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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

The board (the "Board") of directors (the "Directors") of Wuyi International Pharmaceutical Company Limited ("Wuyi Pharmaceutical" or the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to the "Group") for the six-month period ended 30 June 2014, together with the comparative figures for the corresponding period in 2013.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-month period ended 30 June 2014

		Six months ended 30 June	
		2014	2013
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Turnover		**232,908**	227,852
Cost of sales		**(182,357)**	(160,904)
Gross profit		**50,551**	66,948
Other revenue and net income		**921**	1,129
Distribution costs		**(32,620)**	(40,042)
Administrative and other operating expenses		**(21,147)**	(21,575)
Finance costs	*4a)*	**(501)**	–
(Loss)/profit before tax	*4*	**(2,796)**	6,460
Income tax	*5*	**(298)**	(2,628)
(Loss)/profit for the period attributable to owners of the Company		**(3,094)**	3,832
Other comprehensive income for the period		**–**	–
Total comprehensive (loss)/income for the period attributable to owners of the Company		**(3,094)**	3,832
(Loss)/earnings per share – Basic and diluted	*7*	**RMB(0.2) cents**	RMB0.2 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	**30 June 2014** *RMB'000* **(Unaudited)**	31 December 2013 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment	*8*	**820,173**	849,540
Land use rights		**62,981**	63,696
Intangible assets		**–**	–
Deferred tax assets		**51,705**	49,330
		934,859	962,566
Current assets			
Inventories		**39,640**	31,435
Trade and other receivables	*9*	**106,221**	103,652
Cash and cash equivalents	*10*	**520,036**	512,419
		665,897	647,506
Current liabilities			
Trade and other payables	*11*	**85,499**	87,858
Secured bank loan	*12*	**15,000**	15,000
Tax payable		**1,068**	5,028
		101,567	107,886
Net current assets		**564,330**	539,620
Total assets less current liabilities		**1,499,189**	1,502,186
Non-current liabilities			
Deferred tax liabilities		**6,867**	6,770
Net assets		**1,492,322**	1,495,416
Capital and reserves			
Share capital	*13*	**17,098**	17,098
Reserves		**1,475,224**	1,478,318
Total equity attributable to owners of the Company		**1,492,322**	1,495,416

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six-month period ended 30 June 2014

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 (the "Stock Exchange") 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 unaudited interim 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.

2. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and one new Interpretation that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*
- HK(IFRIC) 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualified to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial report as the Company does not qualify to be an investment entity.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating units ("CGU") whose recoverable amount is based on fair value less costs of disposal. The Group early adopted the amendments in the annual financial statements for the year ended 31 December 2013.

Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on the Group's interim financial report as the Group has not novated any of its derivatives.

HK(IFRIC) 21, Levies

The interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's interim financial report as the guidance is consistent with the Group's existing accounting policies.

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 ("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 the six-month period ended 30 June 2014 and 2013, no revenue from transactions with a single external customer accounted to 10% or more of the Group's total revenue.

4. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit before tax is arrived at after charging/(crediting) the following:

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
a) Finance costs		
Interest on bank borrowing wholly repayable within five years	**501**	–
b) Staff costs		
Directors' and chief executive officer's emoluments	**1,528**	1,532
Other staff costs		
– Contributions to defined contribution retirement benefits scheme	**2,219**	2,215
– Salaries, wages and other benefits	**16,321**	15,490
Total staff costs *#	**20,068**	19,237
c) Other items		
Depreciation of property, plant and equipment *#	**29,523**	23,150
Amortisation of land use rights	**715**	715
Exchange (gain)/loss, net	**(19)**	28
Operating lease payments in respect of rented premises	**584**	613
Research and development costs *	**946**	1,090
Cost of inventories #	**182,357**	160,904
Bank interest income	**(902)**	(1,157)

\# Cost of inventories includes RMB33,369,000 (six-month period ended 30 June 2013: RMB25,962,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

* Research and development costs includes RMB902,000 (six-month period ended 30 June 2013: RMB1,040,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

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

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax – PRC corporate income tax	**2,576**	5,766
Deferred taxation	**(2,278)**	(3,138)
	298	2,628

a) PRC corporate income tax is calculated at the applicable rate of 25% on the assessable profits for the six-month period ended 30 June 2014 (six-month period ended 30 June 2013: 25%) in accordance with the relevant laws and regulations in the PRC.

b) No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong for the six-month period ended 30 June 2014 (six-month period ended 30 June 2013: Nil).

c) The Group had no significant unprovided deferred tax assets or liabilities at 30 June 2014 and 2013.

6. DIVIDENDS

The directors do not recommend payment of an interim dividend for the six-month period ended 30 June 2014 (six-month period ended 30 June 2013: Nil).

7. (LOSS)/EARNINGS PER SHARE

a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss for the period attributable to owners of the Company of approximately RMB3,094,000 (six-month period ended 30 June 2013: profit of approximately RMB3,832,000) and the weighted average of 1,709,772,500 ordinary shares (six-month period ended 30 June 2013: 1,709,772,500 ordinary shares) in issue during the period.

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 six-month periods ended 30 June 2014 and 2013.

8. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2014, the Group has additions of property, plant and equipment of approximately RMB530,000, adjustment resulted from cost variation on construction in progress of approximately RMB374,000 and transfer of construction in progress of approximately RMB804,978,000 to property, plant and equipment (six-month period ended 30 June 2013: additions of property, plant and equipment of approximately RMB217,751,000).

9. TRADE AND OTHER RECEIVABLES

	30 June 2014 *RMB'000* **(Unaudited)**	31 December 2013 *RMB'000* (Audited)
Trade receivables	**105,995**	103,436
Loan and receivables	**105,995**	103,436
Deposits	**226**	216
	106,221	103,652

The Group normally grants credit terms of 60 days to its customers. The ageing analysis of trade receivables, presented based on the invoice date, is as follows:

	30 June 2014 *RMB'000* **(Unaudited)**	31 December 2013 *RMB'000* (Audited)
Age		
0 to 30 days	**55,520**	53,336
31 to 60 days	**50,475**	50,100
	105,995	103,436

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

There is no trade and other receivables that are past due or impaired as at 30 June 2014 and 31 December 2013.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Group comprise cash at bank and on hand. During the period, the bank deposits of the Group carried interest at rates ranging from Nil to 0.35% (2013: Nil to 0.35%) per annum.

11. TRADE AND OTHER PAYABLES

	30 June 2014 *RMB'000* **(Unaudited)**	31 December 2013 *RMB'000* (Audited)
Trade payables		
– a related company *	**863**	727
– others	**58,108**	47,032
	58,971	47,759
Payroll and welfare payables	**1,488**	9,453
Payable for acquisition of property, plant and equipment	**4,589**	8,963
Accrued charges	**5,516**	7,251
Other payables	**6,337**	6,186
Financial liabilities measured at amortised cost	**76,901**	79,612
Other PRC tax payables	**8,598**	8,246
	85,499	87,858

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

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

	30 June 2014 *RMB'000* **(Unaudited)**	31 December 2013 *RMB'000* (Audited)
Age		
0 to 30 days	**24,912**	34,282
31 to 60 days	**34,059**	13,477
	58,971	47,759

12. SECURED BANK LOAN

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

	30 June 2014 *RMB'000* **(Unaudited)**	31 December 2013 *RMB'000* (Audited)
Secured bank loan	**15,000**	15,000

At 30 June 2014 and 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 30 June 2014 and 31 December 2013, land use rights with a net book value of approximately RMB40,696,000 (31 December 2013: 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% (31 December 2013: 6.6%) per annum and is repayable within 1 year. The security will be released upon full settlement of the loan.

13. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2013, 31 December 2013, 1 January 2014 and 30 June 2014	3,200,000,000	32,000
Issued and fully paid:		
At 1 January 2013, 31 December 2013, 1 January 2014 and 30 June 2014	1,709,772,500	17,098

	30 June 2014	31 December 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Shown in the condensed consolidated statement of financial position as at 30 June 2014 and 31 December 2013	**17,098**	17,098

14. CAPITAL COMMITMENTS

	30 June 2014	31 December 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
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

In the first half of 2014, the sluggish recovery of the global economy continued and external environment for economic development in China remained complex but was stabilizing. As an important part of the Chinese economy, the Chinese pharmaceutical industry faced the same opportunities and challenges as the macro-economy. Together with the increase in costs such as raw materials and packaging materials, promotion fees and salary and also the impact brought by factors such as expectation of price reduction of Modern Chinese medicines and slow bidding progress, the growth of the Chinese pharmaceutical industry slowed down in the first half of 2014.

Despite the challenges, as an important area in the strategic emerging industry, the pharmaceutical industry furthered its reform with breadth and depth. Li Keqiang, Premier of the State Council, emphasized the directions and focus of medical reform in 2014 in his first report on the work of government, including reinforcing universal basic medical insurance, consolidating the basic medical insurance systems for urban and rural residents by reform, improving fund-raising mechanism of basic medical insurance to be shared reasonably by the government, units and individuals, financial subsidy standard of basic medical insurance for urban and rural residents to be increased to RMB 320 per person, nationwide promotion of insurance for serious illnesses to urban and rural residents, strengthen urban and rural medical relief and emergency aid for illnesses, pilots of comprehensive reform of public hospital of the county level to be expanded to 1,000 counties covering 500 million rural population. The relevant policies will be gradually implemented and will continuously promote the health and sustainable development of the entire industry. Meanwhile, as the Administrative Measures Governing the Production Quality of Pharmaceutical Products (2010 Revision) (the "New GMP") is implemented, the elimination of non-compliance pharmaceutical enterprises will further speed up, promoting the consolidation and standardization of the industry. The competitive edge of pharmaceutical enterprises with new GMP certificate is expected to become apparent gradually.

With the co-existence of both opportunities and challenges, the Group insisted on its principle of "reinforcing business and market of existing drugs and promoting development of new drugs steadily", striving to expand market share, maintaining competitiveness and improving operation efficiency. In the first half of 2014, the Group introduced new six Western medicine products (including two new injectible products in glass bottle and four new packaged injectible products), which are all of high market demand and less frequently produced by relevant production enterprises. This type of products not only effectively increases sales but also promotes a favourable advertising impact of the Group thereby driving the sales of other products.

In order to maintain the purchasing power in the market and market share, the prices of the Group's products generally remained stable in the period under review after the Group reduced the prices of medicines twice in 2013. Besides, as described above and disclosed in the profit warning of the Company dated 30 May 2014 ("the Profit Warning"), the Group's new plant in the Haixi Industrial and Trading Development Zone, Jianyang, Fujian Province, China (the "New Plant") obtained new GMP certification early this year and was issued the GMP certificate for large and small volume injectible medicines. The new plant could officially produce medicines of relevant specification starting from February of this year. Since the depreciation expenses increased substantially, the unaudited depreciation expenses for the six months ended 30 June 2014 was RMB29.5 million. Therefore, the Group's gross profit and profit for the period decreased. However, the Board of Directors is of the view that depreciation expenses is non-cash expenses and has no impact on the Group's cash flow and its business and production operation.

For the six months ended 30 June 2014, the Group achieved a turnover of approximately RMB232.9 million, representing a rise of 2.2% compared with the same period last year (30 June 2013: approximately RMB227.9 million). It is mainly due to the introduction of new products and the stability of sales price. The overall gross profit was approximately RMB50.6 million, representing a decrease of approximately 24.4% compared to last period. The gross profit margin was approximately 21.7%, representing a fall of 7.7 percentage points compared to the same period last year. The major reasons for the decrease in gross profit are the continuous rise in the costs of raw materials and packaging raw materials and the new plant beginning production this year, which substantially increased depreciation expenses. However, the Group is of the view that the new plant is a necessary investment in the long run. Its value lies in facilitating better compliance of requirements and standard regulation for quality monitoring. The additional value of the new plant is expected to bring positive impact to the Group as a whole after achieving its full capacity. During the period under review, the Group recorded a loss of approximately RMB3.1 million (30 June 2013: profit of approximately RMB3.8 million).

Development of Major Products

Perilla Oil Capsule

With apparent effectiveness in controlling hyperlipidemia, Perilla Oil Capsule is one of the key products of the Group. For the six months ended 30 June 2014, the turnover of the product was approximately RMB21.1 million, representing an increase of approximately 1.9% compared to the same period last year and representing approximately 9.1% of the Group's turnover (30 June 2013: approximately RMB20.7 million, representing 9.1% of overall turnover). Since 2009 it has been listed in the medical insurance directory of Fujian Province, Perilla Oil Capsule was gradually listed in the medical insurance directory of Shaanxi, Shanxi, Inner Mongolia and Xinjiang. The Group is currently seeking to have Perilla Oil Capsule listed in the national medical insurance directory. The sales is expected to further increase after its listing in the national medical insurance directory.

N(2)-L Alanyl-LGlutamine Injectible

N(2)-L Alanyl-LGlutamine Injectible has been the Group's product with the highest sales turnover. Although the market competition of N(2)-L Alanyl-LGlutamine Injectible was still keen, the product continued to perform well in the first half of this year. The sales revenue was approximately RMB33.1 million, representing a substantial increase of approximately 32.9% compared to last year and representing approximately 14.2% of the Group's total sales revenue in the first half of the year (30 June 2013: approximately RMB24.9 million, representing approximately 10.9% of the total sales revenue).

Omeprazole Enteric-Coated Capsules

Omeprazole Enteric-Coated Capsules is a product for alleviating gastrointestinal malfunctions by inhibiting gastric acid secretion and helicobacter pylori reflux. Given its effectiveness, the product was welcomed by consumers and its sales was stable. Its sales revenue in the first half of the year was RMB6.1 million, representing approximately 2.6% of the total sales revenue. The sales revenue and its percentage was basically the same compared to the same period last year.

2ml Chaihu Zhusheye

Chaihu Zhusheye was introduced to the market in the second half of 2013. Its sales has remained stable. Its sales revenue reached RMB4.1 million in the first half of the year, representing approximately 1.8% of the total sales revenue.

Newly Introduced Products

The Group made adjustments according to the market needs in the first half of the year and introduced six new products, which are Western prescription medicines. The operation strategy of lower profit in lieu of higher turnover was adopted to promote the advertising impact of other products. The sales revenue of these six products amounted to RMB17.2 million, representing approximately 7.4% of the total sales revenue. The increase in sales revenue in the first half of the year was due to these new products. Although their relevant gross profit margins were lower than that of other products produced by the Group, it is believed that this type of products can effectively increase sales, promote a favourable advertising effect for the Group and motivate the sales of other products.

Among the six new products, two of the products are glucose and sodium chloride injectible (glass bottle) and sodium chloride injectible (glass bottle) and the other four products with soft bag package are also newly added to address the market needs, including 10% glucose injectible (soft bag), 5% glucose injectible (soft bag), sodium chloride injectible (soft bag) and glucose and sodium chloride injectible (soft bag). Currently, the market competition of soft bag package is still limited. The Group expects to further add plastic bottle package for these products in the second half of the year to meet the market needs further and increase the market share.

Development of new medicines

In the first half of 2014, the Group continued the steady progress in research and development of new drugs and had stringent control on research and development expenses at the same time. The Group and the Faculty of Medicine of Fujian University jointly conducted the clinical study on Perilla Oil Capsule and fatty liver, which is currently getting positive progress. Fujian Sanai Pharmaceutical Co. Ltd. ("Fujian Sanai") and the Department of Medicine of Peking University co-operated in the research and development of anti-hepatitis Compound Drug Liver & Gall Bladder Tablets. Its efficacy test is very smooth.

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

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, Zhejiang, Jiangsu, Liaoning and Beijing during the period. Sales revenue amounted to approximately RMB6.1 million during the period, accounting for approximately 2.6% of the Group's total turnover.

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 in the eastern region and the Northeastern region. Currently, the number of drug distributors for the Group amounted to 62, with 2 added compared to 2013. The Group will continue to aggressively exploit the rural market with potential in demand. In the first half of the year, the sales revenue from rural market represents approximately 9.6% of the Group as a whole, reaching RMB22.4 million, representing a decrease of 10.0% compared to the same period of 2013. The main reason is that new GMP modification caused a delay of production which resumed in February this year. In turn, the inventory at the beginning of beginning of the year was only sufficient for distribution to cities and other larger distributors. There was not sufficient inventory for the rural market and it affected the income of the rural market for a short time.

At the end of last year, the Company chose a more efficient way to place advertising resources. Investment in advertising decreased from approximately RMB58.7 million for the entire year of 2013 to approximately RMB20.8 million for the first half of 2014 so that the Group can invest its resources in other areas with more apparent benefits. The Group will continue to participate in academic and new medicine promotion seminars, as well as medicine fairs to introduce the advantages of various medicines.

Regarding the termination of management and operation agreement and purchase agreement ("Two Agreements")

As disclosed in the announcement dated 30 May 2014 by the Company, pursuant to the Two Agreements both dated 20 February 2014, the Company originally intended to conduct two agreements of continuous connected transaction with Platinum Group Metals Corporation ("PGMC"), a Company incorporated in the Philippines and owned by Mr. Lin Ou Wen as to 40% and by Independent Third Parties as to 60%, to expand the Group's business scope to mine management and trading of stone products and develop new business creating more opportunities to develop income sources for the Group. However, the conditions precedent of the Two Agreements were not fulfilled and were not expected to be fulfilled before the operation period of PGMC every year as required by the Listing Rules. To avoid operational delay in the business of PGMC in 2014, the Group and PGMC decided to sign two termination agreements and discontinue to conduct the relevant continuous connected transactions. Therefore, the Group did not receive any income or profit from these two businesses during the period.

However, the Group will be dedicated in seeking and exploring business development opportunities to broaden sources of income and improve the financial performance of the Group both inside and outside the pharmaceuticals industry in order to improve shareholders' return.

OUTLOOK AND FUTURE DEVELOPMENT

Looking forward, it is expected that the government will vigorously promote civilian organized medical institution, expanding the structure of pharmaceutical industry. In Key Mission in Deepening Reform of Pharmaceutical and Hygiene Mechanism in 2014, the government emphasized that civilian organized medical institution will be actively promoted and doctors will be allowed to practice at multiple locations. From the experience of the advanced countries, development towards civilian organized medical institution and doctor's practice at multiple locations is necessary. It will significantly improve the quality of medical services and enhance the demand for medical service and drugs. Currently the medical expenses in China are apparently lower than that of developed countries. In the medium to long run, the Chinese pharmaceutical industry has enormous room for development. As the economy and health awareness develops, medical expenses will rapidly increase. Besides, factors such as aging population will also increase the demand in the pharmaceutical industry.

Looking forward to the second half of 2014, the policy environment is expected to improve and the growth of pharmaceutical industry will also pick up. In the first half of the year, the progress of basic drug bidding was slower than expected. However, the proposal for the basic drug bidding apparently has a mild tendency. The proposal of "the lowest bid" was not promoted. The pace for basic drug bidding in the third and fourth quarter of 2014 is expected to be faster, especially in provinces with high consumption of drugs. As the negative impact of the policy eases, the growth of pharmaceutical industry is expected to rebound in the second half of the year.

Based on the judgment on the development trend of the pharmaceutical industry, the Group will continue to implement a prudent development strategy. While expanding its sales channels continuously, it will grasp the opportunity of primary medical services such as new rural co-operative medical service ("new rural co-operative") and sustain the in-depth exploration of markets of rural areas and small communities in cities. With the new GMP certificates, the Group has an edge over the other competitors in this highly competitive industry. Relying on this advantage, our position in the industry under the new industrial setup will be reinforced and more business opportunities will be created, expanding the base of the Group's income.

Facilitate smooth operation of the new GMP plant after commencement Achieving maximum capacity of production line

Construction of the Group's new factory in Fujian Haixi Industrial and Trading Development Zone has been completed. The factory has begun production since February 2014. The Company will actively facilitate the adaptation after the new plant began production in order to achieve the highest capacity of the production line as soon as possible, promoting the sales of GMP certified drugs.

Improve product structure Facilitate sales collaboration

The Group will be more vigorous in promoting the key product Perilla Oil Capsule, seeking its listing in the medical insurance directory of more provinces to enlarge its market share. Meanwhile, after successful attempts in product type of high consumption and low profit but high turnover, the Group will continue to optimize its product structure, facilitating sales collaboration among various products. In addition, the Group will also further deepen its sales pipelines for more detail and depth through the nationwide distribution logistics network of Jointown Pharmaceutical Group Co., Ltd.

Deepen rural market penetration

With the second half of 2014 to the first half of 2015 being the bidding year of basic drugs for various provinces and cities in China, the bidding process will speed up. The Group will take advantage of this opportunity to actively seek listing in the basic drug directory of various provinces and cities by closely following the latest conditions of the national medical reform and new rural co-operative, and therefore, enhance the penetration of pharmaceutical companies of county level in small communities and rural market.

Facing the future opportunities and challenges in the pharmaceutical industry, the Group will consider the situation, handle with flexibility and understand the market trends accurately. The Group will promote the development of new drugs while promoting existing products to maintain healthy and sustainable corporate development, striving for reasonable return for shareholders.

FINANCIAL REVIEW

1. Turnover

During the period under review, the Group benefited from the addition of six new markets with high demand for Western medicines and the stability in sales price of products. The Group recorded an overall turnover of approximately RMB232.9 million (30 June 2013: approximately RMB227.9 million), representing a slight increase of approximately 2.2% over the same period of last year.

Turnover for the first half of the year was still dominated by Western medicines, with a turnover of approximately RMB125.8 million, or approximately 54.0% of the overall turnover, representing an increase of approximately 7.5% over the same period of last year (30 June 2013: approximately RMB117.0 million, representing approximately 51.3% of the overall turnover). Turnover of the Modern Chinese medicines amounted to approximately RMB101.0 million, representing approximately 43.4% of the overall turnover, representing a decrease of approximately 3.4% over the same period of last year (30 June 2013: approximately RMB104.6 million, representing approximately 45.9% of the overall turnover). The difference in proportion of the turnover of Western medicines and Modern Chinese medicines was more or less the same as compared with last year. The pharmaceutical trading revenue recorded a turnover of approximately RMB6.1 million, representing approximately 2.6% of total turnover (30 June 2013: approximately RMB6.3 million, representing approximately 2.8% of the overall turnover), representing a decrease of approximately 3.2% over the same period of the previous year.

Although our key product, Perilla Oil Capsule, has obtained approval from authorities in Fujian, Shaanxi, Shanxi, Inner Mongolia and Xinjiang for listing in the medical insurance directory and it is still in the monitoring period, it is yet to be listed in the national medical insurance directory and hence, its sales were affected to some extent. During the period under review, the sales of this product amounted to approximately RMB21.1 million, representing approximately 9.1% of the overall turnover, an increase of approximately 1.9% over the same period of last year (30 June 2013: approximately RMB20.7 million, representing approximately 9.1% of the overall turnover). The percentage is essentially the same compared with the same period of last year.

During the period under review, the highest sales volume was again achieved by Western medicine, N(2)-L Alanyl-L Glutamine Injectible, with a turnover of approximately RMB33.1 million, representing approximately 14.2% of the overall turnover (30 June 2013: approximately RMB24.9 million, representing approximately 10.9% of the overall turnover). Turnover of the five top selling medicines amounted to approximately RMB91.6 million, representing approximately 39.3% of the overall turnover (30 June 2013: approximately RMB82.9 million, representing approximately 36.4% of the overall turnover). The Group had six new Western medicines in the first half of the year, with a turnover of approximately RMB17.2 million, representing approximately 7.4% of the overall turnover.

2. Gross Profit and Gross Profit Margin

During the period under review, gross profit of the Group decreased to approximately RMB50.6 million, representing a decrease of approximately 24.4% over the same period of last year (30 June 2013: approximately RMB67.0 million). Gross profit margin decreased substantially by approximately 7.7 percentage points to approximately 21.7% (30 June 2013: approximately 29.4%). The main reasons for the decrease were in three aspects as follows:

1) Cost of sales: The overall prices of raw materials and packaging materials rose continuously, and increased to approximately RMB74.4 million and RMB53.2 million, respectively, or by approximately 11.7% and 12.7%, respectively (30 June 2013: approximately RMB66.6 million and RMB47.2 million, respectively) over the same period of last year. The emerging costs pressure led to the increase in production costs;

2) Depreciation expenses in cost of sales: As described above and disclosed in the Profit Warning, the new plant of the Group obtained new GMP certification early this year and was issued the GMP certificate for large and small volume injectible medicines. The new plant could officially produce medicines of relevant specification starting from the beginning of this year. The new plant and relevant production facilities acquired greatly increased the depreciation expenses in the cost of sales to approximately RMB29.1 million, representing approximately 16.0% of the overall cost of sales (30 June 2013: approximately RMB21.7 million, representing approximately 13.5% of the overall cost), and an increase of 34.1% over the same period of last year; and

3) Turnover: As described above, with the impact on the pharmaceutical industry caused by pressure in cost brought by price reduction and resistance of medicines, strict regulation of quality of medicine and environmental protection, the business environment remained difficult. In order to maintain the purchasing power in the market and market share, the prices of the Group’s products generally remained stable in the period under review after the Group reduced the prices of medicines twice in 2013. During the period, although the addition of six Western

medicine products improved the turnover, the gross profit margins of the relevant products were lower than those of other products produced by the Group. Therefore, the overall gross profit margin of the Group was affected.

The proportion of other costs of sales, including raw materials, packaging materials, energy and fuel costs, and direct labor cost remained essentially the same compared with the same period of last year, except that the related amounts increased with the rise in sales.

3. Loss for the Period

Although the Group did not reduce the prices of its products in the first half of the year, the continuous price inflation in Mainland China resulted in the increase in costs of raw materials, packaging materials, salary expenses, hence the profits of pharmaceutical enterprises were inevitably affected by the costs pressure. Further, the new plant in compliance with new GMP certification and the relevant production facilities acquired greatly increased depreciation expenses. During the period under review, the Group recorded a loss of approximately RMB3.1 million (30 June 2013: profit of approximately RMB3.8 million), representing a decrease of approximately 181.6% compared to the same period of 2013.

Although the Group recorded loss, distribution costs of the Group decreased approximately 18.5% to approximately RMB32.6 million (30 June 2013: approximately RMB40.0 million). It is mainly because in the period under review the relevant advertising and marketing expenses of our three wholly-owned subsidiaries in the PRC totaled approximately RMB20.8 million (30 June 2013: approximately RMB30.0 million), representing a decrease of approximately 30.7% as compared with that of last period. The main reasons for maintaining the advertising and marketing expenses were to increase the brand and product awareness of Sanai and achieve a wide recognition of our products by the public and patients. Advertising also helped in exploring new rural market and product promotion.

During the period under review, administrative and other operating expenses amounted to approximately RMB21.1 million (30 June 2013: approximately RMB21.6 million), representing a slight decrease of approximately 2.3% compared to the same period of last year. The expenses were comparable with last year.

Finally, tax expenses of the Group were approximately RMB298,000 (30 June 2013: approximately RMB2.7 million) in total and the effective tax rate was approximately (10.6%) (30 June 2013: approximately 40.7%). It included withholding deferred income tax for the provision of undistributed profits for the three wholly-owned subsidiaries in the PRC and the deferred tax credit amounted to approximately RMB2.3 million (30 June 2013: deferred tax expense approximately RMB3.1 million).

4. Liquidity, Financial Resources and Capital Structure

As at 30 June 2014, the Group had cash and cash equivalents of approximately RMB520.0 million (31 December 2013: approximately RMB512.4 million). As as 30 June 2014, the Group's secured bank loan which is secured by land use right, amounted to approximately RMB15.0 million (31 December 2013: approximately RMB15.0 million). The loan was dominated in Renminbi, carried interest at fixed rate 6.6% (31 December 2013: 6.6%) per annum and repayable within 1 year. The Group continued to maintain a stable financial position with low gearing ratio and healthy cash flows. The Group generated a net cash inflow from operating activities of approximately RMB11.3 million (for the period ended 30 June 2013: approximately RMB17.3 million). During the period under review, the Group did not use any financial instruments for hedging purpose.

The Group reviewed the capital structure by using a gearing ratio. The gearing ratio represents the total debt, which includes trade and other payables, and secured bank loan of the Group divided by total equity of the Group. The debt-to-equity ratio of the Group was approximately 6.7% as at 30 June 2014 (31 December 2013: approximately 6.9%).

5. Exposure to Fluctuation in Exchange Rates

During the period under review, the Group conducted its business transactions principally in Renminbi. The Group has not experienced any material difficulties or negative impacts on its operations as a result of fluctuations in currency exchange rates. Although the Group has certain bank balances denominated in Hong Kong dollars, the Group adopts a conservative financial policy and most of its bank deposits are in Renminbi and Hong Kong dollars. As at 30 June 2014, the Group did not have any bank liabilities, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group was not exposed to any material interest and exchange risks.

6. Significant Acquisitions and Disposal of Investments

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

7. The Number and Remuneration of Employees

As at 30 June 2014, the Group employed approximately 453 employees (31 December 2013: 453 employees). The Group determines staff remuneration in accordance with prevailing market salary scales, individual qualifications and performance. Remuneration packages including performance bonuses and entitlements to share options are reviewed on regular basis.

8. Charge on Group Assets

As at 30 June 2014, the Group charges on Group assets approximately RMB40.7 million (31 December 2013: RMB41.1 million) in favour of a secured bank loan of RMB15.0 million (31 December 2013: 15.0 million).

9. Contingent Liabilities

As at 30 June 2014, the Group did not have any contingent liabilities (31 December 2013: Nil).

10. Capital Expenditure

During the period under review, capital expenditure of the Group for property, plant and equipment amounted to approximately RMB530,000 (30 June 2013: approximately RMB217.8 million).

11. Capital Commitments

As at 30 June 2014, the Group had capital expenditure contracted but not provided for in the financial statements amounted to approximately RMB8.1 million (31 December 2013: 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 Pharmaceutical Co. Ltd., respectively. The capital injected to these two subsidiaries was intended to be used in the construction and expansion of new plants and production lines in Fuzhou and Jianyang. An amount of approximately HK$62.0 million had been used for repayment of an interest-free shareholder's loan for the acquisition of a 40% interest in Fuzhou Sanai from Mr. Lin Ou Wen.

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

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

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

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

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

For the year ended 31 December 2013, the Group spent approximately RMB270.3 million as capital expenditure for the new GMP certification manufacturing facilities in the self using new factory 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.

For the six months ended 30 June 2014, the Group has spent approximately RMB11.8 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.

The remaining balance of proceeds of approximately RMB19.2 million which will be spent as capital expenditure for the new GMP certification manufacturing facilities in this new factory, was placed in short term deposits with licensed commercial banks in the PRC.

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2014. Accordingly, no closure of the Register of Members of the Company is proposed.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") as the Company's own code for securities transactions by its Directors. In addition, the Company has made specific enquiries of all Directors and each Director confirms that during the six months ended 30 June 2014, they have fully complied with the required standards as set out in the Model Code.

At no time during the first six months of 2014 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 six months ended 30 June 2014, no share option had been granted or exercised under the share option scheme.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed shares during the six months ended 30 June 2014.

COMPLIANCE OF THE CORPORATE GOVERNANCE CODE

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

The Company has complied with the Code Provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2014 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 period under review except for deviation from provision A.2.1 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 that the Company has achieved balance of and provided sufficient protection to its interests.

AUDIT COMMITTEE

The audit committee comprises the three Independent Non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. On 26 August 2014, a meeting of the audit committee was held and the unaudited interim results for the six months ended 30 June 2014 were reviewed and with recommendation to the Board for further approval at such meeting.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REVIEW OF ACCOUNTS

Disclose of financial information in this announcement complies with Appendix 16 to the Listing Rules. The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014 in conjunction with the Company's external independent auditor in accordance with the Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The 2014 interim report will be dispatched to Shareholders as well as made available on our Company's website at *www.wuyi-pharma.com* and the Stock Exchange's website *www.hkexnews.hk*.

ACKNOWLEDGEMENT

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

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

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

Hong Kong, 29 August 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.