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 2016

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 2016, together with the comparative figures for the corresponding period in 2015.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-month period ended 30 June 2016

	Notes	Six months ended 30 June 2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Revenue	4	**171,496**	244,602
Cost of sales		**(145,626)**	(180,808)
Gross profit		**25,870**	63,794
Other revenue and net income		**1,092**	1,714
Net gain on disposal of property, plant and equipment and land use rights		–	34,962
Distribution costs		**(9,146)**	(22,094)
Administrative expenses		**(25,424)**	(23,435)
Finance costs	5(a)	**(899)**	(1,105)
Impairment loss on land use rights		**(12,786)**	–
Impairment loss on property, plant and equipment		**(186,454)**	–
(Loss)/profit before tax	5	**(207,747)**	53,836
Income tax	6	**48,643**	(18,718)
(Loss)/profit for the period attributable to owners of the Company		**(159,104)**	35,118
Other comprehensive income for the period		–	–
Total comprehensive (loss)/income for the period attributable to owners of the Company		**(159,104)**	35,118
(Loss)/earnings per share – Basic and diluted	8	**RMB(8.5) cents**	RMB2.1 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	**30 June 2016 RMB'000 (Unaudited)**	31 December 2015 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		**571,953**	796,531
Land use rights		**39,209**	52,632
Intangible assets		**–**	–
Deferred tax assets		**114,342**	64,478
Deposit paid for acquisition of a subsidiary		**52,875**	52,875
		778,379	966,516
Current assets			
Inventories		**42,052**	30,785
Trade and other receivables	*9*	**65,506**	142,384
Cash and cash equivalents	*10*	**606,475**	555,247
		714,033	728,416
Current liabilities			
Trade and other payables	*11*	**54,557**	94,800
Secured bank loans	*12*	**35,000**	35,000
Current taxation		**1,810**	5,045
		91,367	134,845
Non-current liabilities			
Deferred tax liabilities		**14,684**	14,622
Net assets		**1,386,361**	1,545,465
Equity			
Share capital	*13*	**18,527**	18,527
Reserves		**1,367,834**	1,526,938
Total equity attributable to owners of the Company		**1,386,361**	1,545,465

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six-month period ended 30 June 2016

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 Unit 1113, 11th Floor, North Tower, Concordia Plaza, 1 Science Museum Road, Tsimshatsui East, Kowloon, 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 HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to HKFRSs 2012-2014 Cycle*

- Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*

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

Annual Improvements to HKFRSs 2012-2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, HKAS 34, *Interim financial reporting*, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group's interim financial report as the Group does not present the relevant required disclosures outside the interim financial statements.

Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative

The amendments to HKAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's interim financial report.

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 2016 and 2015, no revenue from transactions with a single external customer amounted 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	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sales of pharmaceutical products	**171,496**	244,602

5. (LOSS)/PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
a) Finance costs		
Interest on bank borrowing	**899**	1,105
b) Staff costs		
Directors' and chief executive officer's emoluments	**1,574**	1,537
Other staff costs		
– Contributions to defined contribution retirement benefits scheme	**2,064**	2,296
– Salaries, wages and other benefits	**14,050**	18,088
Total staff costs *#	**17,688**	21,921
c) Other items		
Depreciation of property, plant and equipment *#	**38,182**	21,343
Amortisation of land use rights	**637**	713
Exchange (gain)/loss, net	**(12)**	1,326
Impairment loss on property, plant and equipment	**186,454**	–
Impairment loss on land use rights	**12,786**	–
Operating lease payments in respect of rented premises	**505**	677
Research and development costs*	**2,408**	622
Cost of inventories#	**145,626**	180,808
Bank interest income	**(1,053)**	(914)

\# Cost of inventories includes RMB35,678,000 (six-month period ended 30 June 2015: RMB23,778,000) 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 RMB2,338,000 (six-month period ended 30 June 2015: RMB596,000) 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	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax – PRC Enterprise Income Tax	**1,159**	13,815
Deferred taxation	**(49,802)**	4,903
	(48,643)	18,718

a) PRC Enterprise Income Tax is calculated at 25% for the six-month period ended 30 June 2016 (six-month period ended 30 June 2015: 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 2016 (six-month period ended 30 June 2015: Nil).

7. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six-month period ended 30 June 2016 (six-month period ended 30 June 2015: Nil).

8. (LOSS)/EARNINGS PER SHARE

a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss for the period attributable to owners of the Company of approximately RMB159,104,000 (six-month period ended 30 June 2015: profit of approximately RMB35,118,000) and the weighted average of 1,880,772,500 ordinary shares (six-month period ended 30 June 2015: 1,709,772,500 ordinary shares) in issue during the period.

b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share equals basic (loss)/earnings per share as there were no dilutive potential ordinary shares outstanding during both six-month periods ended 30 June 2016 and 2015.

9. TRADE AND OTHER RECEIVABLES

	30 June 2016 *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
Trade receivables	**54,639**	131,417
Other receivables	**10,659**	10,575
Loan and receivables	**65,298**	141,992
Prepayments and deposits	**208**	392
	65,506	142,384

The Group normally grants credit terms of 60 days (2015: 60 days) to its customers. The ageing analysis of trade receivables, presented based on the invoice date, is as follows:

	30 June 2016 *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
0 to 30 days	**29,160**	65,372
31 to 60 days	**25,479**	66,045
	54,639	131,417

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.

All trade and other receivables are neither past due nor impaired as at 30 June 2016 and 31 December 2015.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Group comprise cash at bank and on hand. During the period, the bank deposits of the Group carried interest at rates ranging from Nil to 0.35% (2015: Nil to 0.35%) per annum.

11. TRADE AND OTHER PAYABLES

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Trade payables		
– a related company *(note (a))*	**189**	1,051
– others	**31,027**	54,080
	31,216	55,131
Amount due to a related party *(note (b))*	**285**	163
Amount due to a director *(note (c))*	**2,570**	–
Payroll and welfare payables	**1,285**	8,481
Payable for acquisition of property, plant and equipment	**–**	1,500
Accrued charges	**2,833**	6,506
Other payables	**1,031**	1,341
Financial liabilities measured at amortised cost	**39,220**	73,122
Other PRC tax payables	**15,337**	21,678
	54,557	94,800

Notes:

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

(b) 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 a shareholder of the Company, and Mr. Lin Qing Ping is a director and a shareholder of the Company. The balance is unsecured, interest-free and repayable on demand.

(c) The amount is due to Mr. Lin Ou Wen, a director, the chief executive officer and a shareholder of the Company. The balance is unsecured, interest-free and repayable on demand.

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
0 to 30 days	**16,736**	41,102
31 to 60 days	**14,480**	14,029
	31,216	55,131

12. SECURED BANK LOANS

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Secured bank loans	**35,000**	35,000

At 30 June 2016 and 31 December 2015, 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 agreements.

At 30 June 2016, land use rights with a net book value of approximately RMB30,718,000 (31 December 2015: RMB41,239,000) and property, plant and equipment with a net book value of approximately RMB37,709,000 (31 December 2015: RMB 53,130,000) were pledged to a bank as collateral against the bank loans. Both bank loans carry interest at fixed rates of 5.00% (31 December 2015: 5.00% and 6.44% respectively) per annum and are repayable within 1 year. The security will be released upon full settlement of the loans.

13. SHARE CAPITAL

	30 June 2016		31 December 2015	
	No. of shares *('000)*	***HK$000***	No. of shares *('000)*	*HK$000*
Authorised:				
Ordinary shares of HK$0.01 each	**3,200,000**	**32,000**	3,200,000	32,000
Issued and fully paid:				
Ordinary shares of HK$0.01 each				
At the beginning of the period/year	1,880,773	18,808	1,709,773	17,098
Issue of consideration shares *(note (a))*	–	–	171,000	1,710
At end of the period/year	1,880,773	18,808	1,880,773	18,808

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Shown in the condensed consolidated statement of financial position	**18,527**	18,527

Note:

a) Issue of consideration shares

On 18 December 2015, an aggregate of 171,000,000 ordinary shares of the Company were issued at a consideration of HK$63,270,000 (equivalent to approximately of RMB52,875,000) as deposit paid for acquisition of a subsidiary, of which RMB1,429,000 was credited to the share capital and the balance of RMB51,446,000 was credited to the share premium account.

14. CAPITAL COMMITMENTS

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Capital commitments outstanding contracted for but not provided for in the financial statements in respect of:		
– acquisition of intangible assets	**8,100**	8,100

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Looking back in the first half of 2016, against the backdrop of the continuously deepening of the pharmaceutical system reform in China, pharmaceutical enterprises faced severe challenges in the tightening control over the medical insurance premiums, the quality confirmity assessment of generic drugs, and the introduction of Key Monitored Drug List by various provinces and cities. The entire industry underwent a painful period for reform. In April, the State Council published the "Notice on Issuing the Key Tasks in 2016 of Deepening Reform of the Pharmaceutical and Healthcare System", which required public hospitals to implement the two-invoice system. The Notice stated which 11 provinces would roll out the policy at the initial stage before it was implemented nationwide. This spurred on distributors to start destocking, which had a direct impact on the sales in the industry. It is expected many pharmaceutical commercial wholesale enterprises will be eliminated or merged during this consolidation. In addition, the profits in the industry came under pressure because of the ever rising costs of package, raw materials and wages.

Upon the expiry on 31 December 2015 of the Good Manufacturing Practice ("GMP") certification granted to the new plant located in the Haixi Industrial and Trading Development Zone, certain parts of the plant were required to undergo upgrading and enhancement of their existing production equipment so as to obtain new GMP certification (the "Transformation"). During the period under review, a total of two production lines of the plant were involved in the Transformation and has suspended productions until completion of the Transformation (the "Suspension"). In order to reduce the effects to the Company's operating income and profit due to the Suspension, the Company had (1) expanded the production volume before suspending the relevant production and had prepared stocks in advance, especially the key products of the Group, Perilla Oil Capsule and Compound Chinese Angelica Injectible; and (2) enhanced the marketing efforts in respect of products manufactured on production lines which would not undergo the Transformation so as to improve sales revenue, including N(2)-L Alanyl-L Glutamine Injectible. Operation of the suspended production lines is expected to resume by the end of this year after the completion of the Transformation.

In the face of a multitude of challenges, the Group adhered to clear and effective strategies and adjusted in due course its sales tactics so as to maintain a stable and healthy financial position. For the six months ended 30 June 2016, the turnover of the Group recorded a year-on-year decrease of 29.9% to approximately RMB171.5 million. The overall gross profit margin recorded a year-on-year decrease of 11.0 percentage points to 15.1%, which was within expectation and was under control.

During the period, the loss attributable to the owners of the Company amounted to RMB159.1 million while for the same period last year, profit of approximately RMB35.1 million was recorded due to the disposal of the land and property by the Fuzhou Sanai.

DEVELOPMENT OF MAJOR PRODUCTS

Perilla Oil Capsule

The Group's Perilla Oil Capsule is effective in lowering cholesterol, reducing low-density lipoprotein and increasing high-density lipoprotein. In view of its efficacy and mild side effects, Perilla Oil Capsule, the key product of the Group, has long been the preferred Chinese prescription medicine among medical staff in treating hyperlipidemia. For the six months ended 30 June 2016, the sales of Perilla Oil Capsule was affected by the Suspension. Although the Company had expanded production and stocked up Perilla Oil Capsule in advance prior to the Suspension, the turnover still recorded a year-on-year decrease of approximately 29.2% to approximately RMB14.3 million, accounting for approximately 8.4% of the Group's turnover (for the same period in 2015: approximately RMB20.3 million, accounting for 8.3% of the Group's total turnover). The Group will enhance sales management and facilitate the sales of Perilla Oil Capsule through channels such as hospitals and distributors. It is believed that after the new plant resumes the suspended operations by the end of this year, the sales of Perilla Oil Capsule will improve significantly and fill the current sales gap. Furthermore, the Group will continue to seek to have Perilla Oil Capsule listed in the National Medical Insurance Catalog (the "Catalog"). Sales are expected to increase further after being included in the Catalog by the end of next year.

N(2)-L Alanyl-L Glutamine Injectible

In the first half of 2016, the turnover of N(2)-L Alanyl-L Glutamine Injectible amounted to approximately RMB31.1 million, representing a year-on-year increase of approximately 108.5% (for the same period in 2015: approximately RMB14.9 million). During the period, despite the fierce competition in the N(2)-L Alanyl-L Glutamine Injectible market, the Group stepped up its sales effort, implementing a targeted sales strategy since its production was not affected by the Suspension. This resulted in an excellent sales of the product. Its turnover, as a percentage of total turnover, jumped to 18.1% (for the same period in 2015: approximately 6.1%), making the product the best-selling product of the Group.

Compound Chinese Angelica Injectible

Having remarkable curable effects on blood circulation and stimulating menstruation, removing blood stasis as well as relieving pain, Compound Chinese Angelica Injectible of the Group has been well-recognized in the market. Because of the Suspension, the inventory that the Group had stocked up was unable to meet market demand and led to a drastic decline in sales. The turnover was approximately RMB6.1 million, representing a year-on-year decrease of 45.5% and accounted for approximately 3.5% of the Group's turnover (for the same period in 2015: approximately RMB11.1 million, accounting for 4.5% of the total turnover).

Other products

In 2015, the Group launched four new products, which were all Western prescription injectibles, including (plastic bottle) sodium chloride injectible, (plastic bottle) 5% glucoses injectible and two (plastic bottle) 10% glucose injectibles of different volumes. As their prices were competitive, sales of these new products was good and their turnover for the period amounted to approximately RMB9.0 million, accounting for approximately 5.2% of total revenue.

In 2014, the Group introduced six Western prescription injectible products under the strategy of lower profit margin but higher turnover. Although their gross profit margins were lower than those of other products of the Group, sales remained stable. During the period, the turnover amounted to approximately RMB10.2 million, accounting for approximately 5.9% of total revenue.

Research and development of new medicines

Since the research of new medicines requires a vast of resources and since it takes time to go through the medicine approval procedures, the Group – in order to enhance the overall effectiveness of its resource allocation – focused its resources on promoting the ongoing research of new medical treatment results of Perilla Oil Capsule and conducting scientific research on the anti-hepatitis new compound drug liver & gall bladder tablets in cooperation with Fujian Sanai and the Department of Medicine of Peking University. During the period, these two projects progressed steadily and it is believed that a new source of income will be brought to the Group.

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

Sales agency for drugs

Fujian Sanai Pharmaceutical Trading Co., Limited was the agency of seven types of drugs mainly sold during the period in the five provinces and cities of Fujian, Zhejiang, Jiangsu, Liaoning and Beijing. Sales revenue amounted to approximately RMB3.7 million during the period, accounting for approximately 2.2% of the Group's total turnover (for the same period in 2015: approximately RMB6.2 million, accounting for approximately 2.5% of the Group's total turnover).

SALES NETWORK AND MARKETING

The Group continued the integration of its sales resources and strived to optimize the experienced sales team. Currently, the Group has 58 medicine distributors covering 21 key provinces, cities and autonomous regions and municipalities around the country, mainly covering the more affluent coastal cities in the eastern region and the northeastern region of China, which was more or less the same as that of last year.

During the period, turnover in rural areas amounted to approximately 13.5% of our total turnover, or approximately RMB23.2 million (for the same period in 2015: approximately RMB34.3 million, accounting for approximately 14.0% of the Group's total turnover).

During the period, the Group suspended its investment in advertising resources while focusing on more professional channels such as new medicine promotion seminars, academic seminars as well as medicine trade fairs to introduce the advantages of various medicines.

OUTLOOK

This is the first year of the 13th Five-Year Plan, when medical reform continues to be the nationwide focus. As the government cancels approving eligible designated retail pharmacies under its basic medical insurance, and in view of the hope that online platforms for selling prescription drugs will be liberalized, the expectation is that market demand will be stimulated and that the sales of prescription drugs will be boasted. In addition, an ever aging population and the full implementation of the two-child policy will keep on increasing the domestic market for medical care, further underpinning the inelastic demand.

"Internet + Pharmaceutical" has become vital in the future strategic plan of the industry. To keep pace with this trend, the traditional pharmaceutical industry is undergoing a transformation and upgrading. It will cover every field of medical and healthcare services on the back of an integration with the Internet industry, which includes stronger data analysis so as to provide personalized health management services and health solutions for health care and chronic disease management covering various medical and healthcare services. This will present immense business opportunities.

Strengthening and enhancing core competitiveness

The Group's new plant in the Haixi Industrial and Trading Development Zone in Jianyang, Fujian is expected to put into full operation after the completion of the Transformation by the end of this year, bringing a substantial increase of the designed production capacity compared with before the Transformation, greatly increasing the scale of operation of the Group and clearly demonstrating its edge in lowering costs and increasing efficiencies.

The Group will strive for excellence in sales and marketing efforts. While strengthening the current sales team, the Group will continue to improve the sales network in rural areas, build its presence and boost sales with products that are competitively priced. This will further capture the opportunities in the drug consumption market driven by the development of new rural areas. The Group will also place emphasis on the promotion through professional channels in order to raise and consolidate the brand recognition of various products among medical professionals.

The Plantation Plan for the Chinese herb, Perilla

Perilla Oil Capsule, a type of Chinese medicine produced exclusively in the country by the Group for the control of hyperlipidemia, through years of efforts, achieved recognition in most of the regions in China. However, its sales were unable to increase significantly as the medicine has not been included in the Catalog since its introduction. In view of the adjustment that will be made to the Catalog this year and the next, the Group is currently applying for the inclusion of the Perilla Oil Capsule in the Catalog in the course of next year's revisions. If successful, it is expected to have a breakthrough increase in sales. The demand of the Perilla Oil, the raw material for producing the medicine, will increase as well. It will become essential to commit to building a planation base for Perilla in order to overcome the problems of quality control and high costs on raw medicinal herb brought from various remote regions in the country, to ensure that in future the quality of the Perilla is stable and under control, to lower the cost of raw material and to ensure the supply can satisfy the production demand.

The Group is now exploring a plan to self fund the building of a Perilla plantation base in collaboration with enterprises experienced in planting Chinese medicinal herbs on areas which are suitable for the growth of Perilla. The advantage for a plantation base includes (1) it matches an industry supported by the State and the risk is low; (2) the enormous market demand and the potential market capacity; (3) the control over the quality of Perilla medicine for the Group; and (4) a lower procurement cost and enhancement of the supply stability of raw medicinal herbs. If the investment crystalises, the plantation base investment will be a feasible project with quick return. We will comply with the applicable requirements of the Listing Rules (as defined hereinafter) by making the necessary announcement and where required, seeking the approval of our shareholders to the plantation base investment on the terms of such formal agreement for the plantation base investment.

Encouraging innovation and development in modern pharmaceutical services

Keeping abreast with time, the Group is riding on the trend of integrating traditional medicines with the internet. It is seeking opportunities in the internet business to its traditional business of medicine production. Subsequent to the acquisition of the entire interests in Fujian Liumai Medical Services Co., Ltd. in the second half of last year, the Group will continue to actively prepare for engaging in the operation of modern pharmaceutical services. Liumai Medical is an enterprise with core business in digital medical and healthcare services. It is committed to serve pharmaceutical companies, participants in health insurance industry and medical practitioners in areas including analysis and application of healthcare information. As announced by the Company on 29 June 2016 and 26 July 2016, it is expected the acquisition will be completed by the end of this year. The Group is confident in seizing the opportunities brought by "Internet + Pharmaceutical" while capitalizing on the operating model and data resources of Fujian Liumai Medical Services Co., Ltd..

Besides, through the merger of a series of quality projects that have effective relevance to the business of the Group and through acquisitions of integrated operations, the Group seeks to further optimize its industry strategies, to accelerate its various business revenue indicators so as to strengthen the overall competitiveness and risk-resistant capabilities of the Group.

Faced with stricter operation entry barriers in the industry, increasing R&D expenses and the intensifying competition among the peers, the small-and-medium pharmaceutical enterprises have to overcome certain challenges. However, opportunities often come with challenges. The Group will carefully consider the circumstances, adjust its development directions, raise its operating efficiency and actively expand its business scope. It aims at making progress in a stable manner amidst the wave of industry consolidation and strives to gain more market shares so as to create better return for the shareholders in the long-run.

FINANCIAL REVIEW

1. Revenue ("Turnover")

During the period under review, certain production lines of the plant located in Haixi Industrial and Trading Development Zone were suspended pending the completion of the Transformation, which had affected the revenue of the Group to a certain extent. The Group recorded an overall turnover of approximately RMB171.5 million (30 June 2015: approximately RMB244.6 million), representing a decrease of approximately 29.9% 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 RMB114.4 million, or approximately 66.7% of the overall turnover, representing a slight decrease of approximately 7.4% over the same period of last year (30 June 2015: approximately RMB123.5 million, representing approximately 50.5% of the overall turnover). Turnover of the Modern Chinese medicines amounted to approximately RMB53.4 million, representing approximately 31.1% of the overall turnover, representing a decrease of approximately 53.5% over the same period of last year (30 June 2015: approximately RMB114.9 million, representing approximately 47.0% of the overall turnover). The significant decrease in Modern Chinese medicines was mainly due to the Suspension, which in turn affected our productivity. The pharmaceutical trading revenue recorded a turnover of approximately RMB3.7 million, representing approximately 2.2% of overall turnover (30 June 2015: approximately RMB6.2 million, representing approximately 2.5% of the overall turnover), representing a decrease of approximately 39.7% 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 provincial medical insurance directories and it is still in the monitoring period, it is yet to be listed in the Catalog and hence, its sales was affected to some extent. During the period under review, the sales of this product amounted to approximately RMB14.3 million, representing approximately 8.4% of the overall turnover, a decrease of approximately 29.2% over the same period of last year (30 June 2015: approximately RMB20.3 million, representing approximately 8.3% of the overall turnover). The percentage remains similar as 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 Injectable, with a turnover of approximately RMB31.1 million, representing approximately 18.1% of the overall turnover (30 June 2015: approximately RMB14.9 million, representing approximately 6.1% of the overall turnover). Due to the reduction of productivity of certain products as a result of Suspension, the Group focused on N(2)-L Alanyl-L Glutamine Injectable and strengthened its promotion during the period. Therefore, the proportion of this product in the overall turnover of the Group increased by 108.5% as compared with the same period of last year. Turnover of the five top selling medicines amounted to approximately RMB80.5 million, representing approximately 46.9% of the overall turnover (30 June 2015: approximately RMB74.7 million, representing approximately 30.5% of the overall turnover).

2. Gross Profit and Gross Profit Margin

Gross profit of the Group decreased by approximately 59.4% over the same period of last year to approximately RMB25.9 million (30 June 2015: approximately RMB63.8 million). Gross profit margin significantly decreased by approximately 11.0 percentage points to approximately 15.1% (30 June 2015: approximately 26.1%).

The decrease in gross profit 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 the fixed costs in the overall costs of sales, affecting to the overall gross profit 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 of 2016, the Suspension during the period led to a decrease in both sales and gross profit. Also, impairment on property, plant and equipment, land use rights largely increased the Group's loss for the period under review. During the period under review, the Group recorded a loss of approximately RMB159.1 million (30 June 2015: profit amounted to approximately RMB35.1 million).

The distribution costs decreased by approximately 58.6% to approximately RMB9.1 million (30 June 2015: approximately RMB22.1 million). During the period under review, relevant advertising and marketing expenses of our three wholly-owned subsidiaries in the PRC decreased by RMB9.3 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 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 RMB199.2 million in total has been recognised. In performing the impairment testing, the Directors had also made reference to a valuation performed by an independent professional valuer, APAC Assets Valuation and Consulting Limited. Such impairment loss was mainly attributable to the non-cash accounting treatment on the impairment losses on these production facilities, and mainly to reflect the value in use of the assets. Accordingly, such impairment loss is a non-cash expense with no impact on the Group's cash flow or business and production operations. No such impairment loss was provided for the non-current assets including any production equipment for the same period of last year.

During the period under review, administrative expenses increased approximately 8.5% over the same period of last year to RMB25.4 million (30 June 2015: approximately RMB23.4 million), which was mainly attributable to the increase in depreciation charges.

Finally, tax credit of the Group were approximately RMB48.6 million in total (30 June 2015: tax expenses of approximately RMB18.7 million). It mainly included withholding deferred income tax for the provision of undistributed profits for the three wholly-owned subsidiaries in the PRC and the deferred tax expenses amounted to approximately RMB0.1 million (30 June 2015: approximately RMB0.1 million), as well as the deductible temporary differences arising from the impairment of property, plant and equipment and land use rights amounted to approximately RMB49.8 million (30 June 2015: Nil).

4. Liquidity, Financial Resources and Capital Structure

As at 30 June 2016, the Group had cash and cash equivalents of approximately RMB606.5 million (31 December 2015: approximately RMB555.2 million) and most cash and cash equivalents were denominated in Renminbi and Hong Kong dollars. As at 30 June 2016, 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 2015: approximately RMB35.0 million). The two loans involved were denominated in Renminbi, both carrying interest at fixed rates of 5.00% (31 December 2015: 5.00% and 6.44% 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. The Group generated a net cash inflow from operating activities of approximately RMB51.1 million (for the six months ended 30 June 2015: approximately RMB28.9 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 6.5% as at 30 June 2016 (31 December 2015: approximately 8.4%).

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 2016, 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, subsidiaries, associates or joint ventures. During the six months ended 30 June 2015, the Group disposed of land use rights and property, plant and equipment from one of its 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 2016, the Group employed approximately 382 employees (31 December 2015: 417 employees). For the six months ended 30 June 2016, the staff cost of approximately RMB17.7 million (30 June 2015: approximately RMB21.9 million). The Group determines staff remuneration in accordance with prevailing market salary scales, individual qualifications and performance. Remuneration packages including performance bonuses and entitlements to share options are reviewed on regular basis. 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. **Charge on Group Assets**

As at 30 June 2016, the Group charges on Group assets including land use rights and property, plant and equipment amounted to approximately RMB68.4 million (31 December 2015: RMB94.4 million) in favour of secured bank loans of RMB35.0 million (31 December 2015: 35.0 million).

9. **Contingent Liabilities**

As at 30 June 2016, the Group did not have any contingent liabilities (31 December 2015: 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 RMB58,000 (30 June 2015: approximately RMB50.4 million).

11. **Capital Commitments**

As at 30 June 2016, the Group had capital commitments outstanding contracted but not provided for in the financial statements amounted to approximately RMB8.1 million (31 December 2015: approximately RMB8.1 million).

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2016 (30 June 2015: 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 of all Directors and each Director confirmed that during the six months ended 30 June 2016, they had fully complied with the required standards as set out in the Model Code.

At no time during the first six months of 2016 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 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 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 2016, 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 had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2016.

COMPLIANCE OF THE 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 2016 as contained in Appendix 14 to the Listing Rules ensuring that the Company is up to the requirements as being diligent, accountable and professional, 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 (the "Audit Committee") of the Company, 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 in relation to the unaudited interim results for the six months ended 30 June 2016. On 23 August 2016, a meeting of the Audit Committee was held and the Audit Committee reviewed the unaudited interim results for the six months ended 30 June 2016 at the meeting.

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 two executive Directors, and is responsible for reviewing the structure, size and composition of the Board, identifying individuals who are suitably qualified to become member of the Board, 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 planning for Directors, in particular the Chairman and the CEO.

REVIEW OF ACCOUNTS

Disclosure 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 2016 in conjunction with the Company's external auditor, Crowe Horwath (HK) CPA Limited, 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").

EXTRACT OF AUDITOR'S REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

The Company's independent external auditor has expressed a qualified conclusion in its report on review of financial information of the Group's condensed consolidated financial statements for the six months ended 30 June 2016, an extract of which is as follows:

BASIS FOR QUALIFIED CONCLUSION

As at 30 June 2016, the Group has paid a deposit of RMB52,875,000 for the acquisition of a subsidiary (the "Subsidiary"). The directors are of the opinion, based on the business valuation prepared by a PRC valuer engaged by the vendors, the market value of the Subsidiary as at 31 October 2015 was approximately RMB148,505,000 which exceeds the total consideration amount and that no impairment on deposit paid for the acquisition of a subsidiary is necessary.

The business development of the Subsidiary is still at the early stage and has not yet commenced any principal activities and generate sufficient operating cash flow associated with it. In the absence of information (a) used in the valuation as of 31 October 2015 provided by the vendors and their valuer and (b) update for changes up to date of deposit paid and at the end of the reporting period, we are unable to obtain sufficient reliable evidence to satisfy ourselves as to the (i) correctness of the calculation of the market value of the Subsidiary; (ii) reasonableness of the bases and assumptions used by the valuer in arriving at the business valuation; and (iii) any change considered necessary in the valuation from 31 October 2015 to the date of deposit paid and up to end of the reporting period and consequently as to whether the carrying amount of the deposit paid for the acquisition of a subsidiary is fairly stated and disclosed at the end of the reporting period. Given the inherent limitations in the scope of our review, which is by definition substantially less than an audit, we were unable to reach a conclusion as to whether the directors' judgement in this matter is appropriate. Any adjustments that might be found to be necessary in respect of the carrying amount of the deposit paid for the acquisition of a Subsidiary as at 30 June 2016 would affect the net assets of the Group as at 30 June 2016 and the Group's net loss for the six months ended 30 June 2016, and the related disclosures in the interim financial statements.

In our auditor's report dated 6 April 2016 on the consolidated financial statements for the year ended 31 December 2015, we reported on the same matter which resulted in a qualified opinion. Our conclusion on the current period's interim financial statements is also modified because of the effect of this matter on the comparative figures as at 31 December 2015 shown in these interim financial statements may not be comparable with the figures as at 30 June 2016.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The 2016 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
Lin Ou Wen
Chairman and Chief Executive Officer

Hong Kong, 30 August 2016

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. Lin Min, and 3 Independent Non-executive Directors, namely, Mr. Zhang Jie, Mr. Zhang Xue Wen and Mr. Wu Cheng Han.