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 2017

The board (the "Board") of directors (the "Directors") of Wuyi International Pharmaceutical Company Limited ("Wuyi Pharmaceutical" or the "Company") hereby presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to the "Group") for the six-month period ended 30 June 2017, together with the comparative figures for the corresponding period in 2016.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-month period ended 30 June 2017

		Six months ended 30 June	
	Notes	**2017** ***RMB'000*** **(Unaudited)**	2016 *RMB'000* (Unaudited)
Revenue	*4*	**38,000**	171,496
Cost of sales		**(63,233)**	(145,626)
Gross (loss)/profit		**(25,233)**	25,870
Other revenue and net (loss)/income		**(2,399)**	1,092
Distribution costs		**(2,776)**	(9,146)
Administrative expenses		**(13,192)**	(25,424)
Finance costs	*5(a)*	**(3,073)**	(899)
Impairment loss on land use rights		**(14,213)**	(12,786)
Impairment loss on property, plant and equipment		**(348,787)**	(186,454)
Impairment loss on goodwill		**(83,670)**	–
Written off of property, plant and equipment		**(69)**	–
Share of results of an associate		**–**	–
Loss before tax	*5*	**(493,412)**	(207,747)
Income tax	*6*	**(85)**	48,643
Loss for the period attributable to owners of the Company		**(493,497)**	(159,104)
Other comprehensive loss for the period			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(252)**	–
Total comprehensive loss for the period attributable to owners of the Company		**(493,749)**	(159,104)
Loss per share			
– Basic and diluted	*8*	**RMB(21.7) cents**	RMB(8.5) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		**525,906**	750,373
Land use rights		**21,430**	36,137
Goodwill		**23,385**	107,055
Other intangible assets		**3,519**	3,918
Deferred tax assets		**169,736**	169,736
Finance lease receivables		**45,512**	–
Interests in an associate		**4,795**	4,795
		794,283	1,072,014
Current assets			
Inventories		**15,132**	14,133
Trade and other receivables	9	**122,613**	112,280
Tax recoverable		**336**	336
Finance lease receivables		**21,815**	–
Financial assets at fair value through profit or loss		**–**	41,977
Cash and cash equivalents		**89,758**	147,547
		249,654	316,273
Current liabilities			
Trade and other payables	10	**14,681**	49,546
Secured bank loans	11	**240,100**	85,600
Current taxation		**1,073**	988
		255,854	136,134
Non-current liabilities			
Deposit received		**6,950**	–
Deferred tax liabilities		**13,736**	13,736
		20,686	13,736
Net assets		**767,397**	1,238,417
Equity			
Share capital	12	**22,473**	21,762
Reserves		**744,924**	1,216,655
Total equity attributable to owners of the Company		**767,397**	1,238,417

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six-month period ended 30 June 2017

1. GENERAL INFORMATION AND BASIS OF PREPARATION

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 Grand Pavilion, Hibiscus Way, 802 West Bay Road, P.O. Box 31119, KY1-1205, Cayman Islands and Unit 1309, 13/F., West Tower, Shun Tak Centre, Sheung Wan, Hong Kong respectively. The principal activities of its principal subsidiaries are the development, manufacturing, marketing and sales of pharmaceutical products, sales of pharmaceutical related software, provision of consultancy services, trading of electronic components and provision of finance leasing services.

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.

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with the applicable disclosure provision of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and in compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting".

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the changes in accounting policies that are expected to be reflected in the 2017 annual financial statements. Details of these changes in accounting policies are set out in note 2 below.

The interim condensed consolidated financial statements are unaudited, do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

2. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2014-2016 Cycle*

None of these amendments 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 manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Board (the chief operating decision maker) for the purposes of resources allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

(a) Pharmaceutical products: development, manufacturing, marketing and sales of pharmaceutical products, sales of pharmaceutical related software and provision of consultancy services;

(b) Finance leasing: provision of finance leasing services; and

(c) Other general trading: trading of goods other than pharmaceutical products.

As an effort to diversify the business of the Group, the Group has commenced the business of finance leasing and other general trading during the six months ended 30 June 2017 and thus the results of these two new segments are included in the segment reporting.

Information regarding the Group's reportable segments as provided to the Board for the purposes of resources allocation and assessment of segment performance for the six months ended 30 June 2017 and 2016 is set out below:

	Six months ended 30 June 2017 (unaudited)			
	Pharmaceutical products	**Finance leasing**	**Other general trading**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Reportable segment revenue from external customers	**19,123**	**1,125**	**17,752**	**38,000**
Reportable segment profit/(loss)	**(487,680)**	**412**	**844**	**(486,424)**

	Six months ended 30 June 2016 (unaudited) (re-presented)			
	Pharmaceutical products	Finance leasing	Other general trading	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment revenue from external customers	171,496	N/A	N/A	171,496
Reportable segment loss	(204,347)	N/A	N/A	(204,347)

There are no inter-segment sales for the six-month period ended 30 June 2017.

The measure used for reporting segment profit/(loss) is earnings and loss of each segment without allocation of other income, central administration costs and other operating expenses.

The following table presents segment assets and segment liabilities of the Group's operating segments as at 30 June 2017 and 31 December 2016:

	At 30 June 2017 (unaudited)			
	Pharmaceutical products *RMB'000*	**Finance leasing** *RMB'000*	**Other general trading** *RMB'000*	**Total** *RMB'000*
Reportable segment assets	**942,322**	**79,616**	**19,320**	**1,041,258**
Reportable segment liabilities	**268,128**	**7,152**	**–**	**275,280**

	At 31 December 2016 (audited) (re-presented)			
	Pharmaceutical products *RMB'000*	Finance leasing *RMB'000*	Other general trading *RMB'000*	Total *RMB'000*
Reportable segment assets	1,306,318	N/A	N/A	1,306,318
Reportable segment liabilities	147,179	N/A	N/A	147,179

4. REVENUE

The principal activities of the Group are the development, manufacturing, marketing and sales of pharmaceutical products, sales of pharmaceutical related software, provision of consultancy services, trading of electronic components and provision of finance leasing services.

The amount of each significant category of revenue is as follows:

	Six months ended 30 June	
	2017 *RMB'000* **(Unaudited)**	2016 *RMB'000* (Unaudited)
Sales of pharmaceutical products	**15,159**	171,496
Trading of electronic components	**17,752**	–
Provision of consultancy services	**3,964**	–
Finance leasing interest income	**1,125**	–
	38,000	171,496

5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
a) Finance costs		
Interest on bank borrowing	**3,073**	899
b) Staff costs		
Directors' and chief executive officer's emoluments	**788**	1,574
Other staff costs		
– Contributions to defined contribution retirement benefits scheme	**1,074**	2,064
– Salaries, wages and other benefits	**5,272**	14,050
Total staff costs *#	**7,134**	17,688
c) Other items		
Depreciation of property, plant and equipment *#	**38,616**	38,182
Amortisation of land use rights	**494**	637
Amortisation of other intangible assets	**399**	–
Exchange loss/(gain), net	**743**	(12)
Impairment loss on property, plant and equipment	**348,787**	186,454
Impairment loss on land use rights	**14,213**	12,786
Impairment loss on goodwill	**83,670**	–
Operating lease payments in respect of rented premises	**746**	505
Research and development costs*	**1,097**	2,408
Cost of inventories#	**62,940**	145,626
Bank interest income	**(179)**	(1,053)
Written off of property, plant and equipment	**69**	–
Loss on disposal of financial asset at fair value through profit or loss	**2,157**	–

Cost of inventories includes RMB36,694,000 (six-month period ended 30 June 2016: RMB35,678,000) relating to staff costs and depreciation, the amount of which is also included in the respective total amounts disclosed separately above.

* Research and development costs includes RMB1,049,000 (six-month period ended 30 June 2016: RMB2,338,000) relating to staff costs and depreciation, the amount of which is also included in the respective total amounts disclosed separately above.

6. INCOME TAX

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
– PRC Enterprise Income Tax ("PRC EIT")	**85**	1,159
– Hong Kong Profits Tax	**–**	–
Deferred taxation	**–**	(49,802)
	85	(48,643)

a) In accordance with the relevant laws and regulations in the PRC, one of the PRC subsidiaries of the Group, Fujian Liumai Medical Services Co., Ltd. ("Fujian Liumai") is exempted from PRC EIT for two years ended 31 December 2016 and 2017, followed by a 50% reduction for the next three years ended 31 December 2018 to 31 December 2020.

Also, another subsidiary, Union Development Financial Leasing (Shenzhen) Company Limited, met the criteria to apply for preferential income tax rate granted to small-sized and low profit-making enterprises in the PRC. The taxable income amount shall be computed based on 50% of its income and subject to EIT based on 20% tax rate for the three years ended 31 December 2017 to 2019.

For other PRC subsidiaries of the Group, PRC EIT is calculated at 25% (2016: 25%) in accordance with the relevant laws and regulations in the PRC.

b) The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% of estimated assessable profits for the period.

7. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six-month period ended 30 June 2017 (six-month period ended 30 June 2016: Nil).

8. 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 RMB493,497,000 (six-month period ended 30 June 2016: RMB159,104,000) and the weighted average of 2,273,534,931 ordinary shares (six-month period ended 30 June 2016: 1,880,772,500 ordinary shares) in issue during the period.

b) Diluted loss per share

For the six-month period ended 30 June 2017, no adjustment has been made to the basis loss per share amount presented as the impact of the share options had an anti-dilutive effect on the basic loss per share amount presented. Therefore, the calculation of diluted loss per share is based on the loss attributable to owners of the Company of RMB493,497,000 and the weighted average number of 2,273,534,931 ordinary shares in issue during the period.

For the six-month period ended 30 June 2016, diluted loss per share equals basic loss per share as there is no dilutive potential ordinary shares outstanding.

9. TRADE AND OTHER RECEIVABLES

The Group normally grants credit terms of 60-90 days (31 December 2016: 60 days) to its customers. Included in trade and other receivables are trade receivables of RMB20,424,000 (31 December 2016: RMB3,414,000) and their ageing analysis at the end of reporting period, presented based on the invoice date is as follows:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 to 30 days	**10,837**	1,648
31 to 60 days	**2,792**	1,766
61 to 90 days	**4,878**	–
Over 90 days	**1,917**	–
	20,424	3,414

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.

As at the end of the reporting period, the ageing analysis of bills receivables based on the bills issued date is as follows:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 - 30 days	**14**	–

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of RMB1,592,000 (31 December 2016: RMB22,000) and their ageing analysis of trade payables presented based on the invoice date is as follows:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 to 30 days	**485**	22
31 to 60 days	**379**	–
61 to 90 days	**309**	–
Over 90 days	**419**	–
	1,592	22

11. SECURED BANK LOANS

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

	30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000* (Audited)
Secured bank loans	**240,100**	85,600

At 30 June 2017 and 31 December 2016, interest-bearing bank loans are 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 agreements.

12. SHARE CAPITAL

	30 June 2017		31 December 2016	
	No. of shares ***('000)***	***HK$000***	No. of shares *('000)*	*HK$000*
Authorised:				
Ordinary shares of HK$0.01 each				
At the beginning of the period/year	**3,200,000**	**32,000**	3,200,000	32,000
Increase in authorised share capital	**6,800,000**	**68,000**	–	–
At end of the period/year	**10,000,000**	**100,000**	3,200,000	32,000
Issued and fully paid:				
Ordinary shares of HK$0.01 each				
At the beginning of the period/year	**2,256,773**	**22,568**	1,880,773	18,808
Shares issued under placement	**–**	**–**	376,000	3,760
Shares issued upon exercise of share option	**82,000**	**820**	–	–
At end of the period/year	**2,338,773**	**23,388**	2,256,773	22,568

	30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000* (Audited)
Shown in the condensed consolidated statement of financial position	**22,473**	21,762

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 shares rank equally with regard to the Company's residual assets.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Looking back at the first half of 2017, the implementation of a series of policies in the pharmaceutical industry by the Chinese government demonstrated its unswerving determination to promote the medical and healthcare reform, which mainly focused on controlling the expense of medical insurance, improving the utilization efficiency of the medical insurance fund, and reducing the public's burden on medical expenses. The implementation of policies such as the "Two-Invoice System", "Quality Consistency Evaluation of Generic Drugs", and zero-price difference for sale of drugs between hospitals and pharmacies has made a major difference to the industry landscape. At the same time, the requirements for environmental protection were increased in China, resulting in a decrease of suppliers, a surge in cost of raw materials and even depletion of individual raw material, which in turn put significant pressure on the sales of drugs and profits of the Group.

In such an unfavorable environment, the Group's sales performance in the first half of 2017 was also adversely affected by internal factors. At the beginning of the reporting period, the operations of the production plant in the Haixi Industrial and Trading Development Zone were still temporarily suspended as a result of a rupture of the underground steam pipelines in November last year. Although the repair work was completed at the end of February this year, the supply of Perilla Oil Capsule, a key product of the Group, had been in short supply for a long time and thus the sales decreased significantly. In addition, with the implementation of the "Two-Invoice System", the distribution mode of pharmaceutical products changed dramatically and the Group needed to reintegrate its sales network, which expanded the sales gap. Due to the prolonged application period of GMP certification, part of the production lines and workshops newly established by the Group obtained new GMP certifications only in July, which also contributed to the pressure on the performance of the Group.

The speed of decision making and the progress of business operations of the Group were also affected to a certain degree by the change and replacement of management personnel of the Group.

For the six months ended 30 June 2017, the turnover of the Group recorded a year-on-year decrease of 77.8% to approximately RMB38.0 million. The Group recorded an overall gross loss, and the gross profit margin decreased by 81.5 points from 15.1% for the corresponding period of last year, and turned to a gross loss margin of 66.4%. The loss attributable to the owners of the Group amounted to RMB493.4 million.

Data of major business segments:

Pharmaceutical products: For the six months ended 30 June 2017, turnover amounted to approximately RMB19.1 million.

Finance leasing business: The Group commenced its finance leasing business in China in March this year. For the six months ended 30 June 2017, turnover amounted to approximately RMB1.1 million.

Other general trading: The Group commenced general trading in April this year. For the six months ended 30 June 2017, turnover amounted to approximately RMB17.752 million.

SALES NETWORK AND MARKETING

With the implementation of the "Two-Invoice System" in various provinces and cities, a large number of drug agents were eliminated and the business mode of two pharmaceutical factories of the Group located in Fujian Province has gradually changed from, originally, distribution by its distributors to the management of the business channels by the Group itself. The Group actively participated in the procurement and tendering of pharmaceutical products in communities with its ordinary medicines, engaged specialized distributors with wide network coverage to deliver medicines and organized professional medical seminars to expand the base of end users of our products. With the commencement of the construction of the Group's own network, the Group will no longer be subject to the channels of intermediate suppliers but can directly contact pharmaceutical factories and medical institutions to timely obtain market information and conveniently promote the sales of new drugs. Given that the transition period is lengthy, new specialized operation team needs to be built and new partners have to be secured nationwide, it is expected that the sales performance of the Group will experience a long period of down time.

OUTLOOK

The management of the Company believes that 2017 is the year for the Group to actively seek the transformation while the pharmaceutical industry is in a restructuring period. After the restructuring, the concentration of the industry will be heightened, which brings both challenges and opportunities to the Group. The Group, as a whole, will continuously consolidate its existing pharmaceutical business, make structural adjustment to its product lines to focus its manpower and resources on key products, and abandon drugs with insufficient efficacy. At the same time, the Group will step into the healthcare industry with great potential, explore new business opportunities, and well prepare for its long-term development.

Modernization of Chinese medicine

China has the most abundant resources of traditional Chinese medicine in the world. The promulgation of "The Law on Traditional Chinese Medicine" expressly demonstrates China's new height of emphasis on Chinese medicine. Traditional Chinese medicine has many unique features compared with modern medicine. For example, Chinese medicine is mainly used as the biological information modifier. Its discovery path is also totally different from the research and development model of modern medicine, which proceeds from molecular design to tests on small animals and finally, human tests. Chinese medicine itself is based on the accumulation of clinical practices in human beings. It pays more attention to the individual characteristics and the overall regulation of patients, and administering drugs to patients on a case-by-case basis is the basic principle of traditional Chinese medicine. The water-soluble active ingredients of Chinese medicine, with decoction as main dosage form, provide a new thought and approach to the research and development of drugs. However, since the active ingredients of Chinese herbal medicines, mechanism of action and side effects are uncertain, the quality of Chinese medicine is difficult to control due to its raw materials. Therefore, exploring the effective ingredients of Chinese herbal medicines and defining their mechanism of action by modern scientific and technological means will make a difference. Artemisinin found by Tu Yoyo, a Nobel Prize winner, is also extracted from the Chinese herbal medicine, which is another important contribution of Chinese medicine to mankind. The Group will jointly research and develop innovative modern Chinese medicine with scientific research institutions and clinical institutions in order to provide safe and reliable traditional Chinese medicine for the people.

Layout of precision medicine

Since the implementation of the national "13th Five Years Plan", precision medicine has been an important development direction for the medical and healthcare industry, and for the scientific and technological innovation and advancement. The relevant policies have been introduced to accelerate the development of precision medicine. Precision medicine is characterized by individualized medical treatment. With the rapid development of gene sequencing, gene editing, functional medical detection, wearable medical testing equipment, big data analysis, cellular immunotherapy and other technologies, doctors can easily design personalized health care and treatment plan for patients based on their individual body condition, state of illness, living habit and life style. At present, the most prominent application of precision medicine is the combined application of gene detection, targeted drugs and immunotherapy on some particular cancer patients, and the cure rate of precision medicine is several times higher than that of traditional treatment, which is a new era of the medical industry.

Especially in the field of immunotherapy, the marketing of CAR-T products of Novartis was approved by the US FDA this year, which means that the efficacy of cellular immunotherapy has won official recognition, and more companies will change from the wait-and-see attitude to devoting themselves to the research of immunotherapy. We believe that in the near future, people will no longer need to take too much medicine, take stopgap measures when getting ill, and will have more treatment options for cancers other than chemotherapy and radiotherapy treatment. More medical resources will be put into improving the human immune system and long-term health management. The Group will look for opportunities for mergers and acquisitions in the field of immunotherapy and biotechnology, and will actively enter the field as a major growth point for the future of the Group.

Expand the source of business income

The Group will take full advantage of the international capital market to expand its business in the field of medical device by finance leasing. With the large-scale construction of primary medical institutions and private medical institutions in China, the demand for leasing medical device will indisputably increase. Therefore, the management of the Group is optimistic about the long-term development prospect of the medical device leasing, and in the future, the Group will actively use its established cooperation network with various medical institutions to seek business opportunities in the leasing of medical devices, nursing devices and bulk production equipment, to expand the source of its business income. In addition, the Group will conduct medical device leasing and service businesses for individuals through the network platform, which will strengthen the interaction between the Group and customers. Once access to the medical data of the customers is obtained and their needs are understood, the Company will be able to provide customers with personalized medical services and rehabilitation products.

The Group has established a finance leasing company in Qianhai, Shenzhen this year, which will serve as a platform to conduct the leasing business of the Group. The preliminary market survey of the leasing business has been carried out smoothly. At present, the Group has been actively optimizing the equipment portfolio and integrating resources. It is expected that the new business will bring sustainable and stable income return to the Group, and the stable cash flow will facilitate the Group to continuously explore new businesses and expand its business advantages.

Despite the increasingly fierce competition of the industry, the Group is still confident that it will be able to improve the business performance in the future based on its diversified business portfolio and following the lead of its experienced management team. On the one hand, we will continue to put our resources into strengthening sales and marketing activities of existing products. On the other hand, we will speed up the development of new business and improve the business mode.

A resolution was passed in the extraordinary general meeting of the Company held on 25 August 2017 to approve the change of the name of the Company to "Sanai Health Industry Group Company Limited". The management believes that such a change will better reflect the direction of strategic development of the Company. China's economy will continue to grow at a high rate and begin to lead the global economy. With the increase of economic income, people's investment in health will increase continuously and the healthcare industry will maintain high-speed growth. Using the pharmaceutical business as a foundation, the Group will embrace the new economy and new technologies and focus on the layout of health-related sectors with the objective of developing the Group into a comprehensive health industry group within three years. The "3A" brand of the Company has been in the pharmaceutical industry for decades, and has been deeply trusted by the public in view of its persistence on quality. The Group respectively adopts "Sanai" and "3A" as the company name and brand of the Company, and defines the core concept of the brand as "love life, love nature, love society". The Group will conduct its business based on the core concept, and spread the concept to its employees, customers, and business partners. The Group is a business organization prioritizing social values. Our supply system will do its utmost to protect the natural environment. Our mission is to integrate global resources, develop new technologies and new products to achieve the improvement of people's quality of life.

FINANCIAL REVIEW

1. Revenue ("Turnover")

During the period under review, the Group recorded an overall turnover of approximately RMB38.0 million (for the six months ended 30 June 2016: approximately RMB171.5 million), representing a decrease of approximately 77.8% over the same period of last year.

Turnover generated for the first half of the year was still dominated by that from pharmaceutical products, which was approximately RMB19.1 million and amounted to approximately 50.3% of the overall turnover, representing a decrease of approximately 88.9% over the same period of last year (for the six months ended 30 June 2016: approximately RMB171.5 million). The two new businesses of finance leasing and other general trading generated turnover of approximately RMB1.1 million and RMB17.8 million respectively, amounting to approximately 3.0% and 46.7% of the overall turnover respectively.

2. Gross Loss and Gross Loss Margin

Gross loss of the Group increased by approximately 197.5% over the same period of last year to approximately RMB25.2 million (for the six months ended 30 June 2016: gross profit of approximately RMB25.9 million). Gross loss margin significantly increased by approximately 81.5 points to approximately 66.4% (for the six months ended 30 June 2016: gross profit margin approximately 15.1%).

The increase in gross loss margin was mainly due to the decrease in turnover which resulted in a decrease in purchase costs. Among the costs of sales, the fixed costs (in particular, depreciation charges) did not decrease as the turnover did, which caused an increase in the proportion of fixed costs to the overall costs of sales, resulting in the overall gross loss margin.

Apart from the depreciation charges, the proportion of other cost of sales, including raw materials, packaging materials, energy and fuel costs, and direct labor costs, remained essentially the same, except that the related amounts decreased with the drop in sales as compared with the same period of last year.

3. Loss for the Period

Although the Group did not reduce its product prices in the first half of 2017, the suspension of production during the period led to a decrease in sales and increase in gross loss. Also, impairment on property, plant and equipment, land use rights and goodwill largely increased the Group's loss for the period under review. During the period under review, the Group recorded a loss of approximately RMB493.4 million (for the six months ended 30 June 2016: approximately RMB159.1 million).

The distribution costs decreased by approximately 69.7% to approximately RMB2.8 million (for the six months ended 30 June 2016: approximately RMB9.1 million). During the period under review, relevant advertising and marketing expenses of our three wholly-owned subsidiaries in the PRC decreased by RMB8.1 million over the last year. 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 symposiums and new medicine promotion seminars, as well as medicine fairs to introduce the advantages of various medicines.

Furthermore, during the period under review, the Board was aware that the turnover of the Group did not increase as anticipated. The Group therefore performed an impairment review of the recoverable amount related to the Group's production facilities in one of the factories located in Haixi Industrial and Trading Development Zone in Jianyang City, Fujian Province, the PRC. An impairment loss of approximately RMB363.0 million (30 June 2016: approximately RMB199.2 million) in total has been recognised. The Group also performed an impairment review of the recoverable amount related to the goodwill of a subsidiary acquired by the Group last year. An impairment loss of approximately RMB83.7 million has been recognized. Such impairment losses were mainly attributable to the non-cash accounting treatment on the impairment losses on these production facilities and goodwill, and mainly to reflect the value in use of the assets. Accordingly, such impairment losses are non-cash expenses with no impact on the Group's cash flow or business and production operations.

During the period under review, administrative expenses decreased by approximately 48.1% over the same period of last year to RMB13.2 million (for the six months ended 30 June 2016: approximately RMB25.4 million), which was mainly attributable to the decrease in depreciation charges.

Finally, tax credit of the Group was approximately RMB87.9 million in total (for the six months ended 30 June 2016: approximately RMB48.6 million). It mainly included current tax expenses for a wholly-owned subsidiary in the PRC amounting to approximately RMB0.1 million (for the six months ended 30 June 2016: approximately RMB0.1 million), as well as the deductible temporary differences arising from the impairment of property, plant and equipment and land use rights amounting to approximately RMB88.0 million (for the six months ended 30 June 2016: approximately RMB49.8 million).

4. Liquidity, Financial Resources and Capital Structure

As at 30 June 2017, the Group had cash and cash equivalents of approximately RMB89.8 million (31 December 2016: approximately RMB147.5 million) and most cash and cash equivalents were denominated in Renminbi and Hong Kong dollars. As at 30 June 2017, the Group's secured bank loans which are secured by property, plant and equipment and land use rights, amounted to approximately RMB240.1 million (31 December 2016: approximately RMB85.6 million). The loans involved were denominated in Renminbi, both carrying interest at fixed rates of 4.57% to 6.53% (31 December 2016: 4.57% and 4.79% respectively) per annum and were repayable within 1 year. The Group continued to maintain a stable financial position with low gearing ratio and healthy cash flows. During the period under review, the Group did not use any financial instruments for hedging purposes.

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 33.2% as at 30 June 2017 (31 December 2016: approximately 10.9%).

5. Exposure to Fluctuation in Exchange Rates

During the period under review, the Group conducted its business transactions principally in Renminbi and Hong Kong dollars. 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 2017, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes. Therefore, the Group was not exposed to any material interest and exchange risks.

6. **Significant Acquisitions and Disposal of Investments**

During the six months ended 30 June 2017, the Group disposed of its financial assets at fair value through profit or loss with an aggregate consideration and net loss on disposal of approximately RMB39.8 million and RMB2.2 million respectively. During the period under review, the Group had a construction in progress related to property, plant and equipment amounting to approximately RMB163 million.

7. **The Number and Remuneration of Employees**

As at 30 June 2017, the Group employed approximately 322 employees (31 December 2016: 355 employees). For the six months ended 30 June 2017, the staff cost amounted to approximately RMB7.1 million (for the six months ended 30 June 2016: approximately RMB17.7 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 a regular basis. The Group provides directors and senior management with continuous professional training, including seminars and workshops, such that the latest changes of regulatory requirements and corporate governance practices can be introduced. The Group also organises various pre-employment and on-the-job trainings to deepen the employees' understanding of its business objectives and operation.

8. **Contingent Liabilities**

As at 30 June 2017, the Group did not have any contingent liabilities (31 December 2016: Nil).

9. **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 in Fujian Province for its own use in the ordinary and usual course of business amounted to approximately RMB136.0 million (for the six months ended 30 June 2016: approximately RMB58,000).

10. **Capital Commitments**

As at 30 June 2017, the Group had contracted capital commitments outstanding but not provided for in the financial statements amounting to approximately RMB39.5 million (31 December 2016: approximately RMB30.9 million).

11. **Events after the Reporting Period**

On 31 July 2017, 82,000,000 shares options of the share option scheme, which was adopted on 8 January 2007 (the "Old Scheme"), were exercised and gross proceeds of HK$26,240,000 were received.

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: 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 made specific enquiries to all Directors and each Director confirmed that during the six months ended 30 June 2017, they had fully complied with the required standards as set out in the Model Code.

At no time during the first six months of 2017 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 spouses 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.

During the period under review, 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.

SHARE OPTION SCHEME

The Old Scheme which was adopted on 8 January 2007 expired on 31 January 2017. As at 14 October 2016, under the Old Scheme, the Company granted 164,000,000 ordinary share options at the par value of HK$0.01 to certain grantees. As at 30 June 2017, 82,000,000 share options were exercised, and the Company received HK$26,240,000 from the exercise of these options. There are 82,000,000 share options which have not been exercised. The Company passed a resolution to adopt a new share option scheme (the "New Scheme") on 16 June 2017 for the purpose of providing incentives and rewards to eligible participants for their contribution to the Company. For the six months ended 30 June 2017, no share option had been granted or exercised under the New Scheme.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company has complied with the Corporate Governance Code (the "Code") as contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2017, ensuring that the Company is up to the requirements as being diligent, accountable and professional, except for a deviation from provision A.2.1 of the Code in respect of the roles of chairman and chief executive of the Company. The Board considered that vesting the roles of chairman and chief executive 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 circumstances arise. There are three independent non-executive Directors in the Board, and all of them possess the adequate level of independence and therefore the Board considers that the Company has achieved a balance of and provided sufficient protection to its interests.

AUDIT COMMITTEE

The audit committee (the "Audit Committee") of the Company, which comprises three independent non-executive Directors, has reviewed the accounting principles and policies adopted for the unaudited interim financial statements for the six months ended 30 June 2017 and also discussed the review process, the internal control, the accounting reporting matters. On 30 August 2017, the Company convened an Audit Committee Meeting, which reviewed the unaudited interim results for the six months ended 30 June 2017.

REMUNERATION COMMITTEE

The remuneration committee of the Company comprises three independent non-executive Directors and one executive Director, and is responsible for assisting the Board to oversee the Company's remuneration packages, bonus and other compensation payable to Directors and senior management and establishing a transparent procedure for developing policy on such remuneration.

NOMINATION COMMITTEE

The nomination committee (the "Nomination Committee") of the Company comprises three independent non-executive Directors and one executive Director, and is responsible for reviewing the structure, size and composition of the Board, identifying individuals who are suitably qualified to become a member of the Board, and assessing the independence of the independent non-executive Directors. Having regard to the independence and quality of nominees, the Nomination Committee shall make recommendations to the Board so as to ensure that all nominations are fair and transparent. The Nomination Committee is also responsible for reviewing the succession plan for Directors, in particular the chairman and the chief executive.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The 2017 interim report will be despatched to shareholders as well as made available on the 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
Chen Chengqing
Chairman

Hong Kong, 30 August 2017

As at the date of this announcement, the Board comprises 2 executive Directors, namely, Mr. Chen Chengqing (Chairman) and Ms. Hung Hoi Lan, and 3 independent non-executive Directors, namely, Mr. Wang Zihao, Mr. Tu Fangkui and professor Zhang Rongqing.