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 2014

FINANCIAL HIGHLIGHTS

Turnover was RMB549.6 million for the year ended 31 December 2014

Gross profit was RMB118.0 million for the year ended 31 December 2014

Gross profit margin was 21.5% for the year ended 31 December 2014

Loss for the year was RMB44.0 million for the year ended 31 December 2014

Loss per share was RMB2.6 cents for the year ended 31 December 2014

ANNUAL RESULTS

The board (the "Board") of directors (the "Directors") of Wuyi International Pharmaceutical Company Limited ("Wuyi Pharmaceutical" or the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively referred to the "Group") for the year ended 31 December 2014, together with the comparative figures of the year ended 31 December 2013.

The Group's financial information for the year ended 31 December 2014 in this announcement was prepared on the basis of the consolidated financial statements which have been reviewed by the Company's independent auditor and the Company's audit committee. The Group has agreed with the auditor as to the contents of this result announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2014

	Note	**2014**	2013
		RMB'000	*RMB'000*
Turnover	*4*	**549,625**	532,341
Cost of sales		**(431,601)**	(389,917)
Gross profit		**118,024**	142,424
Other revenue and other net income	*5*	**1,846**	2,094
Distribution costs		**(63,789)**	(84,875)
Administrative and other expenses		**(48,299)**	(47,048)
Finance costs	*6(a)*	**(978)**	(127)
Impairment loss on property, plant and equipment	*10*	**(44,775)**	(10,419)
Impairment loss on land use rights		**(3,225)**	–
(Loss)/profit before tax	*6*	**(41,196)**	2,049
Income tax	*7*	**(2,833)**	(5,604)
Loss for the year attributable to owners of the Company		**(44,029)**	(3,555)
Other comprehensive income for the year		**–**	–
Total comprehensive loss for the year attributable to owners of the Company		**(44,029)**	(3,555)
Loss per share			
– Basic and diluted	*9*	**RMB(2.6) cents**	RMB(0.2) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	**2014**	2013
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment	*10*	**812,666**	849,540
Land use rights		**59,041**	63,696
Intangible assets		**–**	–
Deferred tax assets		**64,262**	49,330
		935,969	962,566
Current assets			
Inventories		**29,195**	31,435
Trade and other receivables	*11*	**138,417**	103,652
Cash and cash equivalents	*12*	**480,461**	512,419
		648,073	647,506
Current liabilities			
Trade and other payables	*13*	**97,427**	87,858
Secured bank loan	*14*	**15,000**	15,000
Tax payable		**3,898**	5,028
		116,325	107,886
Net current assets		**531,748**	539,620
Total assets less current liabilities		**1,467,717**	1,502,186
Non-current liabilities			
Deferred tax liabilities		**16,330**	6,770
Net assets		**1,451,387**	1,495,416
Capital and reserves			
Share capital	*15*	**17,098**	17,098
Reserves		**1,434,289**	1,478,318
Total equity attributable to owners of the Company		**1,451,387**	1,495,416

1. GENERAL

Wuyi International Pharmaceutical Company Limited (the "Company") was incorporated and registered as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Cayman Companies Law") and acts as an investment holding company. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 1 February 2007. The addresses of the registered office and principal place of business of the Company are 4/F., 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, unless otherwise stated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA").

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	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) – Int 21	Levies

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) Investment Entities

The amendments provide consolidation relief to those parents which qualify 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 these financial statements 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 these financial statements 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 unit ("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. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had an impact on the disclosures or on the amounts recognised in the Group's consolidated financial statement.

HK(IFRIC) – Int 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 these financial statements 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 manages its businesses by business lines. The Group has only one reportable operating segment which is the development, manufacturing, marketing and sales of pharmaceutical products. Therefore, there is no presentation of operating segment information. In addition, as the Group's revenue from external customers and the majority of the non-current assets of the Group are located in the PRC for both years, no geographical information is presented.

During 2014 and 2013, 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.

	2014	2013
	RMB'000	*RMB'000*
Sales of pharmaceutical products	**549,625**	532,341

5. OTHER REVENUE AND OTHER NET INCOME

	2014	2013
	RMB'000	*RMB'000*
Other revenue		
Bank interest income	**1,825**	2,094
Total interest income on financial assets not at fair value through profit or loss	**1,825**	2,094
Other net income		
Exchange gain, net	**21**	–
	1,846	2,094

6. (LOSS)/PROFIT BEFORE TAX

	2014	2013
	RMB'000	*RMB'000*

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

(a) Finance costs

	2014	2013
Interest on bank borrowing wholly repayable within five years	**978**	127

(b) Staff costs

	2014	2013
Directors' and chief executive officer's emoluments	**3,349**	3,384
Other staff costs		
– Contributions to defined contribution retirement benefits scheme	**4,750**	4,473
– Salaries, wages and other benefits	**42,526**	42,552
Total staff costs *#	**50,625**	50,409

(c) Other items

	2014	2013
Depreciation of property, plant and equipment*# *(note 10)*	**65,031**	61,333
Amortisation of land use rights	**1,430**	1,430
Auditor's remuneration	**640**	625
Net exchange loss included in administrative and other expenses	**–**	52
Operating lease payments in respect of rented premises	**1,168**	1,194
Cost of inventories #	**431,601**	389,917
Research and development costs *	**2,652**	3,469

Cost of inventories includes RMB74,639,000 (2013: RMB70,476,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

* Research and development costs includes RMB2,536,000 (2013: RMB3,888,000) 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

	2014	2013
	RMB'000	*RMB'000*
Current tax-PRC Enterprise income tax ("EIT")		
Provision for the year	**8,205**	18,246
Deferred taxation	**(5,372)**	(12,642)
	2,833	5,604

a) PRC EIT is calculated at the applicable rates of on the assessable profits 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 year ended 31 December 2014 (2013: Nil).

8. DIVIDENDS

The directors of the Company do not recommend the payment of a final dividend for both years ended 31 December 2014 and 2013.

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 RMB44,029,000 (2013: RMB3,555,000) and the weighted average of 1,709,772,500 ordinary shares (2013: 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 2014 and 2013.

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 2013	66,646	44,510	7,441	255,993	530,456	905,046
Additions	–	76	–	–	274,896	274,972
At 31 December 2013 and 1 January 2014	66,646	44,586	7,441	255,993	805,352	1,180,018
Additions	–	4,834	451	63,421	4,600	73,306
Transfer	181,410	–	–	623,568	(804,978)	–
Adjustment resulted from cost variation	–	–	–	–	(374)	(374)
At 31 December 2014	248,056	49,420	7,892	942,982	4,600	1,252,950
Accumulated depreciation and impairment						
At 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 and 1 January 2014	37,352	42,179	6,663	244,284	–	330,478
Charge for the year	6,470	524	263	57,774	–	65,031
Impairment losses recognised in profit or loss	6,584	293	–	37,617	281	44,775
At 31 December 2014	50,406	42,996	6,926	339,675	281	440,284
Carrying amounts						
At 31 December 2014	197,650	6,424	966	603,307	4,319	812,666
At 31 December 2013	29,294	2,407	778	11,709	805,352	849,540

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

Note:

As at 31 December 2014, the application of house ownership certificates for buildings of the Group with a total carrying amount of RMB169,505,000 (2013: Nil) were still in progress.

11. TRADE AND OTHER RECEIVABLES

	2014	2013
	RMB'000	*RMB'000*
Trade receivables *(note a)*	**138,103**	103,436
Deposits	**314**	216
	138,417	103,652

Notes:

a) The Group normally grants credit terms of 60 days (2013: 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:

	2014	2013
	RMB'000	RMB'000
Age		
0 to 30 days	**70,774**	53,336
31 to 60 days	**67,329**	50,100
	138,103	103,436

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% (2013: Nil to 0.35%) per annum.

13. TRADE AND OTHER PAYABLES

	2014	2013
	RMB'000	*RMB'000*
Trade payables		
– a related company *	**943**	727
– others	**61,112**	47,032
	62,055	47,759
Amount due to a related party[#]	**408**	–
Payroll and welfare payables	**8,901**	9,453
Payable for acquisition of property, plant and equipment	**6,339**	8,963
Accrued charges	**6,974**	7,251
Other payables	**1,352**	6,186
Financial liabilities measured at amortised cost	**86,029**	79,612
Other PRC tax payables	**11,398**	8,246
	97,427	87,858

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

\# The related party is Mr. Lin Qin Xiang, who is a brother of Mr. Lin Ou Wen and Mr. Lin Qin Ping. Mr. Lin Ou Wen is the chief executive officer, director and shareholder of the Company, and Mr. Lin Qin Ping is the director and shareholder of the Company. The balance is unsecured, interest-free and repayable on demand.

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

	2014	2013
	RMB'000	*RMB'000*
Age		
0 to 30 days	**44,532**	34,282
31 to 60 days	**17,523**	13,477
	62,055	47,759

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:

	2014	2013
	RMB'000	*RMB'000*
Secured bank loan	**15,000**	15,000

At 31 December 2014, 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, interest-bearing bank loan was due from repayment on 4 November 2014. The agreement was renewed on 29 November 2014.

At 31 December 2014, land use rights with a net book value of approximately RMB37,787,000 (2013: RMB41,141,000) was pledged to a bank as collateral against the bank loan. The bank loan carries interest at fixed rate of 6.9% (2013: 6.6%) 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 2013, 31 December 2013, 1 January 2014 and 31 December 2014	3,200,000,000	32,000
Issued and fully paid:		
At 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014	1,709,772,500	17,098

	2014	2013
	RMB'000	*RMB'000*
Shown in the consolidated statements of financial position at 31 December	**17,098**	17,098

The owners of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary share rank equally with regard to the Company's residual assets.

16. CAPITAL COMMITMENTS

	2014	2013
	RMB'000	*RMB'000*
Capital expenditure contracted for but not provided for in the financial statements in respect of:		
– acquisition of intangible assets	**8,100**	8,100
– acquisition of property, plant and equipment	**3,500**	–
	11,600	8,100

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Looking back at 2014, the global economy continued the trend of slow recovery, and the trend of a diverse growth pace of different economies was stronger. The Chinese economy was stable with some progress on the whole, with positive changes in the economic structural adjustments and significant progress in the deepening of reform. In 2014, faced with a continuous ageing population, the Central Government of the PRC ("Central Government") strengthened support for the pharmaceutical industry. Following the continuous deepening of medical reform, the reform of public hospitals speeded up, the national medical insurance system continued to update, and the national essential system and primary service network was further strengthened. However, due to the trend of a slowing economic growth of China, and the medical reform and tender mechanism increased the pressure upon the falling drug prices, and the market pressure in China on raw materials costs, packaging materials costs and labour costs continued to increase, there was a falling trend in the growth of the Chinese pharmaceutical industry.

Under the circumstances that the specific medical reform policies of the State Council of the PRC ("the State Council") are not clear, the approval of new drugs is quite slow, and the tightening of control over the use of traditional Chinese medicine, the Group adheres to the principle of "consolidating the existing drug businesses and market, continuing to strengthen the research and development of new medicine", and carried out improvement of the existing products and packaging, expansion of the market share in a pragmatic manner. During the year, the Group introduced six new western medicine products (including two new injectible products in glass bottle and four new packaged injectiable products). There was a large quantity demanded in the market for such products, and the change from the traditional packaging also facilitated transportation. These types of products effectively boosted sales, and drove the sales of other products, showing good advertising effects.

As disclosed in the profit warning announcement ("Profit Warning") of the Company published on 30 January 2015, the management estimated an increase in depreciation expense and some relevant modification charges of the Group for the year of approximately RMB4,400,000 to RMB62,000,000 as a result of the commencement of production of a new factory of the Group in Haixi Commercial Trading Development Zone, Jianyang, Fujian province, China after a New Good Manufacturing Practise ("GMP") certification was granted at the beginning of last year. However, the Board of Directors considered that depreciation expense was not cash expenditure, and would not affect the cash flow and business and production operation of the Group.

For year ended 31 December 2014, the Group has achieved turnover of approximately RMB549.6 million, representing an increase of approximately 3.3% from the same period of last year (2013: approximately RMB532.3 million). This was mainly attributable to the satisfactory sales of 6 new products during the year, which accounted for 10.8% of the overall sales volume. The overall gross profit was approximately RMB118.0 million, representing a decrease over last year of approximately 17.1% and the gross profit margin was approximately 21.5%, representing a decrease of approximately 5.3 percentage points from last year. The drop in gross profit was mainly due to the continuous rises in raw materials costs, packaging materials costs and labour costs, as well as the launching in operation of the new plant during the year, so that depreciation expenditure rose remarkably.

Impairment loss on property, plant and equipment

Impairment loss on property, plant and equipment for the year amounted to RMB44.8million (2013: Impairment loss on property, plant and equipment amounted to approximately RMB10.4 million) and impairment loss on land use rights for the year amount to RMB 3.2 million (2013: Nil) are disclosed as separate items in the consolidated statement of profit or loss and other comprehensive income. During the year, impairment losses related to the production facilities in a factory of Fujian Sanai, a wholly-owned subsidiary of the Company located in Fujian Sanai in Haixi Commercial Trading Development Zone in Jianyang city, Fujian Province. As a result, management's current expectation and the future economic benefits realised by such assets shall be reviewed according to relevant accounting principles. Impairment losses shall be calculated for the property, plant and equipment and land use rights for the year due to cash-generating units ("CGUs").

The recoverable amounts of the CGUs are determined by the directors and management of the Company based on value-in-use calculations with reference to professional valuations performed by APAC Assets Valuation and Consulting Limited, an independent firm of professionally qualified valuers. These calculations used cash flow projections based on the financial budgets approved by the management covering a five-year period. The cash flows beyond the five-year period are extrapolated using a steady growth rate of 2%, which is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the business in which the individual CGU operates.

Nevertheless, the Board is of the opinion that the impairment losses in such fixed assets and land use rights were non-cash expenditure and therefore causes no impact on the Group's cash flow and business and production operation.

During the year under review, the Group recorded loss of approximately RMB44.0 million (2013: the loss amounted to approximately RMB3.6 million).

Development of Major Products

Perilla Oil Capsule

Perilla Oil Capsule is one of the key products of the Group, it is effective for hyperlipidemia and has no side effect of toxicity. For the year ended 31 December 2014, its turnover was approximately RMB43.6 million, accounting for approximately 7.9% of the Group's total turnover during the year (2013: approximately RMB43.7 million, accounting for 8.2% of the total turnover), with a stable sales amount. The Group is currently conducting studies on the new medical results of Perilla Oil Capsule, and the clinical study stage was ended. Since 2009 it has been listed in the medical insurance directory of Fujian Province, and gradually listed in the medical insurance directory of Shanxi, Inner Mongolia and Xinjiang. The Group will continue to seek to have Perilla Oil Capsule listed in the national medical insurance directory. Sales are expected to further increase after its listing in the national medical insurance directory.

Omeprazole Enteric-Coated Capsules

Omeprazole Enteric-Coated Capsules was introduced in 2011. It is a product with stable sales of the Group. It is mainly for inhibiting gastric acid secretion and helicobacter pylori reflux. Given its effectiveness, the product was welcomed by consumers. Its sales revenue for 2014 was RMB14.6 million, representing approximately 2.7% of the total sales revenue. The sales revenue and its percentage were basically the same compared with last year.

N(2)-L Alanyl-LGlutamine Injectible

N(2)-L Alanyl-LGlutamine Injectible is the Group's product with high sales turnover. Its sales revenue for 2014 was RMB50.4 million, representing approximately a drop of 16.1% compared with last year, accounting for approximately 9.2% of the total turnover of the Group (2013: approximately RMB60.1 million, accounting for 11.3% of the total turnover). The decrease in sales was mainly attributable to the state's strengthening of administration over the production and sales of medicine, and similar products of other factories were introduced in the market successively, so that the competition of this product in the market was getting more and more severe.

2ml Chaihu Zhusheye

Chaihu Zhusheye was introduced to the market in the second half of 2013. Its sales has remained stable. The performance of this product in terms of price was very good in 2014. Its sales revenue for the year was RMB9.9 million, representing a surge of 50.0% compared with 2013, accounting for approximately 1.8% of the total turnover (2013: approximately RMB6.6 million, accounting for 1.2% of the total turnover). The Group is currently raising the production output of this product to seize the opportunities to raise sales.

Other Products

Another product of the Group-Xiangdan Injectible has excellent results for cardiovascular and cerebrovascular diseases. It won a considerable share in the rural market with the advantage of low price. During the year, turnover of 10-ml Xiangdan Injectible was approximately RMB20.1 million, accounting for approximately 3.7% of the overall turnover.

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 RMB10,500,000, accounting for approximately 1.9% of the overall turnover.

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 under the strategy of lower profit margin but higher turnover. The new products are the source of growth in sales for the year, and they promoted a favourable advertising effect for the sales of other products. Sales revenue of these six products amounted to RMB59.4 million, representing approximately 10.8% of the total sales revenue. Although their relevant gross profit margins were lower than that of other products produced by the Group, it is believed that this type of product can effectively increase sales. The Group will continue this strategy of having lower profit margin but higher turnover, to maintain a steady growth of sales volume and continue their advertising effects to boost 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 2015 to further meet the market needs further and increase the market share.

Development of new medicines

During 2014, the Group steadily promoted the R & D of new drugs, R & D expenditures were kept stable. The project to study the new medical treatment results of Perilla Oil Capsule on a national large scale clinical study stage ended and obtained good results. The test results of the R & D on the medical treatment results of anti-hepatitis Compound Drug Liver & Gall Bladder Tablets under the joint cooperation between Fujian Sanai and the Department of Medicine of Peking University were satisfactory. The Group will continue to seek suitable new medicine R & D projects, and strictly control R & D expenditure.

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 year. Sales revenue for the year amounted to approximately RMB12.3 million, accounting for approximately 2.3% 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 and provinces of the eastern region and the northeastern region of China. The number of distributors for the Group amounted to 62 during the year, adding 2 more compared with 2013. During the year, sales from the market in rural areas amounted to approximately 12.6% of our total turnover, or RMB69.2 million, up 24.2% from 2013. It was mainly because the production output of ordinary medicines of the new plant zone increased, and the Group could better penetrate in the market in the rural markets with medical insurance. In the future, it will strive for exploring the market in the rural markets, raising the sales volume of ordinary medicines.

During the year, the Company placed advertising resources more selectively, and thus lowered advertising expenditure substantially, which decreased from RMB58.7 million for the entire year of 2013 to RMB34.6 million. For 2015, advertising expenditure will continue to reduce, so that the Group can invest its resources in other areas with more apparent benefits. Academic promotion seminars will become one of the main promotion methods of the Group, at the same time, it will continue to participate in new medicine promotion seminars and medicine fairs.

Disposal of Land and Property by Fuzhou Sanai

As disclosed in the announcement "Discloseable Transaction – Disposal of Land and Property" in 2 February 2015, Fujian Sanai, a wholly-owned subsidiary of the Company entered into the Agreement pursuant to which Fuzhou Sanai has agreed to sell, and Land Development Center for Fuzhou Economic and Technological Development Zone（福州經濟技術開發區土地發展中心）("the Purchaser") has agreed to purchase the Land and Property, at a consideration of RMB76.0 million (equivalent to approximately HK$92.7 million) (the "Disposal").

Since relevant authorities of the PRC need to adjust the layout of urban planning and industrial development (with a view to accelerating the development and utilization of land in Mawei District of Fuzhou City) in accordance with the "Interim Measures for the Implementation of Land Reserve*" (《福州市土地儲備實施暫行辦法》), "Non-State-Owned Enterprises in Fuzhou Warehouse Space Mining Land Use Rights Acquisition Approach*" (《福州市非國有的企業工礦倉儲用地土地使用權收購辦法》) and other relevant provisions, the Company proceed with the Disposal accordingly.

Upon Disposal, existing manufacturing facility (excluding the Property) will be relocated to the factory at Haixi Commercial Trading Development Zone which is owned by Fujian Sanai Pharmaceutical Co. Ltd. (福建三愛藥業有限公司), another wholly owned subsidiary of the Company, to continue manufacturing operation. The estimated net realized gain will increase the cash flow and liquidity of the Group for its future business development and investment when opportunities arise.

It is estimated that the Company will have an unaudited gain on Disposal of approximately RMB29.2 million, being the difference between the consideration for the Disposal and the carrying value of the Land and Property. It is estimated that an additional capital expenditure and expenses of approximately RMB20.0 million and a relocation cost of approximately RMB5.0 million might be incurred as a result of the Disposal. The net proceeds from the Disposal (after deducting all relevant fees and expenses) will be used for general working capital of the Company.

OUTLOOK AND FUTURE DEVELOPMENT

At the beginning of 2015, the State Council convened a standing committee meeting to push forward the deepening of the medical and healthcare system reform, deploy the strengthening of the establishment of rural doctor teams, better protect the physical health of residents in the rural areas, discuss and approve the National Medical and Healthcare Service System Planning Outlines (the "Outlines') and facilitate the optimization of resource allocation and service upgrade. The Outlines particularly point out that the development potential of doctors in the rural areas must be expanded. It will explore the implementation of a service model under which the doctors in the rural areas will enter into contracts with the residents in the rural areas, and charge fees as stipulated. The Ministry of Finance will grant subsidies based on the number of assignments done and approved and the appraisal results of the doctors in the rural areas by the county and village health institutions. The Group expected that the Outlines would help the Group to increase the sales volume of ordinary medicines and further promote our coverage in the market of the rural areas.

In the future, due to the impact of the ageing population, it is expected that the demand for medicine in China will continue to grow. However, at present the coverage of medical insurance is still limited, and for the time being the pharmaceutical industry in China cannot benefit from the rapid growth in demand. Yet, as the medical reform gradually deepens, one of the 2015 major tasks of the Health and Family Planning Commission is to continue to raise the government subsidy standards of the medical insurance coverage of residents in the urban areas and the new rural co-operative, while raising the reimbursement standard of individuals, narrow the gap between the reimbursement under the policy and the actual payment. It will implement the serious disease medical insurance for the residents in the urban areas in a comprehensive manner, and relieve the burden of medical fees for serious diseases of the general public in a substantive fashion. From a long term perspective, the development potential of the pharmaceutical industry is huge.

Based on the judgment on the development trend of the pharmaceutical industry, the Group will continue to implement a prudent development strategy, and match the expansion of the capacity of ordinary medicines of the new plant zone, 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, and diversify the sales channels and promotion models. Our new GMP certificates strengthened our competitive advantages, and we will strengthen and enhance the existing products and markets under the new industrial landscape, and expand the base of income by seizing the opportunities.

Smooth adaptation period of the new GMP plant

The Group's new factory in Fujian Haixi Industrial and Trading Development Zone (the "New Factory") begun production in February 2014, and smoothly entered the adaptation period. The Company expected that the New Factory can realize its full capacity as soon as possible, it will leverage on the advantages of the New Factory to promote the production and sales of drugs with GMP certificates, and reinforce its position in the industry.

Increasing the market penetration ratio in the rural areas

In the future, the Group will continue to promote ordinary medicines to the market in the rural areas where the spending ability is limited, such as township medical organizations and institutions. It will increase the market penetration ratio in the rural areas through the advantages of lower prices of ordinary medicines.

Faced with the challenges of government policies and the peripheral economies, the Group will examine the market demand at appropriate time in a pragmatic and stable pace, flexibly adjust the sales strategies, promote the existing products and seek suitable R & D projects of new drugs so as to seek a reasonable return for shareholders.

FINANCIAL REVIEW

1. Turnover

Despite the continuous monitoring of the Chinese medicines in all aspects by China Food and Drug Administration and its requirements to raise the quality standards of the related products, the Group adjusted the product portfolio according to the market demand, and during the year, 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 RMB549.6 million (2013: approximately RMB532.3 million), representing a slight increase of approximately 3.3% over last year. Turnover of the second half year was approximately RMB316.7 million (turnover of the first half year was approximately RMB232.9 million), representing an increase of approximately 36.0%.

Turnover of 2014 was still dominated by Western medicines, we recorded a turnover of approximately RMB304.1 million in this section, accounting for approximately 55.3% of the overall turnover, turnover increased approximately 12.3% over last year (2013: approximately RMB270.7 million, representing approximately 50.9% of the overall turnover). Regarding the Chinese medicines, as mentioned above, there were continuous monitoring in all aspects and the requirements to raise the quality standards, turnover amounted to approximately RMB233.2 million, accounting for approximately 42.4% of the overall turnover, the turnover decreased approximately 6.3% (2013: approximately RMB249.0 million, accounting for approximately 46.8% of the overall turnover). The difference in proportion of the turnover of Western medicines and Modern Chinese medicines further enlarged. In addition, the pharmaceutical trading revenue recorded a turnover of approximately RMB12.3 million, representing approximately 2.3% of the overall turnover (2013: approximately RMB12.6 million, representing approximately 2.3% 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 RMB43.6 million, representing approximately 7.9% of the overall turnover, or a slight decrease of approximately 0.2% over last year (2013: approximately RMB43.7 million, representing approximately 8.2% 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 RMB50.4 million, representing approximately 9.2% of the overall turnover (2013: approximately RMB60.1 million, representing approximately 11.3% of the overall turnover). Sales of the five top selling medicines amounted to approximately RMB181.3 million, representing approximately 33.0% of the overall turnover (2013: approximately RMB195.2 million, representing approximately 36.7% of the overall turnover). The six new products introduced by the Group in the first half of the year including glucose and sodium chloride Injectible and sodium chloride injectible and other related products are all Western medicines, their turnover for the year was approximately RMB 59.4 million, representing approximately 10.8% of the overall turnover.

2. Gross Profit and Gross Profit Margin

Gross profit of the Group decreased approximately 17.1% over last year to approximately RMB118.0 million (2013: approximately RMB142.4 million). Gross profit margin decreased by approximately 5.3 percentage points over last year to approximately 21.5% (2013: approximately 26.8%). The three major reasons for the decrease of gross profit margin are as follows:

(1) Cost of sales: the continuous rises in overall raw materials costs, packaging materials costs and labour costs due to market pressure in China, in particular, the packaging materials rose as compared with the same period last year to approximately RMB153.3 million, or an increase of approximately 28.4% (2013: approximately RMB119.4 million), and such cost pressure has significantly led to an increase in production costs;

(2) Depreciation expenses in cost of sales: As described above and disclosed in the Profit Warning on 30 May 2014 and 30 January 2015 respectively, 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 RMB62.0 million, representing approximately 14.4% of the overall cost of sales (2013: approximately RMB57.6 million, representing approximately 14.8% of the overall cost), and an increase of 7.6% over last year, where the overall proportion of sales costs were similar to those of last year; and

(3) Turnover: As described above, with the impact on the pharmaceutical industry caused by pressure in cost brought by the strict supervision of the quality of medicines and the cost pressure due to environmental protection awareness, 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 last year after the Group reduced slightly the prices of some medicines last year, however, the prices of most products basically remained stable. During the year, 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 level of medicines 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 following the increase in sales.

3. Loss during the year

Although unlike 2013 when the Group cut the prices of some products upon the request of the State Council, faced with intense business competition, the Group slightly lowered the prices of some medicines last year to maintain the market purchasing power and our market share in the market. Besides, the continuous rising prices in Mainland China resulted in increases in costs of raw materials, packaging materials, salary expenses, hence the profits of pharmaceutical enterprises were inevitably affected by this costs pressure. Further, the new plant in compliance with new GMP certification and the relevant production facilities acquired greatly increased depreciation expenses. During the year, the Group recorded a loss of approximately RMB44.0 million (2013: loss of approximately RMB3.6 million).

Although the Group recorded loss, distribution costs of the Group decreased approximately 24.9% to approximately RMB63.8 million (2013: approximately RMB84.9 million). It is mainly because during the year the relevant advertising and marketing expenses of our three wholly owned subsidiaries in the PRC totaled approximately RMB34.6 million (2013: approximately RMB58.7 million), representing a decrease of approximately 41.1% as compared with the same period last year. The main reasons for maintaining certain 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 us to explore new rural market and promote products.

Administrative and other expenses increased approximately 2.8% over last year to RMB48.3 million (2013: approximately RMB47.0 million), which were comparable with those of last year.

In addition, there were an impairment losses amounted to approximately totally RMB48.0 million in relation to Group's production facilities in one of the factories located in Fujian Sanai in Haixi Commercial Trading Development Zone in Jianyang city, Fujian Province., which was mainly attributable to non-cash accounting treatment on the impairment losses on these production facilities, and mainly to reflect the value in use of the assets. Therefore, such impairment losses will not affect the future either the performance of the Group's operations and sales; or affect the cash flow of the Group.

Finally, tax expenses of the Group were approximately RMB2.8 million in total (2013: approximately RMB5.6 million) and the effective tax rate was approximately (6.8%) (2013: the effective tax rate was approximately 273.5%). This amount included the need to withhold deferred income tax for the provision of undistributed profits for the three wholly-owned subsidiaries in the PRC of approximately RMB9.6 million (2013: approximately RMB400,000).

4. Liquidity, Financial Resources and Capital Structure

As at 31 December 2014, the Group had cash and cash equivalents of approximately RMB480.5 million (2013: approximately RMB512.4 million). As as 31 December 2014, The Group's secured bank loan which is secured by land use right, amounted to approximately RMB15.0 million (2013: RMB15.0 million). The loan was dominated in Reminbi, carried interest at fixed rate 6.9% (2013: 6.6%) 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 RMB38.8 million (2013: approximately RMB53.7 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 payables and secured bank loan of the Group divided by total equity of the Group. The gearing ratio of the Group was approximately 7.7% as at 31 December 2014 (2013: approximately 6.9%).

5. Exposure to Fluctuation in Exchange Rates

For the year ended 31 December 2014, 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 2014, the Group did not have any 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 2014, 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 2014, the Group employed approximately 445 employees (2013: 453 employees) with a staff cost of approximately RMB50.6 million (2013: approximately RMB50.4 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 2014, the Group charges on Group assets of approximately RMB37.8 million (2013: RMB41.1 million) in favour of a secured bank loan of RMB15.0 million (2013: RMB15.0 million).

9. Contingent Liabilities

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

10. Capital Expenditure

For the year ended 31 December 2014, 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 RMB73.3 million (2013: approximately RMB275.0 million).

11. Capital Commitments

As at 31 December 2014, the Group's capital expenditure contracted for but not provided in the financial statements amounted to approximately RMB11.6 million (2013: approximately RMB8.1million).

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.

For the year ended 31 December 2014, the Group has spent approximately RMB29.7 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.

As at 31 December 2014, all net proceeds have been fully utilized in accordance with the plan for the use of proceeds from the Placing which are set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus dated 22 January 2007 and Change in Use of Proceeds announcement dated 3 December 2012.

13. Events after the reporting period

On 2 February 2015 (after trading hours), Fuzhou Sanai Pharmaceutical Co. Ltd. (the "Fuzhou Sanai") (福州三愛藥業有限公司) a company incorporated in the PRC and a wholly-owned subsidiary of the Company, entered into an agreement (the "Agreement") with an independent third party, Land Development Center for Fuzhou Economic and Technological Development Zone* (福州經濟技術開發區土地發展中心) (the "Land Development Centre"), a PRC governmental authority in charge of, among other things, managing usage of land resources of Fuzhou Economic and Technological Development Zone, the PRC. Pursuant to the Agreement, Fuzhou Sanai has conditionally agreed to sell and Land Development Centre has conditionally agreed to purchase the land situated at No. 27 Huli Road, Kuaian Extension Region, Mawei District of Fuzhou City* (福州市馬尾區快安延伸區湖里路27號) with approximate site area of 32,887 square meters (approximately 49.33 mu) (the "Land"). Property with a total floor area of approximately 23,223.97 square meters for manufacturing of pharmaceutical products (the "Property") was attached to the Land. The Land and the Property were sold at an aggregate consideration of RMB76,000,000 (the "Disposal").

Further details of the Disposal were disclosed in the announcement of the Company dated 2 February 2015.

DIVIDEND

The Board does not recommend payment of any final dividend for the year ended 31 December 2014 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 2014, they have fully complied with the required standards as set out in the Model Code.

At no time during the year ended 31 December 2014 were rights to acquire benefit 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 (representing at least one third of the Board) including one Director with financial management expertise, details of their biographies were set out in the 2014 Annual Report of the Company.

SHARE OPTION SCHEME

The Company's share option scheme was adopted on 8 January 2007 by way of passing resolutions by all the shareholders of the Company. For the year ended 31 December 2014, no share option has been granted under the share option scheme.

ANNUAL GENERAL MEETING

The 2015 Annual General Meeting of the Company will be held on 5 June 2015, Friday 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, 27 May 2015 to Friday, 5 June 2015 (both days inclusive). In order to be qualified for attending the annual general meeting in 2015, 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, 26 May 2015.

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

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

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the Code Provisions as set out in the Code on Corporate Governance Practices (the "CGP Code") during the year ended 31 December 2014 as contained in Appendix 14 of the Listing Rules ensuring that the Company is up to the requirements as being diligent, accountable and professional.

In the opinion of the Board, the Company has complied with the CGP Code during the year ended 31 December 2014 under review except for deviation from provision A.2.1 of the CGP Code and the CG code in respect of the roles of chairman and chief executive officer ("CEO") of the Company. The Board considered that vesting the roles of Chairman and the CEO in the same person facilitates the execution of the Company's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise. There are three independent non-executive Directors in the Board, all of them possess adequate independence and therefore the Board considers the Company has achieved balance of and provided sufficient protection to its interests.

AUDIT COMMITTEE

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

The principal duties of the AC include the review and supervision of the Company's financial reporting system, financial statements and internal control procedures. The AC also monitors the appointment of the Company's external independent auditor. The Company's annual result announcement and annual report for the year ended 31 December 2014 have been reviewed by AC in the meeting on 23 March 2015, 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 2014, two meetings (on 19 March 2014 and 26 August 2014) 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 2013 and for the period ended 30 June 2014 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 5 December 2014 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 2015.

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

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

NOMINATION COMMITTEE

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

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

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

On 5 December 2014, a NC meeting was held with Mr. Lin Ou Wen (Chairman), Mr. Lin Qing Ping, Mr. Lam Yat Cheong, Mr. Liu Jun and Mr. Du Jian, being all members of the NC were present to perform appraisal of the Directors so as to recommend to the Board for re-election in the forthcoming annual general meeting of the Company and review the independence of the Independent Non-executive Directors.

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

SCOPE OF WORK OF CROWE HORWATH (HK) CPA LIMITED

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2014 as set out in this preliminary announcement have been agreed by the Group's auditor, Crowe Horwath (HK) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Crowe Horwath (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Crowe Horwath (HK) CPA Limited on this preliminary announcement.

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.

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, 27 March 2015

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.