Wuyi International Pharmaceutical Company Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1889

Interim Report 2008

CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Lin Ou Wen *(Chairman)*
Mr. Lin Qing Ping
Mr. Xu Chao Hui
Mr. Dennis Luan Thuc Nguyen

Non-executive Directors
Mr. Tang Bin
Mr. John Yang Wang

Independent Non-executive Directors
Mr. Goh Jin Hian
Mr. Liu Jun
Mr. Lam Yat Cheong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Kung Wai Chiu, Marco *FCPA (Practising) and FCCA*

AUTHORIZED REPRESENTATIVES

Mr. Lin Ou Wen
Mr. Kung Wai Chiu, Marco *FCPA (Practising) and FCCA*

AUDIT COMMITTEE

Mr. Lam Yat Cheong *(Chairman)*
Mr. Goh Jin Hian
Mr. Liu Jun

REMUNERATION COMMITTEE

Mr. Dennis Luan Thuc Nguyen *(Chairman)*
Mr. Lin Ou Wen
Mr. Goh Jin Hian
Mr. Liu Jun
Mr. Lam Yat Cheong

NOMINATION COMMITTEE

Mr. Lin Ou Wen *(Chairman)*
Mr. Lin Qing Ping
Mr. Goh Jin Hian
Mr. Liu Jun
Mr. Lam Yat Cheong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

SOLICITORS

Gallant Y. T Ho & Co.

COMPLIANCE ADVISER

Sun Hung Kai International Limited

PRINCIPAL BANKER

Bank of Communications Co., Ltd.

REGISTERED OFFICE

4th Floor
P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

Room 2805, 28th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICES

Principal share registrar and transfer office
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

Hong Kong branch share registrar and transfer office
Computershare Hong Kong Investor
Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

STOCK CODE

1889

WEBSITE

www.wuyi-pharma.com

UNAUDITED INTERIM RESULTS

For the six months ended 30 June 2008

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 interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2008, together with the unaudited comparative figures for the corresponding period in 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

		Six months ended 30 June	
	Notes	**2008 RMB'000 (Unaudited)**	(As restated) 2007 RMB'000 (Unaudited)
Turnover		**359,932**	299,116
Cost of goods sold		**(172,948)**	(150,785)
Gross profit		**186,984**	148,331
Other income		**4,697**	14,511
Distribution expenses		**(13,715)**	(5,547)
Administrative and other expenses		**(20,841)**	(47,034)
Interest on bank borrowings wholly repayable within five years		**(1,282)**	(1,255)
Profit before taxation	5	**155,843**	109,006
Taxation	6	**(19,440)**	–
Profit for the period		**136,403**	109,006
Dividends paid	7	**58,010**	–
Earnings per share – Basic	8	**RMB 8.0 cents**	RMB 6.7 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2008

	Notes	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**139,520**	145,869
Land use rights		**11,313**	11,410
Intangible assets		**22,417**	23,610
Deposit made on acquisition of land use right		**7,275**	7,275
		180,525	188,164
Current assets			
Inventories		**29,072**	23,810
Trade and other receivables	10	**150,323**	146,339
Bank balances and cash		**1,148,847**	1,102,450
		1,328,242	1,272,599
Current liabilities			
Trade and other payables	11	**73,676**	83,528
Taxation		**10,333**	868
Short-term bank loans	12	**5,000**	35,000
		89,009	119,396
Net current assets		**1,239,233**	1,153,203
Total assets less current liabilities		**1,419,758**	1,341,367
Non-current liabilities			
Obligation under a finance lease		**13**	15
Deferred taxation	13	**3,889**	3,889
		3,902	3,904
Net assets		**1,415,856**	1,337,463
Capital and reserves			
Share capital	14	**17,098**	17,098
Reserves		**1,398,758**	1,320,365
Total equity		**1,415,856**	1,337,463

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Paid-in capital/ share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Capital reserve RMB'000 (Note b)	Put option reserve RMB'000 (Note c)	Translation reserve RMB'000	Statutory surplus reserve RMB'000 (Note d)	Non-distributable reserve RMB'000 (Note e)	Retained profits RMB'000	Total RMB'000
At 1 January 2007 (audited)	12,800	201,986	(124,106)	53,000	(140,400)	1,156	41,306	23,752	124,764	194,258
Issue of shares	4,298	769,293	–	–	–	–	–	–	–	773,591
Expenses incurred in connection with the issue of shares	–	(41,746)	–	–	–	–	–	–	–	(41,746)
Put option lapsed	–	–	–	–	140,400	–	–	–	–	140,400
	4,298	727,547	–		140,400	–	–	–	–	872,245
Profit for the period	–	–	–	–	–	–	–	–	109,006	109,006
Exchange differences arising on translation of foreign operations and net loss recognised directly in equity	–	–	–	–	–	(1,156)	–	–	–	(1,156)
Total recognised income and expenses for the period	–	–	–	–	–	(1,156)	–	–	109,006	107,850
At 30 June 2007 (unaudited)	17,098	929,533	(124,106)	53,000	–	–	41,306	23,752	233,770	1,174,353
At 1 January 2008 (audited)	17,098	929,533	(124,106)	53,000	–	–	102,773	23,752	335,413	1,337,463
Profit for the period	–	–	–	–	–	–	–	–	136,403	136,403
Total recognised income and expenses for the period	–	–	–	–	–	–	–	–	136,403	136,403
Dividend paid	–	–	–	–	–	–	–	–	(58,010)	(58,010)
At 30 June 2008 (unaudited)	17,098	929,533	(124,106)	53,000	–	–	102,773	23,752	413,806	1,415,856

Notes:

a) Special reserve represents the aggregate of:

(i) the difference between the consideration paid by a subsidiary of the Company Wuyi International Pharmaceutical Investment Company Limited ("Wuyi BVI") for the acquisition of the entire interest in 福建三愛藥業有限公司 Fujian Sanai Pharmaceutical Co., Ltd. ("Fujian Sanai") and the nominal value of paid-in capital of Fujian Sanai;

(ii) the difference between the nominal amount of the shares issued by the Company and the amount of share capital of Wuyi BVI pursuant to the group reorganisation in preparation for the listing of the Company's shares in 2007; and

(iii) the difference between the consideration paid for the acquisition of additional interests in 福州三愛藥業有限公司 Fuzhou Sanai Pharmaceutical Co., Ltd. ("Fuzhou Sanai") and the carrying values of the underlying net assets attributable to the additional interests in Fuzhou Sanai.

b) Capital reserve represents the capital contributions from Mr. Lin Qing Ping, a director and shareholder of the Company and 福州宏宇包裝工業有限公司 Fuzhou Hongyu Packing Co., Ltd. ("Fuzhou Hongyu"), a company controlled by Mr. Lin Ou Wen, also a director and shareholder of the Company.

c) The put option reserve represents the recognition of the obligation of a put option written by the Company to the shareholders in respect of the shares issued upon the conversion of the Convertible Bonds.

d) As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by their board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

e) In accordance with the Articles of Association of Fujian Sanai, Fujian Sanai may appropriate funds to non-distributable reserve with the discretion of the board of directors. According to the Articles of Association of Fujian Sanai, the non-distributable reserve can be used to (i) make up prior year losses; (ii) convert into capital, provided such conversion is approved by a resolution at a shareholders' meeting; (iii) expand production operation.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	Six months ended 30 June	
	2008 **RMB'000** **(Unaudited)**	(As restated) 2007 RMB'000 (Unaudited)
Net cash from operating activities	**131,267**	112,326
Net cash from investing activities	**4,424**	10,350
Financing activities		
Interest paid	**(1,282)**	(1,255)
Dividends paid	**(58,010)**	–
Proceeds from issue of new shares	**–**	773,591
Expenses incurred in connection with the issue of shares	**–**	(41,746)
Repayment to a director	**–**	(62,400)
New bank loans raised	**14,000**	46,900
Repayment of bank loans	**(44,000)**	(54,900)
Repayment of obligations under a finance lease	**(2)**	(2)
Net cash (used in) from financing activities	**(89,294)**	660,188
Increase in cash and cash equivalents	**46,397**	782,864
Cash and cash equivalents at 1 January	**1,102,450**	199,765
Effect of foreign exchange rate changes	**–**	(1,144)
Cash and cash equivalents at 30 June	**1,148,847**	981,485
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,148,847**	981,485

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability under the Companies Law 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 disclosed in the "Corporate Information" section of the interim report. The principal activities of its principal subsidiaries are set out in note 17.

The condensed consolidated financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the respective group entities and the Company.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Certain income and expenses in connection with the issue of the Company's shares in February 2007 were mis-allocated between the original shareholders and the Company, share premium and profit for the six months ended 30 June 2007 were overstated by approximately RMB33,474,000 and RMB33,811,000 respectively. The comparative figures have been restated accordingly.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

In the current interim period, the Group has applied for the first time, the following new Interpretations ("new Interpretations") issued by the HKICPA which are effective for the Group's financial year beginning 1 January 2008.

HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and separate financial statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting conditions and cancellation[1]
HKFRS 3 (Revised)	Business combinations[2]
HKFRS 8	Operating segments[1]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[4]

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Notes:

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 July 2009.
3 Effective for annual periods beginning on or after 1 July 2008.
4 Effective for annual periods beginning on or after 1 October 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on after 1 July 2009. The adoption of HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in loss of control, which will be accounted for as equity transactions. The Directors of the Company anticipate that the application of the other or revised standards or interpretations will have no material impact on the result and the financial position of the Group.

4. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the period.

The Group's operation is regarded as a single segment, being an enterprise engaged in research and development, manufacturing and trading of pharmaceutical products. During the period, all the Group's sales are made in Mainland China (the "PRC"). Accordingly, no segment analysis of business and geographical segments is presented for the period.

5. PROFIT BEFORE TAXATION

	Six months ended June 30	
	2008 **RMB'000** **(Unaudited)**	(As restated) 2007 RMB'000 (Unaudited)
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**2,017**	1,993
Other staff's retirement benefits scheme contributions	**1,431**	978
Other staff costs	**7,864**	6,250
	11,312	9,221
Less: Staff costs included in research and development costs	**(249)**	(335)
	11,063	8,886
Depreciation of property, plant and equipment		
– owned by the Group	**6,620**	2,795
– held under a finance lease	**2**	2
	6,622	2,797
Less: Depreciation included in research and development costs	**(297)**	(133)
	6,325	2,664
Amortisation of intangible assets	**1,193**	–
Auditor's remuneration	**–**	829
Exchange loss included in administrative and other expenses	**2,512**	11,959
Operating lease rentals in respect of		
– land use rights	**97**	126
– rented premises	**445**	472
Research and development cost	**833**	630
and after crediting:		
Interest income	**4,697**	14,511

6. TAXATION

	Six months ended June 30	
	2008 **RMB'000** **(Unaudited)**	2007 RMB'000 (Unaudited)
PRC income tax	**(19,440)**	–

6. TAXATION (CONTINUED)

a) PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate of 33% to 25% from 1 January 2008 for subsidiaries established in the PRC. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or liability is settled.

Pursuant to the Income Tax Law for the Foreign Investment Enterprises and Foreign Enterprises in the PRC, certain Group's PRC subsidiaries, which were qualified as Production Enterprises during the year 2006, shall be entitled to exemption from PRC income tax for two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years.

b) No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong for the six months ended 30 June 2008 (30 June 2007: Nil).

c) The Group had no significant unprovided deferred tax assets and liabilities at 30 June 2008 (2007: Nil).

7. DIVIDENDS

During the period, dividends paid and proposed to equity holders of the Company comprised:

Dividend in respect of 2007

	Six months ended June 30	
	2008 **HK$'000** **(Unaudited)**	2007 HK$'000 (Unaudited)
Final dividend in respect of the previous financial year, approved and paid during the interim period of HK3.8 cents per share (2007: Nil)	**64,971**	–
	RMB'000	RMB'000
Equivalent to	**58,010**	–

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008 (30 June 2007: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period of the Company of RMB136,403,000 (2007: RMB109,006,000) and on the number of 1,709,772,500 shares (2007: the weight average number of 1,634,689,419 shares in issue throughout the period).

9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENTS

During the period, the Group acquired property, plant and equipment with a cost of approximately RMB273,000 (2007: RMB4,185,000).

Included in the net book value of furniture, fixture and equipment is an amount of approximately RMB17,000 (31 December 2007: approximately RMB18,000) in respect of assets held under a finance lease.

10. TRADE AND OTHER RECEIVABLES

	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
Trade receivables	**150,067**	145,879
Other receivables	**256**	460
	150,323	146,339

The Group normally grants credit terms of 30 days to 60 days to its customers. The following is an aged analysis of trade receivables at the balance sheet date:

	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
Age		
0 to 30 days	**76,021**	74,104
31 to 60 days	**74,046**	71,775
	150,067	145,879

11. TRADE AND OTHER PAYABLES

	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
Trade payables		
– a related company *	**2,953**	2,546
– others	**50,863**	60,574
	53,816	63,120
Other tax payables	**10,990**	10,738
Accrued charges	**8,017**	6,147
Payroll and welfare payables	**804**	798
Obligation under a finance lease	**4**	4
Others	**45**	2,721
	73,676	83,528

* The related company is Fuzhou Hongyu, a company controlled by Mr. Lin Ou Wen who is a director and shareholder of the Company and has beneficial interest in the related company.

The following is an aged analysis of trade payables at the balance sheet date:

	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
Age		
0 to 30 days	**27,807**	35,357
31 to 60 days	**26,009**	27,763
	53,816	63,120

12. SHORT-TERM BANK LOANS

The bank loans are unsecured, carry interest at fixed rates of 7.29% (31 December 2007: 7.029% – 7.29%) per annum and are repayable within 1 year.

13. DEFERRED TAXATION

The following is the deferred tax liabilities recognised and movements thereon during the period.

	Deferred product development costs and patents RMB'000 (Unaudited)
At 1 January 2007	4,587
Charged to condensed consolidated income statement for the period	–
At 30 June 2007	4,587
Charged to consolidated income statement for the period	763
Effect of change in tax rate	(1,461)
At 31 December 2007 and 1 January 2008	3,889
Charged to condensed consolidated income statement for the period	–
At 30 June 2008	3,889

14. SHARE CAPITAL

	Number of shares	**Amount** HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 31 December 2007 and 30 June 2008	3,200,000,000	32,000
Issued and fully paid:		
At 1 January 2007	1,280,000,000	12,800
Issue of shares under public offering	429,772,500	4,298
At 31 December 2007 and 30 June 2008	1,709,772,500	17,098
Shown in the consolidated balance sheet at 31 December 2007 and 30 June 2008		RMB: 17,098,000

The movements in the Company's issued share capital during the year ended 31 December 2007 are as follows:

a) On 1 February 2007, 363,000,000 ordinary shares of HK$0.01 each of the Company were issued at a price of HK$1.80 per share by way of placing and public offer. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange.

b) On 5 February 2007, further 66,772,500 shares of HK$0.01 each were issued at a price of HK$1.80 per share.

All the shares issued during the year ended 31 December 2007 rank pari passu with the then existing shares in all respects.

15. CAPITAL COMMITMENTS

	30 June 2008 RMB'000 (Unaudited)	(As restated) 31 December 2007 RMB'000 (Audited)
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of		
– intangible assets	**8,100**	8,100
– land use right	**50,922**	50,922
	59,022	59,022

16. RELATED PARTY TRANSACTIONS

During the period, the Group has the following significant transactions with its related parties:

Name of related party	Relationship with related party	Nature of transaction	Six months ended June 30 2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
Fuzhou Hongyu	Company controlled by Mr. Lin Ou Wen	Purchase of packaging materials	**8,289**	7,322
Mr. Lin Qin Xiang	Brother of Mr. Lin Ou Wen and Mr. Lin Qing Ping*	Property rentals paid	**102**	102

* Messrs. Lin Ou Wen and Lin Qing Ping are directors and shareholders of the Company.

17. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are indirectly wholly-owned by the Company, at 30 June 2008 and 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation/ establishment/operations	Nominal value of issued and fully paid share capital/registered capital	Principal activity
Fujian Sanai	PRC wholly foreign owned enterprise for a term of 50 years commencing 18 January 2000	RMB 290,780,000	Develop, manufacture, marketing and sales of pharmaceutical products
Fuzhou Sanai	PRC sino-foreign equity joint venture for a term of 50 years commencing 24 December 2003	US$19,810,000	Develop, manufacture, marketing and sales of pharmaceutical products

None of the subsidiaries had any debt securities outstanding at the end of the period, or at any time during the period (2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Wuyi Pharmaceutical achieved satisfactory interim results for the six months ended 30 June 2008. Turnover recorded approximately RMB359.9 million during the period, representing an increase of 20.3% over the same period of last year (30 June 2007: approximately RMB299.1 million). Benefited from the income tax exemption and 50% exemption enjoyed by the two wholly-owned subsidiaries of the Company in the PRC, profit for the period amounted to approximately RMB136.4 million during the period, representing an increase of 25.1% from the same period of last year (30 June 2007: approximately RMB109.0 million).

In reviewing the first half of the year, significant profit was contributed by launching several new products by the company. Meanwhile, the PRC pharmaceutical market continued to grow in the first half of this year. As one of the competitive specialty pharmaceutical groups in the PRC, Wuyi Pharmaceutical also benefited from such trend. On the other hand, under the influence of severe global inflation in this year, prices of raw materials in the PRC continued to rise. However, the prices of the raw materials of the Company were not affected by this factor and the Group's income was not affected as well.

The Company achieved satisfactory result in the first half of the year, which is mainly benefited from the following 5 aspects:

1. Expansion of Product Types is Making Contribution in Profit

In the period under preview, unique new products of the Company commenced production and launched with positive reaction from the market, and such products further contributed to the increase of profit by becoming a new source of revenue. Products includes:

I. Perilla Oil Capsule

Perilla Oil Capsule is a Category II New Drug in the PRC which is a brand new product in PRC pharmaceutical market, and also a leading healthcare medicine with strong efficacy but zero side effects. Comparing with the normal hyperlipidemia control western medicines, this product has more outstanding efficacy in increasing high density lipoproteins. Having low toxicity and zero side effects, so far there is no other similar medicine in the PRC.

Perilla Oil Capsule is the key exclusive product of Wuyi Pharmaceutical, the Company commenced its production and launch to the market in March after obtaining the authorization for production and sales from the State Food and Drug Administration.

Wuyi Pharmaceutical also adopts a series of selling strategy for conducting key market promotion. The Company firstly expands into the market of northeastern region and actively undergoes marketing and sales activities. Due to the long term diet style and culture, people in the northeastern region of China are used to greasy and strong flavoured food which results in hyperlipidemia common in the region, thus, the eastern and northern regions of China is currently the key market of the product. In addition, as a sales method, the Perilla Oil Capsule is positioned as a healthcare product to increase its attractiveness, so as to expand into a bigger consumer group. The Company is committed to widen the sales channel to relatively affluent regions. By way of establishing "community club", the Company meets with the community and consumers (especially those with hyperlipidemia) and hold seminars to share ways of staying healthy regularly, in order to deepen the acknowledgement of Perilla Oil Capsule in the market while building a firmer long term relationship with the customers.

As Perilla Oil Capsule is the unique product of Wuyi Pharmaceutical, therefore, the Company can determine the price and review and formulate pricing strategy according to the market acceptance and preference. During the period under review, Perilla Oil Capsule has been very popular in the market and sales revenue recorded approximately RMB18.2 million in three months. The company expected that the sales of Perilla Oil Capsule will be even higher and benefit the Company with material contribution of earnings.

II. Yuxingcao Injectibles

Fujian Sanai, a wholly-owned subsidiary of the Company is among the three enterprises in the PRC which have obtained approval to produce Yuxingcao Injectibles. Since the State Food and Drug Administration granted approval to Fujian Sanai to resume production and sales of Yuxingcao Injectibles in November 2007, the Company had resumed its production during the period under review.

As at 30 June, Yuxingcao Injectibles contributed to Wuyi Pharmaceutical with approximately RMB13.3 million of sales revenue in the first half of year.

The main raw material of Yuxingcao Injectibles is Yuxingcao. Its production is also under strict control of related state departments. Currently those departments have prohibited the manufacturers from producing medicine by dry Yuxingcao. Wuyi Pharmaceutical operates its Yuxingcao production base in the southern region of China which can inexhaustibly plant and produce fresh Yuxingcao, ensuring its stable supply while controlling and lowering the production cost effectively. Comparing with other five companies which produce dry Yuxingcao and fresh Yuxingcao, Fujian Sanai had higher popularity in China and absolute advantage in production. On the other hand, the production base is committed to effectively regulate quality control on products, while the content of the main composition Yuxingcao is higher than other Yuxingcao products produced by other companies as a result of adequate supply, and therefore the quality and efficacy of Yuxingcao Injectibles are ensured and enhance its competitiveness in the market. These factors have enormously enhanced the competitive advantage of sale of Yuxingcao Injectibles of Wuyi Pharmaceutical.

III Other products

During the period, apart from the new products which brought new sources of revenue for the Company, N(2)-L Alanyl-L-Glutamine Injectible (especially for severe patients) and Xiangdan Injectibles (a parenteral nutritional agent especially for cardio-cerebrovascular diseases), the western medicines produced by the Company, were still the products with the highest sales volume during the period, of which the gross profit margin amounted to approximately 74.2% and 53.8% respectively. These two products contributed approximately RMB54.2 million and RMB44.4 million to the sales revenue of Wuyi Pharmaceutical.

2. Expansion and construction of plants to increase production capacity

The on-site investigation of the Subsidiary Fuzhou Sanai was passed by the State Food and Drug Administration in last year and the plant has also commenced its operation. As at the end of June, the new plant had produced approximately 55.0 million Perilla Oil Capsule. The Company expects by the end of this year approximately 190.0 million capsules will be produced, reaching 20% of the production capacity. Apart from producing Perilla Oil Capsule, the production lines of plant of Fuzhou Sanai are also up to the requirements to produce other products, which enable the Company to produce and introduce suitable medicines to cope with changes in market demand.

3. Establishment of a trading company to explore revenue sources

In order to adapt the new sale strategy in the PRC, Fujian Sanai could only sell self-produced products but not products of other enterprises. In view of that, Wuyi Pharmaceutical established a new trading company as a sales agency for other medicines with stable quality produced by other manufacturers, so as to enjoy the benefit of the existing sales channel in full and explore new revenue source at the same time. The trading company is going through the procedures of obtaining certificates and is expected to commence operation in a short period.

4. **Advertisement enhancing popularity of products**

Wuyi Pharmaceutical is dedicated to enhance the brand and image and the popularity of products. During the period, the Company actively promoted its brand with an investment of approximately RMB6.5 million for the first broadcast of advertisement in the PRC TV channels, which had an extensive coverage reaching the weather forecast program of China Central Television. The consumer market had very positive feedback to the advertisement, the popularity of the brand and turnover were then raised significantly. The turnover of the period increased 20.3% over the corresponding period of last year.

5. **Exploration of sales network**

During the period under review, the Group's sales networks has distributed in 22 key provinces, cities, autonomous regions and municipality cities in the whole country, mainly covering the affluent coastal cities and provinces of the eastern region and northeastern region of China. During the period under review, the Group further increased 4 new distributors thus increased its numbers of distributors to 59 which enable stable development of sales networks. On the other hand, the Group continued to actively explore end market in rural area, and make use of the distribution network of "Jointown" to promote the product distribution in the rural communities in a dozen of southern provinces.

OUTLOOK AND FUTURE DEVELOPMENT

The management believes that, with the reform of the state medical and health policies, the whole medical structure will be expanded, and at the same time, demand for high quality medicines will continue to increase. Based on its market leadership and brand advantage, the Company believes that it has such competitiveness to seize the enormous commercial opportunities in the medicine products market.

1. **Expansion of plants to increase production capacity**

Besides the commencement of production in the Mawei plant, the Company's new plant at Jianyang city of Fujian province has also been under preparation. At the moment, preparation works at Jianyang new plant has progressed smoothly, with infrastructure facilities and application of related licenses. The construction work has also entered the stage of budgeting and tendering, and will commence in August to September this year as planned.

The first phase of construction of the new plant, with a construction area of about 60,000 square meters, is about 3 times of the present injectibles production area so as to meet development needs of the Company in the coming years. The production capacity will treble the existing capacity. Besides production of more than ten existing products, the new plant at Jianyang is also capable of packaging such medicines in glass as well as plastic bottles in accordance with and meets market trends and consumer needs.

2. **Establishment of a trading company**

A new trading company will be established as a sales agency for other medicines produced by other manufacturers, so as to explore new revenue sources for the Company. The trading company is going through the procedures of obtaining certificates and is expected to commence operation in a short period. The Company is currently discussing with potential manufacturers with regard to cooperation opportunities and models, related agreements are expected to be entered into in the second half of the year with the hope to bring new income sources for the Company in the near future.

Enhance R&D capabilities

To speed up the R&D process of new products and make full advantage of its scientific and technological strengths, Fujian Sanai has entered into an agreement for joint construction of laboratories with Peking University's Faculty of Medicine in 2007. Pursuant to the agreement, Peking University will arrange experts from its Faculty to conduct R&D for new medicines with self owned intellectual properties for "Peking University Sanai New Drugs Research Laboratory". Upon successful R&D, Fujian Sanai may share such results of the R&D and acquire sole production rights. Related R&D have been progressing in accordance with plans.

FINANCIAL REVIEW

1. Turnover

The Group's turnover recorded approximately RMB359.9 million (30 June 2007: approximately RMB299.1 million), representing an increase of 20.3% as compared to the same period of last year. During the period under review, the Group launched three types of Chinese medicines such as Yuxingcao Injectibles and Perilla Oil Capsule, which made significant contributions for the period. These three new Chinese medicines accounted for approximately 10.4% of the overall sales revenue. Perilla Oil Capsule, a brand new Chinese medicine in the PRC launched to the market in March 2008, contributed approximately RMB18.2 million to the sales revenue in only three months after launching, representing approximately 5.1% of the overall sales revenue. Meanwhile, the production and sale of Yuxingcao Injectibles, another new product of the Group were resumed. Such product contributed approximately RMB13.3 million of sales revenue to the Company in the first half of the year, representing approximately 3.7% of overall sales revenue.

Turnover for the first half of the year was still dominated by Western medicines, with a turnover of RMB206.9 million, representing approximately 57.5% of the overall turnover, an increase of 4.4% over the same period of last year (30 June 2007: approximately RMB198.1 million, representing approximately 66.2% of the overall turnover). Turnover of Chinese medicines amounted to approximately RMB153.0 million, representing approximately 42.5% of the overall turnover, an increase of approximately 51.4% over the same period of last year (30 June 2007: approximately RMB101.0 million, representing approximately 33.8% of the overall turnover). The highest sales was again achieved by the Western medicine, N(2)-LAlanyl-L-Glutamine Injectible, with a turnover of approximately RMB54.2 million, representing approximately 15.1% of the overall turnover (30 June 2007: approximately RMB52.4 million, representing approximately 17.5% of the overall turnover). Sales of the 5 top selling medicines amounted to approximately RMB175.6 million, representing approximately 48.8% of the overall turnover (30 June 2007: approximately RMB168.6 million, representing approximately 56.4% of the overall turnover).

2. Gross profit and Gross Profit Margin

Gross profit of the Group increased to approximately RMB187.0 million, representing an increase of 26.1% over the same period of last year (30 June 2007: approximately RMB 148.3 million). Gross profit margin increased by approximately 2.4% points to approximately 52.0% over the same period of last year (30 June 2007: approximately 49.6%). Related proportion of cost of goods sold, including raw material, packaging material, energy and fuel costs, and direct labor cost remained essentially the same compared with the same period of last year, except that such related amount increased in 2007 with sales volume.

During the period under review, the increases in gross profit and gross profit margin were mainly benefited from the sales of higher profit margin products such as Perilla Oil Capsule. Such product had gross profit margin of over 70.0%. On the other hand, the Company continued to adhere to its strategy of business development of distribution network expansion, with number of distributors increasing to 59, sales volume was also effectively increased. The Group launched new products for sustainable increase in sales, and such optimization of product structure brought contributions in gross profit. During the period under review, the overall gross profit margin increased significantly as the Group focused on the production of medicines with high return and effect.

3. Profit for the period

During the period under review, the two wholly owned subsidiaries in the PRC still enjoyed a preferential tax arrangement of tax exemption for the first two years and 50% reduction for the following three years, with the taxation expenses of RMB 19.4 million (30 June 2007: nil) and the effective tax rate was 12.5% (30 June 2007: nil). Albeit this, profit for the period reached approximately RMB136.4 million, representing a significant increase of 25.1% from the same period of 2007 (30 June 2007: approximately RMB109.0 million). It is mainly because of the non-recurrence of administrative and other expenses amounting in aggregate of approximately RMB22.2 million (30 June 2008: nil) of professional fees and share issue expenses incurred for the Hong Kong and International offering of the Company's shares, and exchange loss brought by the appreciation of RMB against Hong Kong Dollar amounting to approximately RMB12.0 million (30 June 2008: approximately RMB2.5 million). The administrative and other expenses during the period thus decreased significantly by 55.7 % to approximately RMB20.8 million (30 June 2007: approximately RMB47.0 million).

Finally, distribution expenses of the Group increased 149.1% to approximately RMB13.7 million (30 June 2007: approximately 5.5 million), mainly attributable to the total expenses of various TV advertisements in the PRC of approximately RMB6.5 million which was increased by the two wholly owned subsidiaries of the Company in the PRC (30 June 2007: approximately RMB34,000). These promotion efforts had increased the brand recognition of "Sanai Pharmaceutical" of the Group's wholly owned subsidiary.

4. Liquidity and Financial Resources

The Group maintains a stable financial position. As at 30 June 2008, the Group had bank balances and cash of approximately RMB1,148.8 million (31 December 2007: approximately RMB1,102.5 million) and short-term bank loans of RMB5.0 million (31 December 2007: RMB35.0 million). All short-term bank loans were denominated in RMB and at prevailing market interest. During the period, the Group did not use any financial instruments for any hedging purpose.

The gearing ratio representing the ratio of short-term bank loans to total equity of the Group was 0.4% as at 30 June 2008 (31 December 2007: 2.6%).

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 all of its bank deposits are in Renminbi and Hong Kong dollars. As at 30 June 2008, 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 is not exposed to any material interest and exchange risks.

6. Significant Acquisitions and Disposals of Investments

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

7. The Number and Remuneration of Employees

As at 30 June 2008, the Group employed approximately 441 employees (31 December 2007: 346 employees). The Group determines staff remuneration in accordance with prevailing market salary scales, individual qualifications and performance. Remuneration packages including performance bonuses and entitlements to share options are reviewed on regular basis.

8. Charges on Group Assets

As at 30 June 2008, the net book value of furniture, fixtures and equipment of RMB6.5million (31 December 2007: RMB6.6 million) includes an amount of approximately RMB17,000 (31 December 2007: approximately RMB18,000) in respect of assets held under a finance lease.

9. Contingent Liabilities

As at 30 June 2008, the Group did not have any contingent liabilities (31 December 2007: Nil).

10. Capital Expenditure

During the period under review, capital expenditure of the Group for property, plant and equipment amounts to approximately RMB273,000.

11. Capital Commitments

As at 30 June 2008, the Group had capital expenditure contacted for but not provided in the financial statements amounts to approximately RMB59.0 million (31 December 2007: approximately RMB59.0 million).

12. Use of Proceeds

The net proceeds raised from the initial public offering after deducting relevant share issue expenses and the general working capital was amounts to approximately RMB683.0 million.

Up to 31 December 2007, the Company applied approximately RMB230.0 million and approximately RMB114.7 million to the capital injection in our two major subsidiaries in the PRC Fujian Sanai and Fuzhou Sanai respectively. The capital injected to these two subsidiaries is intended to be used in the construction and expansion of new plants and production lines in Fuzhou and Jianyang. In addition, approximately HK$62.0 million (equivalent to approximately RMB62.0 million) had been used for repayment of an interest-free shareholder's loan for the acquisition of a 40% interest in Fuzhou Sanai from Mr. Lin Ou Wen.

Up to 30 June 2008, the Group has spent approximately RMB6.5 million for promotion our brand through advertisement in some major national TV channels in the PRC.

The remaining balance of proceeds was placed in short term deposits with licensed commercial banks.

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2008. Accordingly, no closure of the Register of Members of the Company is proposed.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to the eligible participants who contribute to the growth and development of the Group. The 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 2008, no share option has been granted under the share option scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARE, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2008, the interests or short positions of the Directors and Chief Executives in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules were as follows:

Name of Directors	Company/name of associated corporation	Capacity	Number of Shares (Note 1)	Approximate percentage of interest
Mr. Lin Ou Wen	The Company	Controlled corporation (Note 2)	248,704,000 (L)	14.55%
		Interest of spouse (Note 3)	42,438,267 (L)	2.48%
Mr. Ling Qing Ping	The Company	Controlled corporation (Note 4)	331,520,000 (L)	19.39%
Mr. Xu Chao Hui	The Company	Controlled corporation (Note 5)	17,488,000 (L)	6.87%
Mr. Dennis Luan Thuc Nguyen	The Company	Controlled corporation (Note 6)	37,063,500 (L)	2.17%
Mr. Tang Bin	The Company	Controlled corporation (Note 7)	88,442,000 (L)	5.17%

Note:

1. The letter "L" denotes long position in the Shares.

2. These Shares are registered in the name of Thousand Space Holdings Limited, which is wholly owned by Mr. Lin Ou Wen who is deemed to be interested in all the Shares in which Thousand Space Holdings Limited is interested by virtue of the SFO.

3. 136,151,000 Shares are registered in the name of Orient Day Management Limited, which is owned as to 23.38%, 45.45% and 31.17% by Mr. Lin Qing Mei, Mr. Liu Dao Hua and Ms. Xue Mei respectively. Mr. Lin Ou Wen is deemed to be interested in all the Shares in which Ms. Xue Mei, his spouse, is interested by virtue of the SFO.

4. These Shares are registered in the name of Bright Elite Management Limited, which is wholly owned by Mr. Lin Qing Ping, our Executive Director, who is deemed to be interested in all the Shares in which Bright Elite Management Limited is interested by virtue of the SFO.

5. These Shares are registered in the name of Loyal More Group Limited, which is owned as to 66.67% and 33.33% of its entire share capital by Messrs. Xu Chao Hui, our Executive Director, and Mr. Chen Bo Mei respectively. Mr. Xu Chao Hui is deemed or taken to be interested in all the Shares in which Loyal More Group Limited is interested by virtue of the SFO.

6. These Shares are registered in the name of NAP, which is wholly owned by Paradigm Capital Limited. Ms. Fan Li Rong, spouse of Mr. Dennis Luan Thuc Nguyen, holds100% of the share capital in Paradigm Capital Limited. Mr. Dennis Luan Thuc Nguyen, our Executive Director, is deemed or taken to be interested in all the Shares in which NAP is deemed or taken to be interested by virtue of the SFO.

7. These Shares are registered in the name of Good East Management Limited, which is owned as to 64.52% and 35.48% of its entire share capital by Messrs. Tang Bin, our Non-executive Director, and Mr. Chen Shi Yan respectively. Mr. Tang Bin is deemed or taken to be interested in all the Shares in which Good East Management Limited is interested by virtue of the SFO.

Save as disclosed above, none of the Directors or Chief Executive of the Company aware of any other Director or Chief Executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of the Company or any associated corporation as at 30 June 2008.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the first six months of 2008 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2008, the interests and short positions of the following shareholders, other than a Director or Chief Executive of the Company, in the shares or underlying shares or debentures of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO are as follows:

Name of Shareholder	**Company/name of subsidiary**	**Capacity**	**Number of Shares** (Note 1)	**Approximate percentage of shareholding**
Bright Elite Management Limited	The Company	Beneficial owner	331,520,000 (L)	19.39%
Mr. Lin Qing Ping	The Company	Controlled corporation (Note 2)	331,520,000 (L)	19.39%
Thousand Space Holdings Limited	The Company	Beneficial owner	248,704,000 (L)	14.55%
Mr. Lin Ou Wen	The Company	Controlled corporation (Note 3)	248,704,000 (L)	14.55%
		Interest of spouse (Note 4)	42,438,267 (L)	2.48%
Ms. Xue Mei	The Company	Interest of spouse (Note 4)	248,704,000 (L)	14.55%
		Controlled corporation (Note 4)	42,438,267 (L)	2.48%
Orient Day Management Limited	The Company	Beneficial owner	136,151,000 (L)	7.96%
Mr. Liu Dao Hua	The Company	Controlled corporation (Note 4)	136,151,000 (L)	7.96%
Orchid Asia III, L.P.	The Company	Beneficial owner	117,952,000 (L)	6.90%

Name of Shareholder	Company/name of subsidiary	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
Orchid Asia Group Management Limited	The Company	Controlled corporation (note 5)	117,952,000 (L)	6.90%
Orchid Asia Group Limited	The Company	Controlled corporation (note 5)	117,952,000 (L)	6.90%
YM Investment Limited	The Company	Controlled corporation (note 6)	121,600,000 (L)	7.11%
Ms. Lam Lai Ming	The Company	Founder of trust	133,612,500 (L)	7.81%
Mr. Gabriel Li	The Company	Founder of trust	133,612,500 (L)	7.81%
Manage Corp Limited	The Company	Trustee	133,612,500 (L)	7.81%
Loyal More Group Limited	The Company	Beneficial owner	117,488,000 (L)	6.87%
Mr. Xu Chao Hui	The Company	Controlled corporation (Note 7)	117,488,000 (L)	6.87%
Mr. Chen Bo Mei	The Company	Controlled corporation (Note 7)	117,488,000 (L)	6.87%
Pope Investments LLC	The Company	Beneficial owner	102,400,000 (L)	5.99%
Pope Asset Management LLC	The Company	Controlled corporation (note 8)	102,400,000 (L)	5.99%
Well Williams P	The Company	Controlled corporation (note 8)	102,400,000 (L)	5.99%
Good East Management Limited	The Company	Beneficial owner	88,442,000 (L)	5.17%
Mr. Tang Bin	The Company	Interest of controlled corporation (note 9)	88,442,000 (L)	5.17%
Mr. Chen Shi Yan	The Company	Interest of controlled corporation (note 9)	88,442,000 (L)	5.17%
Credit Suisse (HongKong) Limited	The Company	Beneficial owner	133,545,000 (L) 66,772,500 (S)	7.81% 3.90%
Credit Suisse (International) Holding AG	The Company	Interest of controlled corporation (notes 10 and 11)	133,545,000 (L) 66,772,500 (S)	7.81% 3.90%
Credit Suisse	The Company	Interest of controlled corporation (notes 10 and 11)	133,545,000 (L) 66,772,500 (S)	7.81% 3.90%

Notes:

(1) The letter ''L" denotes long position in the Shares and the letter "S" denotes short position in the Shares.

(2) These Shares are registered in the name of Bright Elite Management Limited, which is wholly owned by Mr. Lin Qing Ping, our Executive Director, who is deemed to be interested in all the Shares in which Bright Elite Management Limited is interested by virtue of the SFO.

(3) These Shares are registered in the name of Thousand Space Holdings Limited, which is wholly owned by Mr. Lin Ou Wen who is deemed to be interested in all the Shares in which Thousand Space Holdings Limited is interested by virtue of the SFO.

(4) These Shares are registered in the name of Orient Day Management Limited, which is owned as to 23.38%, 45.45% and 31.17% by Mr. Lin Qing Mei, Mr. Liu Dao Hua and Ms. Xue Mei, spouse of Mr. Lin Ou Wen, respectively, therefore Mr. Liu Dao Hua is deemed to be interested in the Shares held by Orient Day Management Limited for the purpose of the SFO. Ms. Xue Mei is the spouse of Mr. Lin Ou Wen, therefore, she is deemed to be interested in the Shares of which Mr. Lin Ou Wen is deemed to be interested in for the purpose of the SFO and vice versa.

(5) These Shares are registered in the name of Orchid Asia III, L.P., which is controlled by Orchid Asia Group Management Limited, which is controlled by Orchid Asia Group Limited.

(6) Among these Shares, 3,648,000 Shares are registered in the name of Orchid Asia Co-Investment Limited, which is controlled by YM Investment Limited and the remaining 117,952,000 are registered in the name of Orchid Asia III, L.P., which is controlled by Orchid Asia Group Management Limited, which is controlled by Orchid Asia Group, which is controlled by YM Investment Limited.

(7) These Shares are registered in the name of Loyal More Group Limited, which is owned as to 66.67% and 33.33% of its entire share capital by Messrs. Xu Chao Hui, our Executive Director, and Mr. Chen Bo Mei respectively, therefore, Messrs. Xu Chao Hui and Chen Bo Mei are deemed to be interested in all the Shares held by Loyal More Group Limited for the purpose of the SFO.

(8) These Shares are registered in the name of Pope Investments LLC, which is controlled by Pope Asset Management LLC, which is controlled by Wells William P.

(9) These Shares are registered in the name of Good East Management Limited, which is owned as to 64.52% and 35.48% of its entire share capital by Mr. Tang Bin and Mr. Chen Shi Yan respectively. Mr. Tang Bin is deemed or taken to be interested in all the Shares in which Good East Management Limited is interested by virtue of the SFO.

(10) These Shares are registered in the name of Credit Suisse (Hong Kong) Limited, which is owned as to 94.75% by Credit Suisse (International) Holding AG, which is in turn wholly owned by Credit Suisse. Therefore, Credit Suisse (Hong Kong) Limited, Credit Suisse (International) Holding AG and Credit Suisse are deemed or taken to be interested in all the Shares held by Credit Suisse (Hong Kong) Limited for the purpose of the SFO.

(11) These Shares are registered in the name of Credit Suisse (Hong Kong) Limited, which is owned as to 94.75% by Credit Suisse (International) Holding AG, which is in turn wholly owned by Credit Suisse. Therefore, Credit Suisse (Hong Kong) Limited, Credit Suisse (International) Holding AG and Credit Suisse are deemed to hold or hold a short position of 66,772,500 Shares as defined under Part XV of the SFO.

Save for the disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under 336 by the SFO as at 30 June 2008.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2008.

CODE OF BEST PRACTICE

The Company has adopted the code provision of the Code on Corporate Governance Practices (the "Code") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The Company had complied with the provision of the Code set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") throughout the accounting period covered by the interim report, except for a deviation from provision A.2.1 of the Code that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The roles of Chairman and Chief Executive Officer of the Company have been performed by Mr. Lin Ou Wen. The Board considers that vesting the roles of Chairman and Chief Executive Officer in the same person facilities the execution of the Company's business strategies and maximizes the effectiveness of its operations.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the company by the Directors. Having made specific enquiry, the Company confirms that all Directors have complied with the required standards set out in the Model Code during the six months ended 30 June 2008.

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules and appointed three independent non-executive Directors including one with financial management expertise, details of their biographies were set out in the 2007 Annual Report of the Company.

AUDIT COMMITTEE

The audit committee comprises the three Independent Non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters, including the review of the unaudited interim results with no disagreement for the six months ended 30 June 2008.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

PUBLICATION OF INTERIM RESULTS ON THE WEBSITES OF STOCK EXCHANGE AND THE COMPANY

The 2008 Interim Report will be dispatched to Shareholders as well as made available on Stock Exchange's website at www.hkexnews.hk and the Company's website at www.wuyi-pharma.com.

APPRECIATION

I would like to take this opportunity to express our sincere appreciation of the support from our shareholders. I would also like to thank my fellow Directors for their valuable contribution and the staff members of the Group for their commitments and dedicated services throughout the period.

On behalf of the Board
LIN OU WEN
Chairman

Hong Kong, 10 September 2008