Hong Kong dollars. As at 31 December 2013, the Group did not have any bank liabilities, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group was not exposed to any material interest and exchange risks.

6. Significant Acquisitions and Disposal of Investments

For the year ended 31 December 2013, 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 2013, the Group employed approximately 453 employees (2012: 441 employees) with a staff cost of approximately RMB50.4 million (2012: approximately RMB41.9 million). 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 2013, the Group charges on Group assets of approximately RMB41.4 million in favour of a secured bank loan of RMB15 million (2012: Nil).

9. Contingent Liabilities

As at 31 December 2013, the Group did not have any contingent liabilities (2012: Nil).

10. Capital Expenditure

For the year ended 31 December 2013, capital expenditure of the Group for property, plant and equipment and for the construction and development of new factory at Jianyang City, Fujian Province for own use in our ordinary and usual course of business amounted to approximately RMB275.0 million (2012: approximately RMB161.8 million).

11. Capital Commitments

As at 31 December 2013, the Group's capital expenditure contracted for but not provided in the financial statements amounted to approximately RMB8.1 million (2012: approximately RMB8.1 million).

12. Use of Proceeds

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

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

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

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

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

For the year ended 31 December 2011, the Group has 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. In additions, as announced by the Company on 3 December 2012, the Board resolved to change the intended application of the remaining net proceeds of approximately RMB360.0 million, representing approximately 53.0% of the net proceeds from the global offering, the Board believed that such change will facilitate efficient allocation of financial resources of the Company and strengthen the future development of the Group and is fair and reasonable and in the interests of the Company and its shareholders as a whole.

			RMB million
Usage		**Before change**	**After change**
1	Capital expenditure for construction of phase II a production line for Perilla Oil Capsule in Fuzhou factory	154.0	–
2	Acquisition of equipment for and construction 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 new factory in Haixi Commercial Trading Development Zone	–	300.0
6	Advertising in TV commercial channels		58.7
	Total	358.7	358.7

For the year ended 31 December 2013, the Group has spent approximately RMB270.3 million as capital expenditure for the new GMP certification manufacturing facilities in the self using new factory in the ordinary and usual course of business. In addition, approximately RMB58.7 million had been spent for promotion of our brand through advertisement in some major national TV channels in the PRC.

The remaining balance of net proceeds of approximately RMB29.7 million was placed in short term deposits with licensed commercial banks in the PRC at 31 December 2013.

DIVIDEND

The Board does not recommend payment of any final dividend for the year ended 31 December 2013 to the shareholders.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") as the Company's own code for securities transactions by its Directors. In addition, the Company has made specific enquiries of all Directors and each Director confirms that during the year ended 31 December 2013, they have fully complied with the required standards as set out in the Model Code.

At no time during the year ended 31 December 2013 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

The Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules and appointed three independent non-executive Directors including one with financial management expertise, details of their biographies were set out in the 2013 Annual Report of the Company.

SHARE OPTION SCHEME

The Company's share option scheme was adopted on 8 January 2007 by the way of passing resolutions by all the shareholders of the Company. For the year ended 31 December 2013, no share option has been granted under the share option scheme.

ANNUAL GENERAL MEETING

The 2014 Annual General Meeting of the Company will be held on 5 June 2014, Thursday and the Notice of Annual General Meeting will be published and dispatched in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 28 May 2014 to Thursday, 5 June 2014 (both days inclusive). In order to be qualified for attending the annual general meeting in 2014, 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, 27 May 2014.

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

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

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the provisions as set out in the Corporate Governance Code ("CG Code") during the year ended 31 December 2013 as contained in Appendix 14 of the Listing Rules ensuring that the Company is up to the requirements as being diligent, accountable and professional.

In the opinion of the Board, the Company has complied with the Code during the year ended 31 December 2013 under review except for deviation from provision A.2.1 of the CG code in respect of the roles of chairman and chief executive officer ("CEO") of the Company. The Board considered that vesting the roles of Chairman and the CEO in the same person facilitates the execution of the Company's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise. There are three independent non-executive Directors in the Board, all of them possess adequate independence and therefore the Board considers the Company has achieved balance of and provided sufficient protection to its interests.

At the meeting of the Board of Directors of the Company held on 30 August 2013, the Company has approved and adopted a board diversity policy which sets out its approach to achieve diversity on the members of the Board.

AUDIT COMMITTEE

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

The principal duties of the AC include the review and supervision of the Company's financial reporting system, financial statements and internal control procedures. The AC also monitors the appointment of the Company's external independent auditor. The Company's annual result announcement and annual report for the year ended 31 December 2013 have been reviewed by AC in the meeting on 19 March 2014, with no disagreement among all AC members, and with recommendation to the Board for approval.

The AC shall meet at least twice a year. During the year 2013, two meetings (on 21 March 2013 and 26 August 2013) 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 2012 and for the period ended 30 June 2013 were reviewed, and with recommendation to the Board for further approval.

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

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee (the "RC") with written terms of reference in compliance with the Listing Rules. The RC comprises three Independent Non-executive Directors and one Executive Director. The Board has delegated the authority to the RC to review and recommend to the Board the compensation scheme of the Company to the Directors as well as to the senior management staff.

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

The RC has conducted a meeting on 6 December 2013 in which Mr. Lam Yat Cheong (Chairman), Mr. Lin Ou Wen, Mr. Liu Jun and Mr. Du Jian, being all members of the RC were present. The RC assisted the Board to review the remuneration of the Executive Directors and senior management and approved the remuneration packages of the Executive Directors for the year 2014.

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

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

NOMINATION COMMITTEE

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

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

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

On 6 December 2013, a NC meeting was held with Mr. Lin Ou Wen (Chairman), Mr. Lin Qing Ping, Mr. Lam Yat Cheong, Mr. Liu Jun and Mr. Du Jian, being all members of the NC were present to perform appraisal of the Directors so as to recommend to the Board for re-election in the forthcoming annual general meeting of the Company and review the independence of the Independent Non-executive Directors. During the year the NC also formulated, adopted and monitored the implementation of the board diversity policy.

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

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

ACKNOWLEGEMENT

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

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

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

Hong Kong, 24 March 2014

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