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 2015

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 2015, together with the comparative figures for the corresponding period in 2014.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-month period ended 30 June 2015

		Six months ended 30 June	
		2015	2014
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**244,602**	232,908
Cost of sales		**(180,808)**	(182,357)
Gross profit		**63,794**	50,551
Other revenue and net income		**1,714**	921
Net gain on disposal of property, plant and equipment and land use rights	*9*	**34,962**	–
Distribution costs		**(22,094)**	(32,620)
Administrative and other operating expenses		**(23,435)**	(21,147)
Finance costs	*5(a)*	**(1,105)**	(501)
Profit/(loss) before tax	*5*	**53,836**	(2,796)
Income tax	*6*	**(18,718)**	(298)
Profit/(loss) for the period attributable to owners of the Company		**35,118**	(3,094)
Other comprehensive income for the period		**–**	–
Total comprehensive income/(loss) for the period attributable to owners of the Company		**35,118**	(3,094)
Earnings/(loss) per share			
– Basic and diluted	*8*	**RMB2.1 cents**	RMB(0.2) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Note	**30 June 2015** *RMB'000* **(Unaudited)**	31 December 2014 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment	*9*	**808,807**	812,666
Land use rights	*9*	**53,253**	59,041
Intangible assets		**–**	–
Deferred tax assets		**60,074**	64,262
		922,134	935,969
Current assets			
Inventories		**48,889**	29,195
Trade and other receivables	*10*	**102,283**	138,417
Cash and cash equivalents	*11*	**551,743**	480,461
		702,915	648,073
Current liabilities			
Trade and other payables	*12*	**74,811**	97,427
Secured bank loans	*13*	**35,000**	15,000
Current taxation		**14,188**	3,898
		123,999	116,325
Net current assets		**578,916**	531,748
Total assets less current liabilities		**1,501,050**	1,467,717
Non-current liabilities			
Deferred tax liabilities		**14,545**	16,330
Net assets		**1,486,505**	1,451,387
Equity			
Share capital	*14*	**17,098**	17,098
Reserves		**1,469,407**	1,434,289
Total equity attributable to owners of the Company		**1,486,505**	1,451,387

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six-month period ended 30 June 2015

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") that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKFRSs — Annual Improvements to HKFRSs 2010-2012 Cycle
- Amendments to HKFRSs — Annual Improvements to HKFRSs 2011-2013 Cycle
- Amendments to HKAS 19 — Defined Benefit Plans: Employee Contributions

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. SEGMENT INFORMATION

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

The Group manages its business 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, no geographical information is presented.

During the six-month period ended 30 June 2015 and 2014, no revenue from transactions with a single external customer accounted to 10% or more of the Group's total revenue.

4. REVENUE

The principal activities of the Group are the development, manufacturing, marketing and sales of pharmaceutical products.

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

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sales of pharmaceutical products	**244,602**	232,908

5. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax is arrived at after charging/(crediting) the following:

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
a) Finance costs		
Interest on bank borrowing wholly repayable within five years	**1,105**	501
b) Staff costs		
Directors' and chief executive officer's emoluments	**1,537**	1,528
Other staff costs		
– Contributions to defined contribution retirement benefits scheme	**2,296**	2,219
– Salaries, wages and other benefits	**18,088**	16,321
Total staff costs *#	**21,921**	20,068
c) Other items		
Depreciation of property, plant and equipment *#	**21,343**	29,523
Amortisation of land use rights	**713**	715
Exchange loss/(gain), net	**1,326**	(19)
Operating lease payments in respect of rented premises	**677**	584
Research and development costs*	**622**	946
Cost of inventories#	**180,808**	182,357
Bank interest income	**(914)**	(902)

Cost of inventories includes RMB23,778,000 (six-month period ended 30 June 2014: RMB33,369,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

* Research and development costs includes RMB596,000 (six-month period ended 30 June 2014: RMB902,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

6. INCOME TAX

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax – PRC Enterprise Income Tax	**13,815**	2,576
Deferred taxation	**4,903**	(2,278)
	18,718	298

a) PRC Enterprise Income Tax is calculated at the applicable rate of 25% on the assessable profits for the six-month period ended 30 June 2015 (six-month period ended 30 June 2014: 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 2015 (six-month period ended 30 June 2014: Nil).

c) The Group had no significant unrecognised deferred tax assets or liabilities at 30 June 2015 and 31 December 2014.

7. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six-month period ended 30 June 2015 (six-month period ended 30 June 2014: Nil).

8. EARNINGS/(LOSS) PER SHARE

a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit for the period attributable to owners of the Company of approximately RMB35,118,000 (six-month period ended 30 June 2014: loss of approximately RMB3,094,000) and the weighted average of 1,709,772,500 ordinary shares (six-month period ended 30 June 2014: 1,709,772,500 ordinary shares) in issue during the period.

b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share equals basic earnings/(loss) per share as there were no dilutive potential ordinary shares outstanding during both six-month periods ended 30 June 2015 and 2014.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

During the six-month period ended 30 June 2015, the Group has additions of property, plant and equipment of approximately RMB50,407,000, construction in progress of approximately RMB3,500,000 and transfer of construction in progress of approximately RMB8,100,000 to property, plant and equipment (six-month period ended 30 June 2014: 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).

During the six-month period ended 30 June 2015, the Group has disposed property, plant and equipment and land use rights with carrying amounts of RMB36,453,000 and RMB5,074,000 respectively (six-month period ended 30 June 2014: Nil), resulting in a gain on disposal of RMB34,962,000 (six-month period ended 30 June 2014: Nil).

10. TRADE AND OTHER RECEIVABLES

	30 June 2015 *RMB'000* **(Unaudited)**	31 December 2014 *RMB'000* (Audited)
Trade receivables	**101,827**	138,103
Loan and receivables	**101,827**	138,103
Deposits	**456**	314
	102,283	138,417

The Group normally grants credit terms of 60 days (2014: 60 days) to its customers. The ageing analysis of trade receivables, presented based on the invoice date, is as follows:

	30 June 2015 *RMB'000* **(Unaudited)**	31 December 2014 *RMB'000* (Audited)
Age		
0 to 30 days	**52,836**	70,774
31 to 60 days	**48,991**	67,329
	101,827	138,103

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 2015 and 31 December 2014.

11. 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% (2014: Nil to 0.35%) per annum.

12 TRADE AND OTHER PAYABLES

	30 June 2015	31 December 2014
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables		
– a related company *	**490**	943
– others	**55,579**	61,112
	56,069	62,055
Amount due to a related party #	**286**	408
Payroll and welfare payables	**1,483**	8,901
Payable for acquisition of property, plant and equipment	**3,650**	6,339
Accrued charges	**4,247**	6,974
Other payables	**422**	1,352
Financial liabilities measured at amortised cost	**66,157**	86,029
Other PRC tax payables	**8,654**	11,398
	74,811	97,427

* The related company is 福州宏宇包裝工業有限公司 (Fuzhou Hongyu Packing Co., Limited) ("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 balance is unsecured, interest-free and repayable on demand.

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

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

	30 June 2015	31 December 2014
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Age		
0 to 30 days	**19,660**	44,532
31 to 60 days	**36,409**	17,523
	56,069	62,055

13. SECURED BANK LOANS

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

	30 June 2015	31 December 2014
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Secured bank loans	**35,000**	15,000

At 30 June 2015 and 31 December 2014, interest-bearing bank loans are due for repayment within 1 year and carried at amortised cost. The amounts due are based on the scheduled repayment date as stipulated in the respective loan agreement.

At 30 June 2015 and 31 December 2014, land use rights with a net book value of approximately RMB37,342,000 (31 December 2014: RMB37,787,000) and property, plant and equipment with a net book value of approximately RMB56,065,000 (31 December 2014: RMB nil) were pledged to a bank as collateral against the bank loans. The bank loans carry interest at fixed rates of 6.4% and 6.6% respectively (31 December 2014: 6.9%) per annum and are repayable within 1 year. The security will be released upon full settlement of the loans.

14. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2014, 31 December 2014, 1 January 2015 and 30 June 2015	**3,200,000,000**	**32,000**
Issued and fully paid:		
At 1 January 2014, 31 December 2014, 1 January 2015 and 30 June 2015	**1,709,772,500**	**17,098**

	30 June 2015	31 December 2014
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Shown in the condensed consolidated statement of financial position as at 30 June 2015 and 31 December 2014	**17,098**	17,098

15. CAPITAL COMMITMENTS

	30 June 2015	31 December 2014
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
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
	8,100	11,600

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Looking back at the first half of 2015, the slowdown in growth in 2014 continued in the Chinese pharmaceutical industry. On one hand, some provincial level biddings increased the pressure for reduction in price. On the other hand, the costs of raw materials, packaging materials and labor remained high. Pharmaceutical enterprises encountered tough challenges. The Group maintained and reinforced its existing strategy for drug business and market in the first half of 2015, strengthened the strategy of lower profit margin but higher turnover and focused on the penetration of rural market. The new factory located in Fujian Haixi Industrial and Trading Development Zone was still in the adaptation period. It is expected to realize its planned capacity in two to three years.

As disclosed in the positive profit alert announcement dated 24 June 2015 by the Company, the Company completed the disposal of land use rights and property, plant and equipment held by Fuzhou Sanai Pharmaceutical Co., Ltd. ("Fuzhou Sanai"), a wholly-owned subsidiary of the Company, in the first half of the year. The net gain on disposal after review was approximately RMB35.0 million.

For the six months ended 30 June 2015, the turnover of the Group increased by approximately 5.0% to approximately RMB244.6 million (30 June 2014: approximately RMB232.9 million), compared with the same period last year. It is mainly due to the relatively good performance of the sales of low price drugs. The overall gross profit was approximately RMB63.8 million, representing an increase of approximately 26.1% compared to same period last year. The gross profit margin was approximately 26.1%. The major reasons for the increase in gross profit are a one-off impairment of approximately RMB44.8 million of property, plant and equipment in the second half of the previous year and the disposal of some land use rights and property, plant and equipment, which reduced the net non-current assets such as property, plant and equipment and depreciation expenses in the cost of sales for the period decreased substantially by approximately RMB10.8 million.

During the period under review, the Group recorded a profit of approximately RMB35.1 million (30 June 2014: loss of approximately RMB3.1 million), benefiting from the net gain from disposal of land use rights and property, plant and equipment.

Development of Major Products

Perilla Oil Capsule

Perilla Oil Capsule is one of the key products of the Group. It is effective in lowering cholesterol, reducing low-density lipoprotein and increasing high-density lipoprotein. It has clear effect for hyperlipidemia and has mild side effect. For the six months ended 30 June 2015, the turnover amounted to approximately RMB20.3 million, accounting for 8.3% of the Group's turnover and representing a slight drop of approximately 3.8% compared to the same period last year. The sales remained stable (30 June 2014: approximately RMB21.1 million, accounting for 9.1% of the Group's total turnover). Since 2009 it has been listed in provincial medical insurance directories, with Fujian's being the first.

Perilla Oil Capsule was gradually listed in the medical insurance directory of Shanxi, Inner Mongolia and Xinjiang. The Group will continue 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.

500ml Compound Amino Acid Injectible

The turnover amounted to approximately RMB13.0 million, representing an increase of approximately 25.0% compared to the same period last year and accounting for 5.3% of the total sales revenue of the Group (30 June 2014: approximately RMB10.4 million, accounting for approximately 4.5% of total turnover).

N(2)-L Alanyl-L Glutamine Injectible

In the first half of 2015, the turnover of N(2)-L Alanyl-L Glutamine Injectible amounted to approximately RMB14.9 million, representing a decrease of approximately 55.0% compared to the same period last year and accounting for approximately 6.1% of the total revenue of the Group (30 June 2014: approximately RMB33.1 million, accounting for approximately 14.2% of the total revenue). Due to very keen market competition, the share of turnover of this product has decreased.

2ml Compound Chinese Angelica Injectible

Among the key products of the Group, 2ml Compound Chinese Angelica Injectible had a better growth in the first half of the year. Its turnover amounted to approximately RMB11.1 million, representing a significant increase of approximately 226.5% compared to the same period last year and accounting for approximately 4.5% of the Group's total revenue. The growth is mainly attributable to the upward adjustment of the price by approximately 19.5% in the first half of 2015 (30 June 2014: approximately RMB3.4 million, accounting for approximately 1.5% of total revenue).

2ml Chaihu Zhusheye

Chaihu Zhusheye was introduced to the market in the second half of 2013. Its sales has been rising steadily. In the first half of the year, the Group was dedicated in raising its production volume to capitalise on the growth in sales in order to raise the total revenue. In the first half of 2015, its sales revenue reached RMB8.0 million, representing a significant increase of approximately 95.1% compared to the same period last year and accounting for 3.3% of the total revenue (30 June 2014: approximately RMB4.1 million, accounting for approximately 1.8% of the total revenue).

Other products

Another product of the Group, Xiangdan Injectible, is used for treating cardiovascular and cerebrovascular diseases. Its price is competitive among similar drugs, causing its rural coverage to rise rapidly. The product 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 period, turnover of 10-ml Xiangdan Injectible was approximately RMB11.0 million, accounting for approximately 4.5% of the total turnover. The share has a notable increase due to the increase in its rural coverage (30 June 2014: approximately RMB5.7 million, accounting for approximately 2.4% of the total turnover).

Development of new medicines

In the first half of 2015, the Company controlled Research and Development ("R&D") expenditure for new drugs cautiously and promoted the R&D of new drugs steadily according to the market conditions and industry environment. The research of new medical treatment results of Perilla Oil Capsule, clinical study of fatty liver and anti-hepatitis compound drug liver & gall bladder tablets continued to progress steadily according to the set timetable. Currently, there are many new drug projects awaiting approval in China and the approval progress is slow. The prospect of R&D of the entire industry is uncertain. Following the development direction of the industry, the Company will suspend new investment in R&D until the prospect of approval becomes clear. It will also pay close attention to the approval status and make further decision on investment upon new circumstances arise.

Another new product of the Company, Pazufloxacin Mesilate Injectible, was still undergoing approval procedures during the period under review.

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 RMB6.2 million during the period, accounting for approximately 2.5% of the Group's total turnover (30 June 2014: approximately RMB6.1 million, 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 and provinces of the eastern region and the northeastern region of China. As at 30 June 2015, the number of distributors for the Group amounted to 57, with 2 less distributors compared with 2014. The Group will continue to aggressively explore the rural market with potential in demand. In the first half of the year, sales from the market in rural areas amounted to approximately 14.0% of our total turnover, or approximately RMB34.3 million (30 June 2014: approximately RMB22.4 million, accounting for approximately 9.6% of the Group's total turnover), representing a significant increase of approximately 53.1% compared to the same period in 2014. It was mainly because the production output of ordinary medicines of the new plant zone increased, and the Group could better penetrate the rural market with medical insurance. In the future, it will strive for exploring the rural market, raising the sales volume of ordinary medicines.

In the first half of 2015, the Group further reduced its investment in advertising resources substantially. Advertising expenditure was reduced to approximately RMB9.3 million (30 June 2014: approximately RMB20.8 million) and invested 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.

Outlook and Future Development

As the economy and health awareness develop together with a continuously aging population, the medical care market in China will continue to expand. Since 2015, the central government has actively promoted medical reform. Policies related to promoting civilian organized medical institution, reinforcing basic drug system and regulating drug circulation were introduced frequently. Of which, Opinions on Improving the Secured Supply of Frequently Used Low Price Drugs proposed that improving the price management approach of low price drugs would motivate enterprises to produce low price drugs and improve the quality of drugs at the same time. Under favorable influence of the drive of demand and the benefits from policies, the demand for pharmaceutical products will continue to increase.

On the other hand, entry barrier of the industry is constantly set higher with increasingly stringent regulations, which will accelerate the integration of the pharmaceutical industry. Pharmaceutical enterprises with comprehensive operational strength will have more opportunities. With excellent marketing capability and quality product resources, the Group will benefit from the integration of the industry. And by implementing a prudent development strategy, it will also continue to expand the rural and urban markets and grasp the opportunities in grass-roots level of medical services, such as new rural co-operative medical service.

Fully utilize capital reserve. Acquire quality pharmaceutical projects

In response to measures to adjust urban planning and industrial development by the Chinese authorities, the Group disposed land and property owned by Fuzhou Sanai in the first half of 2015. The disposal contributed a net gain of approximately RMB35.0 million to the Group, which further increased the capital reserve of the Group. Meanwhile, the Group is considering to utilize its abundant capital reserve and actively identify quality pharmaceutical projects for acquisition to improve the profitability of the Group and increase profit, which will facilitate the long-term development of the Group.

Utilize advantage in policy. Continue to enhance operation of new plant

The Group's new factory in Fujian Haixi Industrial and Trading Development Zone (the "New Factory") began production in February 2014, and smoothly entered the adaptation period to produce under the new Good Manufacturing Practice ("GMP") certification. Since enterprises failing to meet new GMP requirements will be suspended, the New Factory with new GMP certification will be the foundation for maintaining the leading position in the industry. In addition, the New Factory is expected to take-over the previous production capacity of Fuzhou Sanai in September 2015. The Group will equip the New Factory with more comprehensive facilities to improve production efficiency so as to reach full capacity as soon as possible, realizing the advantage of the New Factory under new conditions.

According to the Implementation Plan for the New Round of Centralized Procurement of Drugs for Medical Institutions in Fujian Province (2015 Amendment, Draft for Consultation) issued by the Drug Bidding Group of Fujian Province on 20 July 2015, it is required that, among other things, the designated production and procurement of common foundation infusion will be conducted pursuant to the Implementation Plan of "Standard Pricing, Designated Production, Online Procurement and Direct Settlement" of Foundation Infusion for Medical Institutions in Fujian Province.

Currently, only three pharmaceutical companies in Fujian Province have the production capability for glass bottle, plastic bottle and soft bag, one of which is Fuzhou Sanai Pharmaceutical Co., Ltd., a wholly-owned subsidiary of the Group. The Group plans to actively lobby for this policy, taking advantage of edges in policy and capacity to accelerate the production and sales of common foundation infusion products.

Penetrate rural market. Enhance supply at health clinics

As the medical insurance system covering the entire population which includes new rural co-operative medical service is established and the levels of protection and reimbursement continue to rise, potential demand for medical care which includes rural residents will be further released. The Group will take the advantage of this opportunity to follow the latest conditions of the national medical reform and new rural co-operatives closely and enhance the supply at health clinics and the penetration of county-level pharmaceutical companies into the urban and rural markets.

In conclusion, opportunities and challenges co-exist in the Chinese pharmaceutical industry. The Group will consider the situations and promote existing products and strive for the listing of new products in the medical insurance directory in accordance with market needs. Meanwhile, it will raise its profit through strict internal control and highly efficient management in order to create better returns for partners of the Group and shareholders of the Company.

FINANCIAL REVIEW

1. Revenue ("Turnover")

During the period under review, the Group adopted the sales strategies of "small profit, quick return" and focusing on rural markets in order to keep consolidating the development of existing medicine business and markets. The Group recorded an overall turnover of approximately RMB244.6 million (30 June 2014: approximately RMB232.9 million), representing a slight increase of approximately 5.0% 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 RMB123.5 million, or approximately 50.5% of the overall turnover, representing a slight decrease of approximately 1.8% over the same period of last year (30 June 2014: approximately RMB125.8 million, representing approximately 54.0% of the overall turnover). Turnover of the Modern Chinese medicines amounted to approximately RMB114.9 million, representing approximately 47.0% of the overall turnover, representing an increase of approximately 13.8% over the same period of last year (30 June 2014: approximately RMB101.0 million, representing approximately 43.4% of the overall turnover). The difference in proportion of the turnover of Western medicines and Modern Chinese medicines further decreased as compared with same period of last year. The pharmaceutical trading revenue recorded a turnover of approximately RMB6.2 million, representing approximately 2.5% of overall turnover (30 June 2014 approximately RMB6.1 million, representing approximately 2.6% of the overall turnover), representing a slight increase of approximately 1.6% over the same period of the previous year.

Although our key product, Perilla Oil Capsule, has obtained approval from authorities in Fujian, Shanxi, Inner Mongolia and Xinjiang for listing in the medical insurance directories and it is still in the monitoring period, it is yet to be listed in the national medical insurance directory and hence, its sales was affected to some extent. During the period under review, the sales of this product amounted to approximately RMB20.3 million, representing approximately 8.3% of the overall turnover, a slight decrease of approximately 3.8% over the same period of last year (30 June 2014: approximately RMB21.1 million, representing approximately 9.1% of the overall turnover). The percentage is slightly below 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 RMB14.9 million, representing approximately 6.1% of the overall turnover (30 June 2014: approximately RMB33.1 million, representing approximately 14.2% of the overall turnover). Due to fierce market competition, the proportion of this product in the overall turnover of the Group decreased by 55.0% as compared with the same period of last year. Turnover of the five top selling medicines amounted to approximately RMB74.7 million, representing approximately 30.5% of the overall turnover (30 June 2014: approximately RMB91.6 million, representing approximately 39.3% of the overall turnover).

2. Gross Profit and Gross Profit Margin

During the period under review, gross profit of the Group increased to approximately RMB63.8 million, representing an increase of approximately 26.1% over the same period of last year (30 June 2014: approximately RMB50.6 million). Gross profit margin increased substantially by approximately 4.4 percentage points to approximately 26.1% (30 June 2014: approximately 21.7%). The main reasons for the increase were in two aspects as follows:

1) Substantial decrease in depreciation expenses in cost of sales: During the period under review, the disposal of parts of the land use rights and property, plant and equipment by the Group and the one-off impairment of approximately RMB44.8 million contributed to a decrease in the net non-current assets such as property, plant and equipment. Hence, a substantial decrease of approximately RMB10.8 million was recorded in the depreciation expenses in cost of sales during the period; and

2) Turnover: The price of some drugs, such as 2ml Compound Chinese Angelica Injectible, can be raised, improving the overall gross profit rate.

Besides depreciation expenses, the proportion of other cost 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. Profit for the Period

During the period under review, benefiting from improvement in gross profit and a net gain from disposal of parts of the Group's land use rights and property, plant and equipment of approximately RMB35.0 million, the Group recorded a profit of approximately RMB35.1 million (30 June 2014: loss of approximately RMB 3.1 million), representing an increase of approximately 1,232.3% compared to the same period of 2014.

The distribution costs decreased by approximately 32.2%, or by approximately RMB22.1 million (30 June 2014: approximately RMB32.6 million). During the period under review, the relevant advertising and marketing expenses of our three wholly-owned subsidiaries in the PRC totalled approximately RMB9.3 million, representing a decrease of approximately 55.3% (30 June 2014: approximately RMB20.8 million). Since last year, the Group further reduced its investment in advertising resources substantially and invested it 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.

During the period under review, administrative and other operating expenses amounted to approximately RMB23.4 million (30 June 2014: approximately RMB21.1 million), representing an increase of approximately 10.9% compared to the same period of last year.

Finally, tax expenses of the Group were approximately RMB18.7 million (30 June 2014: approximately RMB298,000) in total and the effective tax rate was approximately 34.8% (30 June 2014: approximately (10.6)%). 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 expense amounted to approximately RMB0.7 million (30 June 2014: deferred tax credit of approximately RMB2.3 million).

4. Liquidity, Financial Resources and Capital Structure

As at 30 June 2015, the Group had cash and cash equivalents of approximately RMB551.7 million (31 December 2014: approximately RMB480.5 million). As at 30 June 2015, the Group's secured bank loans which are secured by property, plant and equipment and land use rights, amounted to approximately RMB35.0 million (31 December 2014: approximately RMB15.0 million). The loans were denominated in Renminbi, carried interest at fixed rates of 6.4% and 6.6% respectively (31 December 2014: 6.9%) 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 RMB28.9 million (for the period ended 30 June 2014: approximately RMB11.7 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 loans of the Group divided by total equity of the Group. The debt-to-equity ratio of the Group was approximately 7.4% as at 30 June 2015 (31 December 2014: approximately 7.7%).

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 2015, 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 except for disposal of land use rights and property, plant and equipment from one of the wholly-owned subsidiaries to an independent third party with an aggregate consideration and net gain on disposal of approximately RMB76.0 million and RMB35.0 million respectively. Further details of the disposal were disclosed in the announcement of the Company dated 2 February 2015.

7. The Number and Remuneration of Employees

As at 30 June 2015, the Group employed approximately 442 employees (31 December 2014: 445 employees) with staff cost of approximately RMB21.9 million (30 June 2014: approximately RMB20.1 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 30 June 2015, the Group charges on Group assets including land use rights and property, plant and equipment amounted to approximately RMB93.4 million (31 December 2014: RMB37.8 million) in favour of secured bank loans of RMB35.0 million (31 December 2014: 15.0 million).

9. Contingent Liabilities

As at 30 June 2015, the Group did not have any contingent liabilities (31 December 2014: Nil).

10. Capital Expenditure

During the period under review, capital expenditure of the Group for property, plant and equipment for the construction and development of existing factory located at Fujian Province for its own use in ordinary and usual course of business amounted to approximately RMB50.4 million (30 June 2014: approximately RMB530,000).

11. Capital Commitments

As at 30 June 2015, the Group had capital expenditure contracted but not provided for in the financial statements amounted to approximately RMB8.1 million (31 December 2014: approximately RMB11.6 million).

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2015 (30 June 2014: Nil). 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 2015, they have fully complied with the required standards as set out in the Model Code.

At no time during the first six months of 2015 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 2014 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 2015, 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 the listed securities of the Company during the six months ended 30 June 2015.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE CODE

The Company is committed to achieving a high standard of corporate governance practice, such that the interests of the Company's 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") during the six months ended 30 June 2015 as contained in Appendix 14 of the Listing Rules ensuring that the Company is up to the requirements as being diligent, accountable and professional.

In the opinion of the Board, the Company has complied with the Code during the six months ended 30 June 2015 except for deviation from provision A.2.1 of the 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 that the Company has achieved balance of and provided sufficient protection to its interests.

AUDIT COMMITTEE

The audit committee comprises 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 2015, a meeting of the audit committee was held and the unaudited interim results for the six months ended 30 June 2015 were reviewed at such meeting.

REMUNERATION COMMITTEE

The remuneration committee comprises three independent non-executive Directors and one executive director, 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 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 2015 in conjunction with the Company's external 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 2015 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, 31 August 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, 3 non-executive Directors, namely Mr. Tang Bin, Mr. John Yang Wang and Mr. Wen Cyrus Jun-ming, and 3 independent non-executive Directors, namely Mr. Liu Jun, Mr. Lam Yat Cheong and Mr. Du Jian.