Annual Report 2008

武夷药业
Wuyi Pharmaceutical

Wuyi International Pharmaceutical Company Limited

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

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lin Ou Wen *(Chairman)*

Mr. Lin Qing Ping

Mr. Xu Chao Hui

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), FCCA, ACIS and ACS

AUTHORIZED REPRESENTATIVES

Mr. Lin Ou Wen

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

AUDIT COMMITTEE

Mr. Lam Yat Cheong *(Chairman)*

Mr. Goh Jin Hian

Mr. Liu Jun

REMUNERATION COMMITTEE

Mr. Lin Ou Wen *(Chairman)*

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

CCIF CPA Limited

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

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

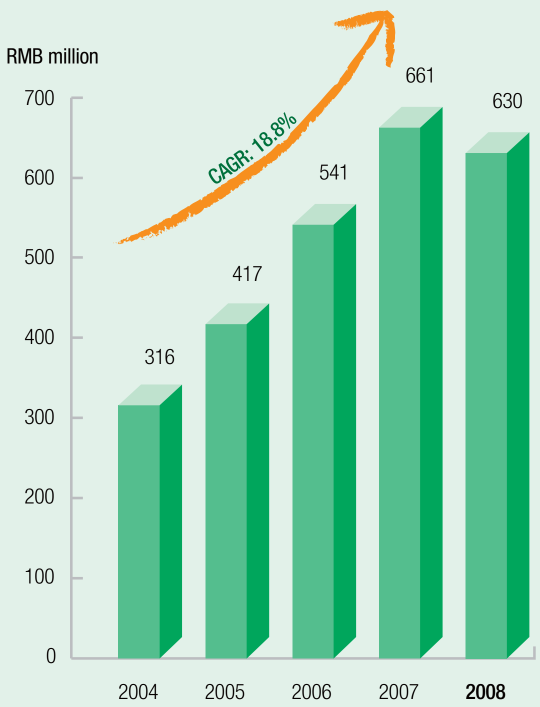
1889

WEBSITE

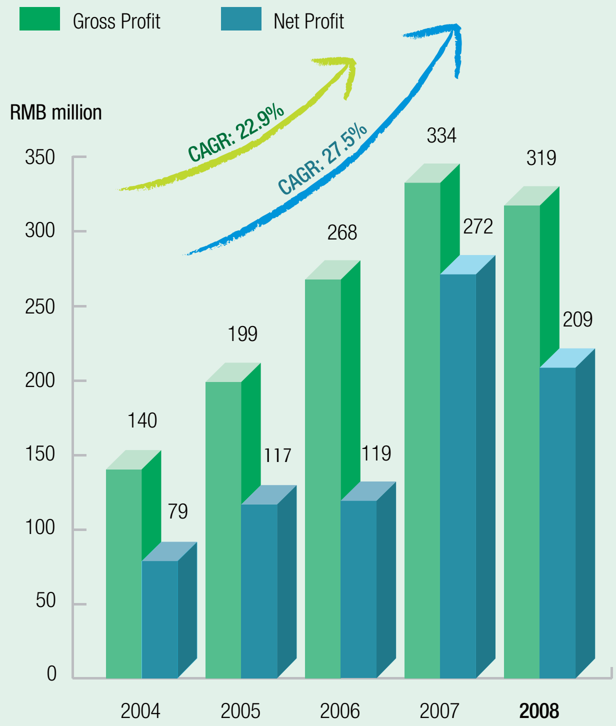
www.wuyi-pharma.com

Financial Highlights

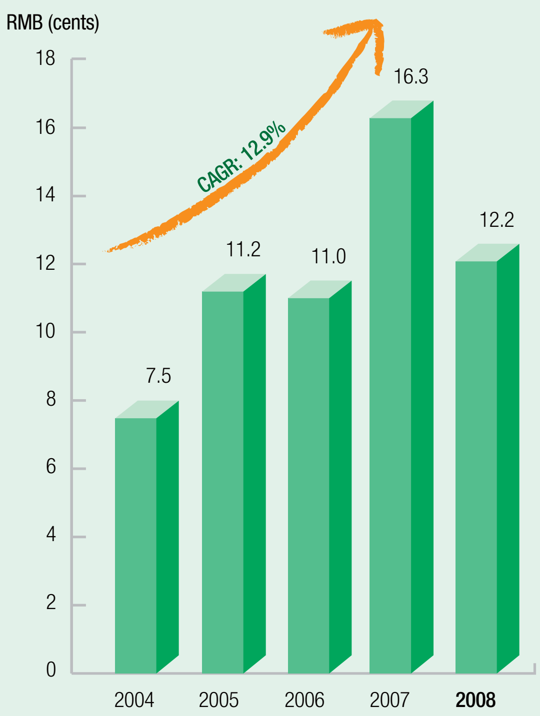
Turnover



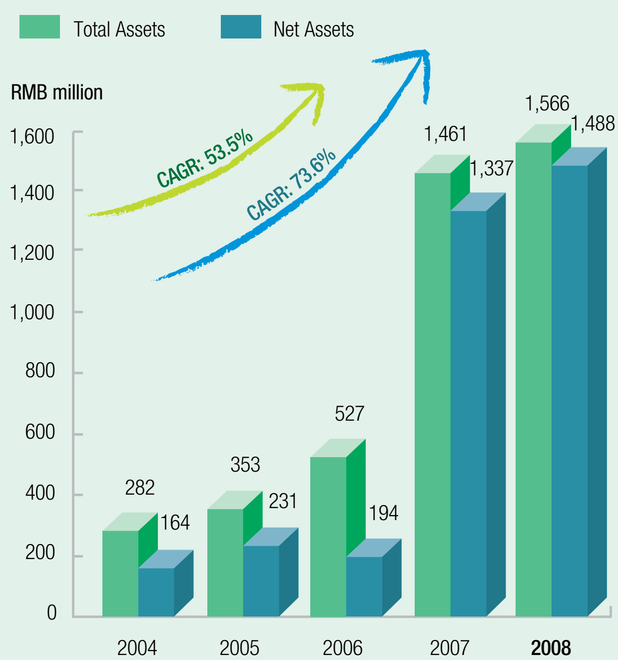
Gross Profit & Net Profit



Earnings per share - Basic



Total Assets & Net Assets



Chairman's Statement

To All Shareholders

On behalf of the Board of Directors (the "Board"), I am pleased to present to the shareholders the annual results and operations of Wuyi International Pharmaceutical Company Limited ("Wuyi Pharmaceutical" or the "Company") and its subsidiaries (collectively, the "Group") for the financial year ended 31 December 2008.

Business Review

Reviewing 2008, the financial crisis swept through the world and many sectors suffered impact to a certain extent. Although the Group's business has an excellent performance in the first half of the year, the economic downturn in the second half of the year affected consumptions including an obvious decrease of expenditure on drugs. In addition, the monitoring period of our new product has expired and certain manufacturers took some market share with imitated products. All these affected sales of our pharmaceutical products. Furthermore, incidents occurred involving Chinese medicine injectibles from a number of drug manufacturers in the north, and the sales of our Chinese medicine injectibles was also affected subsequently. The turnover and profit of the Group for the year ended 31 December 2008 was approximately RMB630.3 million and RMB208.9 million respectively, a decrease of approximately 4.6% and 23.2% as compared to last year.

As a return of investment to our shareholders, the Board recommended the payment of a final dividend of HK$3.3 cents per share with a dividend payout ratio cap of approximately 30% after deduction of the PRC Statutory Reserve Fund of approximately RMB46.3 million.

During the year under review, we have actively extended our sales network, which now covers 20 key provinces, cities, autonomous regions and municipality cities in the whole country, and the number of our distributors increased to 59. In addition, we also actively explore market in rural area, and develop 2A and 2B grade county hospitals and community hospitals, and make use of the distribution network of Jointown Group Co., Ltd. ("Jointown") to distribute products to health centers in villages and towns and to promote our product distribution in the rural communities. As a result, the proportion of business from this market increased to 9.6% in 2008 from 7.8% of 2007. Since the rural market has a huge development potential, we expect the proportion of such operation will increase further in the future.

As for our products, the Group launched Perilla Oil Capsule, our key pharmaceutical product, since March 2008, and strategically focused on 9 economically more developed cities and provinces as its sales market. With a series of highly effective advertising strategies, the product was well received

as expected after its launch, with the highest sales volume recorded in Zhejiang Province and Jiangsu Province. The product has made a significant contribution to the Group's turnover during the period. We have resumed production and sales of Yuxingcao Injectible, another key product of the Group, since November 2007 with approval of the State Food and Drug Administration, and become one of the three enterprises approved to produce the Yuxingcao Injectible in the PRC. We have specially established a production base in southern China to grow Yuxingcao, so as to control cost effectively and enhance product quality and competitiveness. The product was also very well received after launch and achieved a market share of 20.0% by the end of 2008.

As for pharmaceutical product development, Fujian Sanai Pharmaceutical Co., Ltd. ("Fujian Sanai") made agreement with Peking University's Faculty of Medicine to conduct research for new drugs in order to accelerate the process of research and development for new products. Fujian Sanai has the exclusive right for the production of new drugs developed. One of the such drug is the new anti-hepatitis compound drug Liver & Gall Bladder Tablets ("複方肝膽片") developed in cooperation with Peking University's Faculty of Medicine, and the drug has completed toxicity test and entered into the stage of efficacy testing.

In diversifying our source of income, we have established Fujian Sanai Pharmaceutical Trading Co., Ltd. (福建三愛醫貿有限公司) ("Sanai Pharmaceutical Trading") in the first half of 2008, which has begun sales agency operation in the second half of 2008 selling 7 drugs with stable quality produced by other enterprises. As the operation of Sanai Pharmaceutical Trading develops, the proportion its sales revenue will increase continuously.

Future Prospect

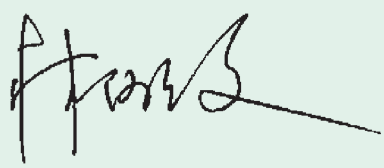
In January 2009, the central government held a State Council executive meeting and approved and passed principally the "Opinions Concerning Further Reform of the Medical and Health System" and the "Implementation Proposal on Further Reform of the Medical and Health System for 2009-2011". It was decided in the meeting that the government at various level will invest RMB850 billion in the 3 years period from 2009 to 2010 on initiatives such as to focus on and accelerate the establishment of a basic medical and health security system, to establish initially a national basic pharmaceutical system and to improve the primary medical and health service system. The five reforms advancing by the meeting indicated the determination of the government to implement medical reform. The Group is of the opinion that as the living quality of the people improve and the government's massive investment to promote medical development, the demand for high quality pharmaceutical products will increase further, which will be beneficial for the development of the Group's business.

Furthermore, we will intensify our effort in the development of rural market, and continue to make use of the distribution network of Jointown to promote the product distribution in the rural communities in a dozen of southern provinces, expanding our sales network even further. With effective advertising and promotion programs, we expect the sales proportion of rural market to increase significantly in 2009.We will also continue enhancing the popularity of "Sanai" brand and products through TV advertisements and academic promotion activities to achieve an extensive recognition of our products by the public and patients.

Even though the economic conditions of 2009 will remain severe, we are cautiously optimistic about the prospects of the Group. As the living conditions of the rural population improve further, the demand for high quality medical drugs will grow stronger, together with the extensive investment by the central government in the pharmaceutical industry in the coming years, the Group will be benefited. We will adhere to our operation strategies, capture market opportunities, actively develop our markets, strengthen research and development capability and strive for even better results.

As a socially responsible enterprise, the Group has been committed to enhancing the standard and transparency of its corporate governance and strictly complying with listing requirements. As the management became aware of the impact of market environment and transition of tax system on our operation performance, we proposed and issued a profit warning on 9 March 2009 through the Hong Kong Stock Exchange to provide investors with timely, accurate, complete and reliable information for their making informed decisions.

Last but not least, I would like to express my heart-felt gratitude on behalf of the Board to Wuyi Pharmaceutical's management teams and all the staff for their unfailing hard work and brilliant contributions, as well as to all shareholders for their continuous support to the Company. We pledge to do our best and lead Wuyi Pharmaceutical to create excellent results.



Lin Ou Wen
Chairman

Hong Kong, 14 April 2009


NATURE

Management Discussion and Analysis

Business Review

The Group recorded a turnover of approximately RMB630.3 million (2007: approximately RMB660.7 million) for the year 2008, a slight decrease of 4.6% from last year. Profit for the year was approximately RMB208.9 million (2007: approximately RMB272.1 million) decreasing 23.2% as compared to last year. Although the Group recorded a remarkable growth in the first half of 2008, the impact of the financial crisis mainly occurred in the second half of the year, which wiped out people's wealth in China and gave rise to a general cut on expenditures including on medicines and affected the Group's sales. In addition, as the protection period of some products became expired, certain manufacturers produced imitated products which took some market share. In addition, since there were incidents of adverse effect resulted from Chinese medicine injectibles produced by various pharmaceutical manufacturers in the north during 2008, the State Food and Drug Administration of the PRC stressed on "the careful usage of Chinese medicine injectibles/tightened regulatory rules", causing a decrease in the sales of the Group's Chinese medicine injectibles in the first half of the year. Other main cause for the decrease in profit was the increase in some expenses such as taxation and advertising expenses. However, our gross profit margin remained stable at a high level of approximately 50.6% despite the current difficult business conditions.

1. Product Development

i) Perilla Oil Capsule

In respect of products, the product we specially developed for the control of hyperlipidemia, Perilla Oil Capsule, was launched to the market since March 2008 and is a key product in our promotion. The Group noted the common occurrence of hyperlipidemia in the people of northeastern region due to their dietary style and living habits, and their preference of greasy and strong flavoured food. The Group therefore targeted eastern and northern China as our key strategic markets, and focused on 9 economically more developed cities and provinces for the marketing of Perilla Oil Capsule. The product was well received since its launch and its low toxicity and zero side effect made it popular in the market. It recorded ideal sales of over approximately RMB42.3 million in 2008 in Zhejiang Province and Jiangsu Province, representing approximately 28.3% and 20.5% of total sales respectively. Since Perilla Oil Capsule is a unique product of the Group, we can determine the price according to the market acceptance and preference. Therefore, we expect that the sales of Perilla Oil Capsule will continue to increase and benefit the Group with material contribution of earnings.

ii) Yuxingcao Injectible

Fujian Sanai Pharmaceutical Co., Ltd. ("Fujian Sanai"), a wholly-owned subsidiary of the Group, is one of the enterprises in the PRC which have obtained approval to resume production of Yuxingcao Injectible. The Group has resumed its production and sales of Yuxingcao Injectible (2 ml) since January 2008 with approval of the State Food and Drug Administration. In 2008, Yuxingcao Injectibles contributed sales revenue of approximately RMB22.5 million, representing a market share of approximately 20.0%.

The main raw material of Yuxingcao Injectible is Yuxingcao. Its production is also under strict control of relevant state departments. Currently those departments have prohibited the manufacturers from producing medicine by dry Yuxingcao. The Group operates its Yuxingcao production base to grow Yuxingcao and can therefore have an inexhaustible supply of fresh Yuxingcao. This not only ensures a stable supply of the fresh plant, but can also control and lower the production cost effectively, and can closely monitor and control product quality. These factors have enormously enhanced our competitive advantage in the product.

iii) Other products

The product with the highest sales volume during the year was N(2)-L Alanyl-L-Glutamine Injectible (a parenteral nutritional agent specifically for severe patients), its turnover was approximately RMB82.3 million, decreasing 23.3% from last year. The decrease in sales was mainly attributable to the lowering of consumption sentiment due to the economic downturn, and the increased market competition from imitated products produced by certain manufacturers as the protection periods of some products have expired.

While Xiangdan Injectible (specifically for cardio-cerebrovascular diseases), the Group's another product with ready sales volume, recorded sales revenue of approximately RMB74.8 million during the year. Furthermore, the new anti-hepatitis compound drug Liver & Gall Bladder Tablets ("複方肝膽片") developing under the cooperation of the Group and Peking University's Faculty of Medicine has been completed toxicity test and entered into the stage of efficacy testing.

2. **Business and market analysis**

   Regarding our business mix, prescription drugs remain the most important source of income for the Group, accounting for 80.8% of the total turnover, while non-prescription drugs and raw materials sales operation accounted for 11.5% and 5.6% respectively. In addition, the Group established Sanai Pharmaceutical Trading in the first half of 2008 to actively develop the drug sales agency operation. From July 2008, we began selling a total of 7 drugs for other enterprises, and recorded sales revenue of approximately RMB13.1 million for the year, representing 2.1% of the total turnover. As the operation of Sanai Pharmaceutical Trading develops, the proportion of sales revenue from the related sales agency operation will increase continuously.

   Regarding our markets, the Group has successfully established a solid business network in the first and second line cities. In view of the great development potential of the rural markets, the Group has been proactively developing the rural markets since 2007. We have achieved results from such effort since 2008, and successfully extended our business into the western region such as Xinjiang. Although the rural market currently only accounts for 1.1% of the Group's total turnover, since the market has huge potential and we will actively develop the market in the coming year, we believe the proportion of the rural market will rise remarkably in the future.

3. **Sales network**

   During the year, the Group's sales networks have been distributed in 20 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 number of its distributors to 59 which enables stable development of sales networks. On the other hand, the Group continued to actively explore 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.

Outlooks and Future Development

The PRC government launched the proposal for further reform of the medical and health system in September of 2008, allocating significantly more resources to promote development of the medical sector. Together with the sustaining growth of the pharmaceutical product market in the PRC and the great demand for high quality pharmaceutical products from rural market and end consumers, the Group believes that Wuyi Pharmaceutical, as a specialized pharmaceutical enterprise with competitive advantages in the PRC, will be benefited in such circumstances. Despite the severe economic conditions and numerous uncertainties in 2009, in view of the government's determination in supporting the development of pharmaceutical industry, we are cautiously optimistic about the business prospects of the Group.

1. **Benefit from medical reform in the PRC**

   The State Council initially issued the opinion collecting draft "Opinions Concerning Further Reform of the Medical and Health System" (the "Opinions Draft") in September of 2008, and approved and passed principally the Opinions Draft and the "Implementation Proposal on Further Reform of the Medical and Health System for 2009-2011" in January 2009. In which it was decided to focus on the implementation of five reforms on the basic medical and health security system, and expressly indicated that approximately RMB850 billion will be invested to achieve milestone targets, for the period from 2009 to 2011. By 2011, the basic medical and health security system will fully cover residents in cities and urban area and the accessibility and quality of basic medical and health service will be enhanced significantly. Medical burden of the people will also be significantly reduced, and the problem of "difficulty in getting and affording medical care" will be alleviated.

The Group is expected to be benefited from three reforms under the Opinions Draft, including:

i. Accelerating the establishment of a basic medical and health security system – to achieve an insurance participation of above 90% for basic medical insurance and new rural cooperation medical insurance by employees and residents in cities and towns within 3 years. By 2010, the medical insurance subsidies for residents in cities and towns will be raised to RMB120 per person a year, and appropriately raised the payment standard, reimbursed proportion and payment limit of individuals.

   The Group believes that this reform will enhance the standard of medical security effectively. The overall medical spending power and demand for medical service of the grass-roots end users will be lifted. Great effort has been put to support the development of villages and townships by the PRC government in recent years, which are the market the Group has been actively developing. With support of policies and increase in spending power, there will be a huge development potential.

ii. Initially establishing a national basic pharmaceutical system – to establish a mechanism for basic drugs directory selection, adjustment and management and a supply securing system in a scientific and reasonable manner, and incorporate all basic drugs into the medical insurance reimbursement directory. Products listed in the national basic drugs directory are likely to enjoy an increase in market share and sales.

   The Perilla Oil Capsule developed by the Group, which is currently the only type of health drug in the market, has been launched to the market less than a year and has not yet been listed on the national medical insurance directory. Hence its full market potential is yet to be released and this has affected sales of the drug. The Group will strive to promote the entrance of the drug into the national medical insurance directory, and this is one of the Group's most important targets in 2009.

iii. Improving the primary medical and health service system – to focus on strengthening the construction of county hospitals and Chinese medicine hospitals, village and town health centers, clinics in remote areas and villages, community health service centers in poor area and cities.

   The Group believes that a complete primary medical and health service construction will drive drug consumption. The demand from communities for the overall medical care and quality drug will also increase gradually, which will create opportunities for the Group's business development generally.

2. Greater effort on development of rural market

In view of the great development potential of rural market, the Group has been actively developing rural end market in recent years. For the further development of our sales network, we will continue to make use of the nationwide distribution network of Jointown to promote the product distribution in the rural communities in a dozen of southern provinces. Meanwhile, the Group will add more salesmen in rural market offices to promote our drugs to village and town's first rank health centers, strengthen the relationship with communities, and enhance our brand awareness. The Group expects to increase the proportion of sales in rural market in 2009 through effective advertising and promotion programs.

3. Enhancement of the popularity of enterprise and products

The Group will continue in enhancing the popularity of "Sanai" brand and products by TV advertisements and academic promotion activities, securing an extensive recognition of our brand by the society and patients. During 2009, the Group will continue in allocating resources for advertising expenses and recruiting professional specialists to hold academic promotional seminars throughout the country for staff from the relevant industries. Through such seminars, doctors and patients will have a clearer understanding of the pharmacology, effect and benefits of our products and built confidence and loyalty towards the "Sanai" brand.

4. **Development target for new products**

The Pazufloxacin Mesilate Injectible and Omeprazole Enteric-Coated Capsule of the Group are undergoing approval procedures in accordance with the registration and administration measures, and pending approval from State Food and Drug Administration for launching in market. The former is specifically for curing sensitive bacterial infection and chronic infection of the second respiratory inflection, and the latter is specifically for inhibiting gastroenterology causing gastric ulcer and gastroesophageal reflux.

5. **Steady progress on construction of Jianyang plant**

The preliminary work such as infrastructure and application for relevant licenses for the new plant of the Group in Jianyang, Fujian Province has been completed, and construction of the plant has been commenced in October 2008, scheduling to be completed around 2010. The Phase I of the construction consists of an area of approximately 60,000 sq m, which is around three times the area of the existing prescription plant. In addition to the production capacity for the dozen of existing products, the plant can also provide plastic bottle packaging apart from glass bottle packaging to cope with consumption preference of the PRC. The expected production capacity upon completion will be three times of the existing capacity, which may fulfill the development requirements of the Company of years to come.

The construction of the plant is a major investment of the Group and is critical for our future business development. The Group will make appropriate adjustment in a prudent manner and in accordance with changes in the market environment and the pace of Group's development.

Financial Review

1. **Turnover**

The Group recorded a turnover of approximately RMB630.3 million (2007: approximately RMB660.7 million), a slight decrease of 4.6% over last year. The Group recorded a remarkable growth in its turnover in the first half of the year. However, as the impact of the financial crisis has come in the second half of the year and expenditures were scaled back generally including the lowering of expenditure and demand for pharmaceutical products, sales of our pharmaceutical products was affected. Furthermore, as the protection period of some products has expired, some manufacturers started producing imitated products which took up some market shares. Nevertheless, this has no negative effect on the price of our products. In addition, since there were incidents of adverse effect resulted from Chinese medicine injectibles produced by various pharmaceutical manufacturers in the north during 2008, the State Food and Drug Administration of the PRC stressed on the careful usage of Chinese medicine injectibles/tightened regulatory rules, and the sales of the Group's Chinese medicine injectibles was thus reduced by comparison with the sales of last year. Nevertheless, the Group recorded a total turnover of approximately RMB77.0 million from the three new Chinese medicines launched in the year including Perilla Oil Capsule and Yuxingcao Injectible representing approximately 12.2% of total turnover, resulting in an overall growth in Chinese medicines of 14.3% compared with the last year.

Turnover in 2008 was yet dominated by Western medicines, with a turnover volume of approximately RMB347.3 million, representing approximately 55.1 % of total turnover and a decrease of approximately 18.2% over last year (2007: approximately RMB424.5 million, representing approximately 64.3% of total turnover). Turnover of Chinese medicines amounted to approximately RMB269.9 million, representing approximately 42.8% of total turnover, and an increase of approximately 14.3% over last year (2007: approximately RMB236.2 million, representing approximately 35.7% of total turnover).

In addition, the newly added pharmaceutical trading revenue in the second half of the year recorded a turnover of approximately RMB13.1 million, representing approximately 2.1% of total turnover.

The highest sales volume was again achieved by Western medicines, N(2)-L Alanyl-L-Glutamine Injectible, with a turnover volume of approximately RMB82.3 million, representing approximately 13.1% of total turnover (2007: approximately RMB107.3 million, representing approximately 16.2% of total turnover). Sales volume of the 5 most saleable medicines amounted to approximately RMB287.5 million, representing approximately 45.6% of total turnover (2007: approximately RMB359.9 million, representing approximately 54.5% of total turnover).

2. **Gross Profit and Gross Profit Margin**

Gross profit decreased slightly by 4.6% to approximately RMB318.9 million (2007: approximately RMB334.2 million), and gross profit margin remained at approximately 50.6% (2007: approximately 50.6%) same as last year, indicating that the financial crisis had no impact on the Group's gross profit margin. Related cost of goods sold ratios, including raw material, packaging material, energy and fuel costs, direct labor cost and others, remained essentially unchanged compared with the same period of 2007, except that such related amount decreased in 2008 with sales volume.

During the year, the implementation of the Labour Contract law since beginning of the year and the rising cost of production in the PRC did not form pressure on the Group's cost of goods sold and we were able to maintain a stable gross profit margin. The main reason for this was our continuing optimization of product structure has brought contribution to our gross profit. In addition, we produced high return and high effect pharmaceutical products such as Perilla Oil Capsule, and the gross profit margin of such products was approximately 70.0%. Thus the overall gross profit margin of the Group was able to remain stable at a high level of 50% during the financial turmoil. The pharmaceutical trading operation newly added in the second half of the year also contributed a gross profit of approximately RMB5.6 million, with a gross profit margin of approximately 42.7%.

3. **Profit for the Year**

In 2008, profit for the year decreased 23.2% from 2007 to approximately RMB208.9 million (2007: approximately RMB272.1 million). Although the Group's operation recorded a remarkable growth in the first half of 2008, turnover was lowered due to the impact of financial turmoil in the second half of the year. In addition, our 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 income tax expenses of approximately RMB28.2 million (2007: nil) and the effective tax rate was 11.9% (2007: nil). Other reasons included an increase in distribution expenses of 308.1% to approximately RMB50.2 million (2007: approximately RMB12.3 million). During the year, the wholly owned subsidiaries in the PRC spent approximately RMB37.0 million in advertising expenses including the use of TV advertisements and academic promotion activities to increase the brand and product awareness of "Sanai". As a result, our products were widely recognised by the public and patients, which was a good marketing for preparing our launch of the new Perilla Oil Capsule to the market. The two wholly owned subsidiaries recruited experts of professional specialists to hold academic promotional seminars nationwide for staff from the industry. Through the seminars, doctors and patients had a clearer understanding of the pharmacology, effect and benefits of our products and built confidence and loyalty towards the "Sanai" brand.

Finally, the Group's administrative and other expenses reduced significantly by 44.3% to approximately RMB37.3 million (2007: approximately RMB67.0 million). The decrease was mainly attributable to the occurrence of non-recurring administrative and other expenses including professional fees and issuance expenses for the Hong Kong and global placings of our shares in last year of RMB22.2 million (2008: nil), and the exchange loss of approximately RMB13.5 million (2008: approximately RMB0.3 million) due to the appreciation of Renminbi against Hong Kong dollars.

4. **Liquidity, Financial Resources and Capital Structure**

The Group maintains a stable financial position. As at 31 December 2008, the Group had bank balances and cash of approximately RMB1,086.4 million (2007: approximately RMB1,102.5 million) and short-term bank loans of RMB30.0 million (2007: RMB35.0 million). All short-term bank loans were denominated in RMB, at prevailing market interest and repayable within 1 year. During the period, the Group did not use any financial instruments for hedging purpose.

The gearing ratio representing the ratio of short-term bank loans to the shareholders' equity of the Group was 2.0% as at 31 December 2008 (2007: 2.6%).

5. **Exposure to Fluctuation in Exchange Rates**

For the year ended 31 December 2008, 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 31 December 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.

Further discussion on financial risk management objectives and policies is included in the "Financial Instruments" section of note 5 to the Consolidated Financial Statements.

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

For the year ended 31 December 2008, the Group did not have any significant acquisition and disposal of investment.

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

As at 31 December 2008, the Group employed approximately 468 employees (2007: 387 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. **Charge on Group Assets**

As at 31 December 2008, the net book value of furniture, fixtures and equipment of approximately RMB42.7 million (2007: approximately RMB6.6 million) includes an amount of approximately RMB14,000 (2007: approximately RMB18,000) in respect of asset held under a finance lease.

9. **Contingent Liabilities**

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

10. **Capital Expenditure**

For the year ended 31 December 2008, capital expenditure of the Group for property, plant and equipment amounted to approximately RMB174.3 million (2007: approximately 19.5 million)

11. **Capital Commitments**

As at 31 December 2008, the Group had capital expenditure contacted for but not provided in the financial statements amounted to approximately RMB11.6 million (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 amounted to approximately RMB683.0 million.

For the year ended 31 December 2007, the Company applied approximately RMB230.0 million and approximately RMB114.7 million to the capital injection in our two major subsidiaries Fujian Sanai and Fuzhou Sanai Pharmaceutical Co., Ltd. ("Fuzhou Sanai") respectively in the PRC. The capital injected to these two subsidiaries is intended to be used in the construction and expansion of new plants and production lines in Fuzhou and Jianyang. An amount of approximately 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.

In 2008, the Group has spent approximately RMB37.0 million for promotion of our brand through advertisement in some major national TV channels in the PRC. In addition, approximately RMB113.1 million had been utilized in the construction and acquisition of manufacturing equipment in Jianyang factory.

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

Corporate Governance Report

Corporate Governance Practices

Throughout the year ended 31 December 2008, based on the principles of good corporate governance as stipulated in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company has further regulated and improved the structure of corporate governance. The Company has complied with the Code during the year, except for a deviation from the Code provision A.2.1. that the roles of chairman and chief executive officer should not be performed by the same individual. The Company's actual compliance with the Code is detailed in the Corporate Governance Report.

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 of the Listing Rules. In addition, the Company has made specific enquiries of all Directors and each Director confirms that during the year ended 31 December 2008, they have fully complied with the required standards set out in the Model Code.

Board of Directors

The Board currently consists of eight members, with three executive Directors, two non-executive Directors and three independent non-executive Directors. All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director are shown on pages 18 to 19.

On 3 December 2008, Mr. Dennis Luan Thuc Nguyen resigned from the executive Director and the chairman of the remuneration committee of the Company due to his intention of concentrating on his business engagement. On the same day, Mr. Lin Ou Wen has been re-designated from a member to the chairman of the remuneration committee through a board meeting by all Directors.

Mr. Lin Ou Wen, the Chairman, chief executive officer ("Chief Executive Officer") and executive Director is the younger brother of Mr. Lin Qing Ping, the general manager, chief operating officer and executive Director.

The Board is responsible for planning and overseeing the overall development and management of the Group with the objective of enhancing Shareholders' value. The Board, led by the Chairman, is responsible for the approval and monitoring of the overall strategies and policies of the Group, approval of annual budgets and business plans, evaluation of the Company's performance and oversight of the works of management.

The Board is accountable to the shareholders and report to them at general meetings. The day-to-day operations of the Group are delegated to the management, which is headed by the Chief Executive Officer.

The Board meets regularly throughout the year to review the overall strategies and to monitor the operation as well as the financial performance of the Company. The Chairman focuses on Company strategy and is responsible for chairing and managing the efficient operation of the Board and ensuring that all key issues are considered by the Board in a timely manner. Notice of at least 14 days has been given to all Directors for all regular Board meetings and the Directors can include matters for discussion in the agenda whenever they consider appropriate and necessary. Agenda and accompanying Board papers in respect of regular Board meetings are dispatched in full to all Directors within a reasonable time before the meeting. Directors have to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and abstain from voting as appropriate. Draft minutes of all Board meetings are circulated to the Directors for comment within a reasonable time prior to confirmation. The Board meets at least 4 times a year, at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Company that require the resolution of the Board. Simultaneous conference call may be used to improve attendance when individual Director cannot attend the meeting in person. Opinions of the independent non-executive Directors are actively sought by the Company if they are unable to attend the meeting in person.

Minutes of the Board meetings are kept by the Company Secretary; all Directors have access to board papers and related materials, and are provided with adequate information in a timely manner; this enables the Board to make informed decision on matters placed before it.

Board Attendance

In 2008, the Board had convened five regular Board meetings and the individual attendance record of the Directors is tabulated as follows:

Directors	Number of attendance
Executive Directors	
Mr. Lin Ou Wen *(Chairman)*	5/5
Mr. Lin Qing Ping	5/5
Mr. Xu Chao Hui	5/5
Mr. Dennis Luan Thuc Nguyen (resigned with effect from 3 December 2008)	3/5*

* Before the date of his resignation, there were three regular Board meetings.

Non-executive Directors	
Mr. Tang Bin	5/5
Mr. John Yang Wang	5/5
Independent Non-executive Directors	
Mr. Goh Jin Hian	3/5
Mr. Lam Yat Cheong	5/5
Mr. Liu Jun	5/5

Chairman and Chief Executive Officer

Under provision A.2.1 of Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer of an issuer should be separate and should not be performed by the same person. The Company does not at present separate the roles of Chairman and Chief Executive Officer. Mr. Lin Ou Wen, who is the Chairman and Chief Executive Officer of the Company, has been responsible for overseeing the operations of the Group. The Board considers that vesting the roles of the Chairman and the Chief Executive Officer in the same person facilities the execution of the Company's business strategies and maximizes the effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise. There are three independent non-executive Directors in the Board. All of them possess adequate independence and therefore the Board considers the Company has achieved balance of and provided sufficient protection to its interests.

Non-executive Directors

In full compliance with Rules 3.10(1) and (2) of the Listing Rules, during the year ended 31 December 2008, the Company has appointed three independent non-executive Directors, at least one of whom has appropriate professional accounting qualifications. The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, and the Company considers that such Directors are independent in accordance with each and every guideline set out under Rule 3.13 of the Listing Rules.

The non-executive Directors (including independent non-executive Directors) are appointed for an initial period of three years and are subject to retirement by rotation and re-election by shareholders in accordance with the articles of association of the Company. The responsibilities of the non-executive Directors include, without limitation: regular attendance at meetings of the Board and of board committees of which they are members; provision of independent opinions at meetings of the Board and other board committees; resolution of or taking the lead where there is potential conflict of interests; service on the audit committee (the "AC"), the remuneration committee (the "RC") and nomination committee (the "NC"); and scrutinizing and monitoring the performance of the Company.

Committees

The monitoring and assessment of certain governance matters are allocated to three committees each of which operates under their respective written terms of reference. The composition of the committees up to the date of this report is set out in the table below.

Directors	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors			
Mr. Lin Ou Wen *(Chairman)*	–	Chairman	Chairman
Mr. Lin Qing Ping	–	–	Member
Mr. Xu Chao Hui	–	–	–
Non-executive Directors			
Mr. Tang Bin	–	–	–
Mr. John Yang Wang	–	–	–
Independent Non-executive Directors			
Mr. Lam Yat Cheong	Chairman	Member	Member
Mr. Goh Jin Hian	Member	Member	Member
Mr. Liu Jun	Member	Member	Member

Audit Committee

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

The principal duties of the AC include the review and supervision of the Company's financial reporting system, financial statements and internal control procedures. The AC also monitors the appointment of the Company's external auditor. The Company's interim result announcement and interim report for the six months ended 30 June 2008 and the annual result announcement and annual report for the year ended 31 December 2008 have been reviewed, with no disagreement among its members, by the AC, and with recommendation to the Board for approval.

The AC shall meet at least twice a year. On 3 April 2009, a meeting of the AC was held and Mr. Lam Yat Cheong (Chairman), Mr. Goh Jin Hian and Mr. Liu Jun, being all members of the AC were present at the meeting and the consolidated financial statements of the Company for the year ended 31 December 2008 were reviewed at such meeting.

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

Remuneration Committee

The Company has established a RC with written terms of reference in compliance with the Listing Rules. On 3 December 2008, Mr. Dennis Luan Thuc Nguyen was resigned from the chairman of the RC due to his intention of concentrating on his business engagement. Mr. Lin Ou Wen has been re-designated from the member to the Chairman of the RC on the same date. The RC comprises three independent non-executive Directors and one executive Director. The Board has delegated the authority to the RC to review and recommend to the Board the compensation scheme of the Company to the Directors as well as to the senior management staff.

The main function of the RC is to assist the Board to oversee the Company's remuneration packages, bonus and other compensation payable to Directors and senior management and establish a transparent procedure for developing policy on such remuneration. The Board shall in consultation with the Chairman of the RC provide sufficient resources to the RC to enable it to discharge its duties.

The RC has conducted a meeting on 2 December 2008 in which Mr. Dennis Luan Thuc Nguyen (Chairman), Mr. Lin Ou Wen, Mr. Lam Yat Cheong and Mr. Liu Jun, being members of the AC were present. The RC assisted the Board to review the remuneration of the Executive Directors and senior management and approved the remuneration packages of the executive Directors for the year 2009.

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

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

Nomination Committee

The Company has established a NC with written terms of reference in compliance with the Listing Rules. The NC comprises three independent non-executive Directors and two executive Directors.

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

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

On 2 December 2008, a NC meeting was held with Mr. Lin Ou Wen (Chairman), Mr. Lin Qing Ping, Mr. Lam Yat Cheong and Mr. Liu Jun, being members of the NC were present to perform appraisal of the Directors so as to recommend to the Board for re-election in the forthcoming annual general meeting of the Company and review the independence of the independent non-executive Directors.

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

Auditor's Remuneration

CCIF CPA Limited is the auditor of the Company and provides audit service to the Group only. The fee for the audit of the Group's financial statements for the year ended 31 December 2008 was HK$700,000.

Directors' and Auditor's Responsibilities For Accounts

The Board acknowledges their responsibility for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements. The Board acknowledges their responsibilities for the preparation of the consolidated financial statements of the Company for the year ended 31 December 2008, which give a true and fair view of the state of affairs of the Company and of the results and cash flows for that period. In preparing these consolidated financial statements, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

CCIF CPA Limited, the auditor of the Company, has presented their responsibilities in the independent auditor's report as set out on page 29.

Internal Controls

The Board places great importance on internal control and risk management and is responsible for establishing and maintaining adequate internal control over financial reporting for the Company and assessing the overall effectiveness of those internal controls.

The Company has an internal audit department which plays a major role in monitoring the internal governance of the Company. The major tasks of the internal audit department are reviewing the financial condition and management of the Company and conducting comprehensive audits of all subsidiaries of the Company on a regular basis. The Company has taken many steps to enhance the internal control of the Company, such as having all departments internal control inspection and appraisal, strengthening checks and supervision of implementation of the internal control systems by the internal audit department and according to the weakness found during examination of the internal control, further improving the internal control system and strengthening the implementation of all the internal control systems.

In September 2008 and April 2009, the Company's internal control system reports which were prepared by the internal control department were reviewed and approved by the Board. The Board is satisfied with the effectiveness of the Company's internal control system, including financial, operational and compliance controls and risk management functions.

Communications with Shareholders

The Company believes that shareholders' rights should be well respected and protected. The Company endeavours to maintain good communications with shareholders on its performance through interim reports, annual reports, general meetings and public disclosures on the Company's website (www.wuyi-pharma.com) and on the Stock Exchange's website (www.hkex.com.hk), so that they may make an informed assessment for their investments and exercise their rights as shareholders. The Company also encourages shareholders' participation through general meetings or other means.

Directors and Senior Management

Executive Directors

Mr. Lin Ou Wen, aged 52, is the Chairman and Chief Executive Officer and founding shareholder. Mr. Lin graduated from Fujian Normal University with a bachelor's degree in physics in 1983. He is a senior economist. In January 2000, he, together with other founding shareholders, established Fujian Sanai and has since then been appointed as the Chairman, Chief Executive Officer and executive Director. In January 2004, he established Fuzhou Sanai and has been appointed as the chairman and director. In March 2006, he further established Wuyi International Pharmaceutical Investment Company Limited ("Wuyi BVI") and has since been appointed as the chairman and director. He has been appointed as the sole director of Wuyi International Pharmaceutical (Hong Kong) Company Limited since January 2008. He has over 9 years of experience in the pharmaceutical industry. He is the younger brother of Mr. Lin Qing Ping. Mr. Lin is the Director of Thousand Space Holdings Limited. Thousand Space Holdings Limited has discloseable interest in the share capital of the Company under the provisions of Part XV of the Securities and Futures Ordinance (the "SFO") as at 31 December 2008.

Mr. Lin Qing Ping, aged 59, is a General Manager, chief operating officer and founding shareholder. Mr. Lin graduated from Wuhan University with a bachelor's degree in management in 1982. He is a senior economist. He has been a director of various companies, namely, Fuzhou Sanai and Wuyi BVI since January 2004 and July 2006. He has over 22 years of experience in business management and 12 years' experience in the pharmaceutical industry with a thorough understanding in the pharmaceutical industry. He is elder brother of Mr. Lin Ou Wen. Mr. Lin is the Director of Bright Elite Management Limited. Bright Elite Management Limited has discloseable interest in the share capital of the Company under the provisions of Part XV of the SFO as at 31 December 2008.

Mr. Xu Chao Hui, aged 39, is an Executive Director. He graduated from Fuzhou University with a diploma in social work and management in 2004. He joined the Company in July 2000. He has been a Director of Wuyi BVI since July 2006. Mr. Xu is the Director of Loyal More Group Limited. Loyal More Group Limited has discloseable interest in the share capital of the Company under the provisions of Part XV of the SFO as at 31 December 2008.

Non-executive Directors

Mr. Tang Bin, aged 51, is a Non-executive Director. He obtained a bachelor's degree in law from Jiangxi University in 1986. He joined the Company in January 2000. He has been appointed as a director of Fuzhou Sanai since January 2004 and a director of Wuyi BVI since July 2006. Mr. Tang is the Director of Good East Management Limited. Good East Management Limited has discloseable interest in the share capital of the Company under the provisions of Part XV of the SFO as at 31 December 2008.

Mr. John Yang Wang, aged 39, is a Non-executive Director. He obtained a Bachelor of Arts in International Relations from Tufts University in 1992. Mr. Wang has a M.A.L.D. degree in International law and business from The Fletcher School of Law and Diplomacy in 1994. He has over 12 years of experience in investment banking and consulting.

Independent Non-executive Directors

Mr. Goh Jin Hian, aged 40, is an Independent Non-executive Director. He graduated from the National University of Singapore with bachelor's degrees in Medicine and Surgery in 1992. He also obtained his MBA degree from the University of Hull, UK, and attended the Advanced Management Program at Wharton. He has over 16 years of experience in the healthcare industry, including holding directorships at various Singapore Healthcare networks and hospitals.

Mr. Liu Jun, aged 42, is an Independent Non-executive Director. He obtained a diploma in finance and a master's degree in economics from Xiamen University in 1988 and 1997 respectively. He received a master's degree in business administration from The Open University of Hong Kong in 2000.

Mr. Lam Yat Cheong, aged 47, is an Independent Non-executive Director. He graduated from Hong Kong Baptist University in 1992 with a bachelor's degree in business administration and a diploma in accounting in 1986. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has registered as a Certified Public Accountant (Practising) in Hong Kong since 2000.

Senior Management

Mr. Chen Zhi Chuan, aged 44, is the Chief Financial Officer in charge of financial management. He graduated from Fuzhou University with a bachelor's degree in Finance in 1988. He has over 8 years of experience in the pharmaceutical industry.

Mr. Cheng Shi De, aged 50, is the Deputy General Manager in charge of production. He graduated from Anhui Province Medical School with a bachelor's degree in pharmacy in 1982. He is a senior engineer. He has over 26 years of experience in the pharmaceutical industry.

Mr. Chen Gui Dong, aged 43, is the manager of Research and Development. He is a senior engineer. He obtained a bachelor's degree in chemistry from Tianjin University in 1991, and was awarded a diploma in business management by Nankai University. He has over 21 years of experience in the pharmaceutical industry.

Ms. Yang Ai Min, aged 33, is the manager of Sales and Marketing. She graduated from Fujian Medical University with a bachelor's degree in pharmacy in 1998. She has over 10 years of experience in the pharmaceutical industry.

Company Secretary and Qualified Accountant

Mr. Kung Wai Chiu, Marco, aged 35, is the company secretary, qualified accountant and financial controller of the Company. Mr. Kung graduated from Hong Kong Lingnan University in 1997 with a bachelor's degree in Business Administration. He further obtained two master degrees in Business Administration from the University of Wollongong, Australia, in 2005 and in Corporate Governance from the Hong Kong Polytechnic University in 2008, respectively. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has registered as a Certified Public Accountant (Practising) in Hong Kong since 2007. He is also an associate member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

Directors' Report

The Directors would like to present their annual report together with the audited accounts of the Company for the year ended 31 December 2008.

Principal Activities

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 34 to the consolidated financial statement.

Results and Appropriations

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 30.

A final dividend for the year ended 31 December 2008 of HK3.3 cents (2007: HK3.8 cents) per share, amounting to a total final dividend of approximately RMB49.5 million (2007: approximately RMB58.0 million), is to be proposed for the approval of shareholders at the forthcoming annual general meeting.

Property, Plant and Equipment

Movements in the property, plant and equipment of the Company during the year are set out in note 16 to the consolidated financial statements.

Share Capital

There were no changes in the share capital of the Company during the year, and the details are set out in note 26 to the consolidated financial statements.

Reserves

There were no changes in the share capital of the Company during the year, and the details are set out in the consolidated statement of changes in equity on page 32.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Purchase, Sale or Redemption of the Company's Listed Securities

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

Directors

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Lin Ou Wen	*(Chairman and Chief Executive Officer)*
Mr. Lin Qing Ping	*(General manager and chief operating officer)*
Mr. Xu Chao Hui	
Mr. Dennis Luan Thuc Nguyen	*(resigned with effect from 3 December 2008)*

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

According to the requirements of Article 87(1) of the articles of association of the Company, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Mr. Goh Jin Hian will retire by rotation in accordance with Article 87 of the Article of Association, and Mr. Liu Jun and Mr. Lam Yat Cheong will retire by rotation in accordance with Article 87 of the Article of Association, and, being eligible, offer themselves for re-election in the forthcoming annual general meeting. All other remaining Directors (except Mr. Dennis Luan Thuc Nguyen) continue in office.

All of the independent non-executive Directors are members of the Company's audit committee, nomination committee and remuneration committee.

Annual Confirmation of Independence

The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers that such Directors are independent in accordance with each and every guideline set out in Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Biographical Details of the Directors and the Senior Management

The biographical details of the Directors and Senior Management are set out on pages 18 to 19 of this Report.

Directors' Service Contracts

Each of the executive Director has entered into a service contract with the Company for an initial term of three years commencing on 1 February 2007 (the "Listing Date") unless terminated by not less than three months' written notice of termination served by either the Director or the Company. Each of the service contract further provides that during the term of the service contract and within one year upon the termination of service, the executive Director cannot engage in any business which is competing or is likely to compete, either directly or indirectly, with the business of the Company.

Each of the non-executive Director and independent non-executive Director has entered into an appointment letter with the Company for a term of three years commencing from the Listing Date. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association of the Company.

Save as disclosed above, none of the Directors has entered into any contract of service with the Company or any of its subsidiaries excluding contracts expiring or determinable by the employer within one year without payment of compensation (except for statutory compensation).

The Company's policies concerning remuneration of the executive Directors are as follows: –

(i) the amount of remuneration is determined on a case by case basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group;

(ii) non-cash benefits may be provided at the discretion of the Board to the relevant Directors under their remuneration package; and

(iii) the executive Directors may be granted, at the discretion of the Board, the share option scheme adopted by the Company, as part of their remuneration package.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Retirement Benefits Scheme

Details of the retirement benefits scheme is set out in note 31 to the consolidated financial statements.

Directors' interests in Contracts of Significance

Save as disclosed in section under "Continuing Connected Transaction" on pages 25 to 27, none of the Directors had a material interest, either directly or indirectly, in any contracts of significance to the business of the Company. There is no contract of significance between the Company, its holding company or any of its subsidiaries or its controlling shareholder during the year.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its associated corporations

As at 31 December 2008, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Appendix 10 of Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

Name of Directors	Company/name of associated corporation	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
Mr. Lin Ou Wen	The Company	Beneficial owner	12,000,000 (L)	0.70%
		Interest of controlled corporation (Note 2)	248,704,000 (L)	14.55%
		Interest of spouse (Note 3)	42,438,267 (L)	2.48%
Mr. Lin Qing Ping	The Company	Interest of controlled corporation (Note 4)	280,352,000 (L)	16.40%
Mr. Xu Chao Hui	The Company	Interest of controlled corporation (Note 5)	117,488,000 (L)	6.87%
Mr. Dennis Luan Thuc Nguyen	The Company	Interest of controlled corporation (Note 6)	76,231,500 (L)	4.46%
Mr. Tang Bin	The Company	Interest of controlled corporation (Note 7)	88,442,000 (L)	5.17%

Notes:

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 for the purpose 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% of its entire share capital by Mr. Lin Qing Mei, Mr. Liu Dao Hua and Ms. Xue Mei respectively. Ms. Xue Mei is the spouse of Mr. Lin Ou Wen, therefore, Mr. Lin Ou Wen is deemed to be interested in all the Shares in which Ms. Xue Mei is interested for the purpose 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 who is deemed to be interested in all the Shares in which Bright Elite Management Limited is interested for the purpose 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 Mr. Xu Chao Hui and Mr. Chen Bo Mei respectively. Mr. Xu Chao Hui is deemed to be interested in all the Shares in which Loyal More Group Limited is interested for the purpose of the SFO.

6. These Shares are registered in the name of New Asia Partners Investment Holdings Limited ("NAP"), which is wholly owned by Paradigm Capital Limited. Ms. Fan Li Rong, spouse of Mr. Dennis Luan Thuc Nguyen, holds 100% of the share capital in Paradigm Capital Limited. Mr. Dennis Luan Thuc Nguyen is deemed to be interested in all the Shares in which NAP is deemed to be interested for the purpose 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 Mr. Tang Bin and Mr. Chen Shi Yan respectively. Mr. Tang Bin is deemed to be interested in all the Shares in which Good East Management Limited is interested for the purpose of the SFO.

Save as disclosed above, none of the Directors or chief executive of the Company is aware of any other Director or chief executive of the Company who had held any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation as defined in the SFO as at 31 December 2008.

Directors' Right to Acquire Shares or Debentures

At no time during the year ended 31 December 2008 was 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 Directors or their respective spouses or children under the age of 18; or were any such rights exercised by them; or was the Company or any of its subsidiaries or a party to any arrangement to enable the Directors, their respective spouses or children under the age of 18 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 31 December 2008, the interests and short positions of the following parties, other than a Director or chief executive of the Company, in the shares, underlying shares and debentures of the Company were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO or as otherwise notified to the Company, as being directly or indirectly interested or deemed to be interested in 5% of more of the issued share capital of the Company 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	280,352,000 (L)	16.40%
Mr. Lin Qing Ping	The Company	Interest of controlled corporation (Note 2)	280,352,000 (L)	16.40%
Thousand Space Holdings Limited	The Company	Beneficial owner	248,704,000 (L)	14.55%
Mr. Lin Ou Wen	The Company	Beneficial owner	12,000,000 (L)	0.70%
		Interest of 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)	260,704,000 (L)	15.25%
		Interest of 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	Interest of controlled corporation (Note 4)	136,151,000 (L)	7.96%
Loyal More Group Limited	The Company	Beneficial owner	117,488,000 (L)	6.87%
Mr. Xu Chao Hui	The Company	Interest of controlled corporation (Note 5)	117,488,000 (L)	6.87%
Mr. Chen Bo Mei	The Company	Interest of controlled corporation (Note 5)	117,488,000 (L)	6.87%
Good East Management Limited	The Company	Beneficial owner	88,442,000 (L)	5.17%
Mr. Tang Bin	The Company	Interest of controlled corporation (Note 6)	88,442,000 (L)	5.17%
Mr. Chen Shi Yan	The Company	Interest of controlled corporation (Note 6)	88,442,000 (L)	5.17%
Orchid Asia III, L.P.	The Company	Beneficial owner (Note 7)	117,952,000 (L)	6.90%
Orchid Asia Group Management, Limited	The Company	Interest of controlled corporation (Note 7)	117,952,000 (L)	6.90%
Orchid Asia Group, Limited	The Company	Interest of controlled corporation (Note 7)	117,952,000 (L)	6.90%
YM Investment Limited	The Company	Interest of controlled corporation (Note 8)	121,600,000 (L)	7.11%
Ms. Lam Lai Ming	The Company	Founder of trust	133,612,500 (L)	7.81%
Mr. Li Gabriel	The Company	Founder of trust	133,612,500 (L)	7.81%
Manage Corp Limited	The Company	Trustee	133,612,500 (L)	7.81%
Pope Investments LLC	The Company	Beneficial owner	102,400,000 (L)	5.99%
Pope Asset Management, LLC	The Company	Interest of controlled corporation (Note 9)	155,527,500 (L)	9.10%
Wells William P	The Company	Interest of controlled corporation (Note 9)	102,400,000 (L)	5.99%
Credit Suisse (Hong Kong) Limited	The Company	Beneficial owner (Note 10)	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 letters "L" and "S" denote long position and short position in the Shares respectively.

(2) These Shares are registered in the name of Bright Elite Management Limited, which is wholly owned by Mr. Lin Qing Ping who is deemed to be interested in all the Shares in which Bright Elite Management Limited is interested in for the purpose 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 for the purpose 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% of its entire share capital 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 all the Shares in which Orient Day Management Limited is interested 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 all the Shares in 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 Loyal More Group Limited, which is owned as to 66.67% and 33.33% of its entire share capital by Mr. Xu Chao Hui and Mr. Chen Bo Mei respectively, therefore, Mr. Xu Chao Hui and Mr. Chen Bo Mei are deemed to be interested in all the Shares in which Loyal More Group Limited is interested for the purpose of the SFO.

(6) 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 to be interested in all the Shares in which Good East Management Limited is interested for the purpose of the SFO.

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

(8) 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 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, which is in turn controlled by YM Investment Limited.

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

(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 to be interested in all the Shares in which Credit Suisse (Hong Kong) Limited is interested 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 as disclosed above, as at 31 December 2008, none of the above parties had held any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation as defined in the SFO.

Continuing Connected Transactions

Exempt Continuing Connected Transaction

Tenancy Agreement with Mr. Lin Qing Xiang

On 1 January 2006, Fujian Sanai entered into a tenancy agreement with Mr. Lin Qing Xiang for the lease of office premises located at Unit 01-03, 23rd Floor, District A, Jinyuan Plaza, 68 Guangda Road, Taijiang District, Fuzhou (the ''Tenancy Agreement''). Mr. Lin Qing Xiang is the brother of Mr. Lin Ou Wen, our Chairman, Chief Executive Officer and executive Director, and Mr. Lin Qing Ping, our executive Director and chief operating officer and Mr. Lin Qing Mei, a shareholder of Orient Day Management Limited, one of our shareholders. The Tenancy Agreement provides for a term of three years, expiring on 1 January 2009, and requires monthly rental payments in the amount of RMB17,004.75. The annual rental payable by the Group to Mr. Lin Qing Xiang under the Tenancy Agreement is RMB204,057. At the time of the Company's listing, Savills Valuation and Professional Services Limited, an independent property valuer, has confirmed that the rental payments due under the Tenancy Agreement are consistent with prevailing market rates available from independent third parties.

The Tenancy Agreement was entered into by Fujian Sanai in the ordinary and usual course of business. The terms of the Tenancy Agreement are normal commercial terms which the Directors (including the independent non-executive Directors) consider to be fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Tenancy Agreement constitutes a continuing connected transaction exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules as each of the percentage ratios (other than the profit ratio) is, on an annual basis, equal to or more than 0.1% but less than 2.5%, and the annual consideration required under the agreement is less than HK$1,000,000.

This connected transaction is exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.31(2) of the Listing Rules.

Continuing Connected Transaction

Sale and Purchase Agreements for Industrial Products and Minerals

Background

Fuzhou Hongyu Packing Co., Ltd.（福州宏宇包裝工業有限公司）("Fuzhou Hongyu") has historically provided and will continue to provide the packaging materials to us on an arm's length basis for the pharmaceutical products manufactured by us in our ordinary course of business. The principal business of Fuzhou Hongyu is manufacturing of compound bags, packaging boxes, paper boxes and printing of packaging accessories.

Reasons for transaction

Fuzhou Hongyu adopts a coding system in connection with the printing of its packaging materials supplied to us to facilitate identification of counterfeit products to prevent counterfeiting of its packaging materials. We consider a higher degree of confidentiality on the anti-counterfeiting measures adopted in connection with the packaging materials can be maintained, its prices are reasonable and service level is satisfactory.

Terms and Conditions

On 25 December 2005, Fujian Sanai and Fuzhou Hongyu entered into a sale and purchase agreement for a term of one year commencing from 1 January 2006. On 30 November 2006, Fujian Sanai and Fuzhou Hongyu entered into another sale and purchase agreement for a term of two years commencing from 1 January 2007. The aforementioned sale and purchase agreements are collectively referred to as the sale and purchase agreements (the "Sale and Purchase Agreements''). Pursuant to the Sale and Purchase Agreements, Fujian Sanai agreed to purchase annual packaging materials, including paper cartons and packaging color boxes, from Fuzhou Hongyu for aggregate amounts of approximately RMB21.0 million, RMB17.0 million and RMB20.0 million of the year ended 31 December 2006, 31 December 2007 and 31 December 2008. During the term of the Sale and Purchase Agreements, Fujian Sanai will place orders in installments, each of which will specify the quantity of materials to be purchased pursuant to each particular order. The delivery cost will be borne by Fuzhou Hongyu. Fujian Sanai has to pay for the packaging materials within two months from the date of receipt of packaging materials. Under special circumstances, Fujian Sanai with the consent of Fuzhou Hongyu may extend the payment date which in any event shall not be more than six months from the date of receipt of packaging materials.

Pricing basis and policy

Pursuant to the Sale and Purchase Agreements, pricing of the packaging materials is determined according to the prevailing market prices, which is comparable to the price of the same or similar packaging materials provided from independent third parties in the ordinary course of business.

Waiver and annual cap

On the basis of the annual caps, the continuing connected transactions under the Sale and Purchase Agreements are subject to the requirements of reporting, announcement and independent shareholders' approval as required by Rules 14A.45 to 14A.48 of the Listing Rules.

This connected transaction is subject to the reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

The Stock Exchange has granted the Company a waiver for a period of three years up to 31 December 2008 from strict compliance with the announcement and independent shareholders' approval requirements pursuant to Rule 14A.42(3) of the Listing Rules in respect of the Sale and Purchase Agreements subject to the annual caps of RMB17.5 million, RMB17.0 million and RMB20.0 million for the years ended 31 December 2006, 2007 and 2008 respectively.

For the year ended 31 December 2008, payments made by Fujian Sanai to Fuzhou Hongyu for the purchase of packaging materials was approximately RMB13.2 million.

The Directors confirm that the disclosure requirement in accordance with Chapter 14A of the Listing Rules has been complied with by the Company.

New Sale and Purchase Agreement for Industrial Products and Minerals

Background

The Sale and Purchase Agreements have been expired on 31 December 2008. On 5 December 2008, Fujian Sanai and Fuzhou Sanai entered into the new sale and purchase agreement ("New Sale and Purchase Agreement") with Fuzhou Hongyu in respect of the continuing connected transactions for a term of 3 years from 1 January 2009 to 31 December 2011.

Reasons for transaction

Apart from maintaining the higher level of confidentiality as above mentioned, Fuzhou Sanai will commence the production of Perilla Oil Capsule in the near future. The Directors are of the view that it will be for the benefit of the Group to engage Fuzhou Hongyu for the supply of packaging materials for Perilla Oil Capsule manufactured by Fuzhou Sanai.

Terms and Conditions

Pursuant to the New Sale and Purchase Agreement, Fujian Sanai and Fuzhou Sanai have agreed to purchase from Fuzhou Hongyu the packaging materials, including paper cartons and packaging color boxes manufactured by Fuzhon Hongyu. Fujian Sanai or Fuzhou Sanai (as the case may be) will pay to Fuzhou Hongyu for the packaging materials within 60 days upon the receipt of the packaging materials. In addition, the credit period can be extended for a further term of 6 months with the consent of Fuzhou Hongyu.

Annual Cap

By reference to (i) the actual amounts of the continuing connected transactions under the Sale and Purchase Agreements in the recent years; (ii) the estimated demand for packaging materials for the products of Fujian Sanai from Fuzhou Hongyu during the term of the New Sale and Purchase Agreement; and (iii) the estimated demand for packaging materials for the products of Fuzhou Sanai from Fuzhou Hongyu during the term of the New Sale and Purchase Agreement, the annual caps are set at RMB10.0 million (equivalent to approximately HK$11.4 million) for each of the years ending 31 December 2009, 2010 and 2011.

Pricing basis and policy

The unit purchase prices of the packaging materials under the New Sale and Purchase Agreement are determined by reference to (i) the current market price of similar products in the market; (ii) the unit purchase prices of the packaging materials offered by the independent third parties to Fujian Sanai and Fuzhou Sanai in their ordinary course of business; and (iii) the manufacturing costs for the packaging materials, including labour costs.

On the basis of the annual cap, the continuing connected transactions under the New Sale and Purchase Agreement will be subject to the requirements of reporting and announcement as required by Rules 14A.37, 14A.38, 14A.45 and 14A.47 of the Listing Rules.

Sale and Purchase Agreements and New Sale and Purchase Agreement

Implications under the Listing Rules

The entire share capital of Fuzhou Hongyu is owned by Mr. Lin Ou Wen, our Chairman, Chief Executive Officer, executive Director and substantial shareholder. Further, Mr. Lin Qing Ping, the executive Director, and Ms. Xue Mei, being the brother and the spouse of Mr. Lin Ou Wen respectively, are the associates of Mr. Lin Ou Wen under the Listing Rules, are therefore treated as interested in the Sale and Purchase Agreements and the New Sale and Purchase Agreement. Fuzhou Hongyu is a connected person of the Company as defined under the Listing Rules. The transactions with Fuzhou Hongyu has constituted non-exempt continuing connected transactions.

Confirmations

The independent non-executive directors of the Company have reviewed the above-mentioned continuing connected transactions and confirmed that they have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the above relevant agreements which terms are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The auditors of the Company have reviewed the above-mentioned continuing connected transactions and confirmed in writing to the board of directors of the Company that they:

(i) have received the approval of the board of directors of the Company;

(ii) are in accordance with the pricing policies of the Company with reference to similar transactions with independent third parties;

(iii) have been entered into in accordance with the terms of the above relevant agreements governing such transactions; and have not exceeded the cap amount of such transactions for the financial year ended 31 December 2008.

The related party transactions disclosed in the Note 32 to the consolidated financial statements.

Share Options

Details of the Company's share option scheme are set out in note 27 to the consolidated financial statements.

No share options had been granted or exercised during the year ended 31 December 2008. As at 31 December 2008, no share options of the Company were outstanding.

Directors' and Management Emoluments

Particulars of directors' emoluments and the five highest paid individuals in the Group are set out in notes 9 and 10 to the consolidated financial statements.

Major Customers and Suppliers

The information of turnover and purchases attributable to the major customers and suppliers of the Company for the year is as follows:

	2008	2007
	%	%
Turnover		
The largest customer	**4.5**	4.3
Five largest customers in aggregate	**21.6**	20.0
Purchases		
The largest supplier	**15.4**	14.4
The largest suppliers in aggregate	**45.5**	44.1

Directors' Report

Fuzhou Hongyu is one of the five largest suppliers which is entirely owned by Mr. Lin Ou Wen, a Director of the Company. Save as disclosed above, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers and major customers noted above.

Corporate Governance

Report for the corporate governance principles and practices adopted by the Company is set out on pages 14 to 17 of this report.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

Donations

During this year, the Group made charitable donations amounting to RMB1.2 million.

Code of Best Practice

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2008.

Model Code for Securities Transactions

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry made with all Directors, the Directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by this report.

Competing Interests

None of the Directors or management shareholders of the Company and their respective associates (as defined in the Listing Rules) has an interest in a business which competes or may compete with the business of the Company or has any other conflict of interest with the Company during the year.

Audit Committee

In compliance with Rule 3.21 of the Listing Rules, the Board has established an audit committee on 8 January 2007, with written terms of reference. The primary duties of the audit committee are to review the financial reporting procedures and internal controls and provide guidance in relation thereto. The audit committee comprises the three independent non-executive Directors of the Company.

The audit committee has reviewed the accounting principles and practices adopted by the Company as well as the audited financial statements of the Company for the year ended 31 December 2008 before recommending to the Board for approval.

Auditor

As the Company was unable to reach a consensus on the audit fee for the forthcoming financial year with Deloitte Touche Tohmatsu ("Deloitte"), Deloitte resigned from the auditor of the Company with effect from 23 December 2008. The Board has appointed CCIF CPA Limited ("CCIF") as auditor of the Company to fill up the causal vacancy created by the resignation of Deloitte and hold office until the conclusion of the forthcoming annual general meeting of the Company.

On behalf of the Board

LIN OU WEN
Chairman

Hong Kong, 14 April, 2009

Independent Auditor's Report

CCIF

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

TO THE SHAREHOLDERS OF
WUYI INTERNATIONAL PHARMACEUTICAL COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Wuyi International Pharmaceutical Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 71, which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 14 April 2009

Chan Wai Dune, Charles
Practising Certificate Number P00712

Consolidated Income Statement

For the Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Turnover	6	**630,326**	660,661
Cost of sales		**(311,381)**	(326,453)
Gross profit		**318,945**	334,208
Other revenue	6	**7,937**	19,850
Distribution expenses		**(50,176)**	(12,265)
Administrative and other expenses		**(37,277)**	(66,972)
Finance costs	7	**(2,377)**	(2,535)
Profit before taxation	8	**237,052**	272,286
Income tax	12	**(28,166)**	(170)
Profit for the year		**208,886**	272,116
Attributable to			
Equity holders of the Company		**208,886**	272,116
Dividends payable to equity holders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	13	**49,493**	58,010
Earnings per share			
– Basic and diluted	14	**RMB12.2 cents**	RMB16.3 cents

Consolidated Balance Sheet

AT 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	16	**306,965**	145,869
Land use rights	17	**11,180**	11,410
Intangible assets	18	**21,224**	23,610
Deposit for the acquisition of land use right		**55,275**	7,275
		394,644	188,164
Current assets			
Inventories	19	**18,754**	23,810
Trade and other receivables	20	**66,488**	146,339
Bank balances and cash	21	**1,086,361**	1,102,450
		1,171,603	1,272,599
Current liabilities			
Trade and other payables	22	**41,369**	83,528
Short-term bank loans	23	**30,000**	35,000
Current taxation	25	**2,639**	868
		74,008	119,396
Net current assets		**1,097,595**	1,153,203
Total assets less current liabilities		**1,492,239**	1,341,367
Non-current liabilities			
Obligations under a finance lease	24	**11**	15
Deferred taxation	25	**3,889**	3,889
		3,900	3,904
Net assets		**1,488,339**	1,337,463
Capital and reserves			
Share capital	26	**17,098**	17,098
Reserves	26	**1,471,241**	1,320,365
Total equity		**1,488,339**	1,337,463

The consolidated financial statements on pages 30 to 71 were approved and authorised for issue by the board of directors on 14 April 2009 and signed on its behalf by:

Lin Ou Wen
Chairman and Chief Executive Officer

Lin Qing Ping
Executive Director, General Manager and Chief Operating Officer

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2008

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Put option reserve RMB'000	Translation reserve RMB'000	Statutory surplus reserve RMB'000	Non-distributable reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2007	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
Transfers	–	–	–	–	–	–	61,467	–	(61,467)	–
	4,298	727,547	–	–	140,400	–	61,467	–	(61,467)	872,245
Profit for the year	–	–	–	–	–	–	–	–	272,116	272,116
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 year	–	–	–	–	–	(1,156)	–	–	272,116	270,960
At 31 December 2007 and 1 January 2008	17,098	929,533	(124,106)	53,000	–	–	102,773	23,752	335,413	1,337,463
Profit for the year	–	–	–	–	–	–	–	–	208,886	208,886
Total recognised income and expenses for the year	–	–	–	–	–	–	–	–	208,886	208,886
Transfers	–	–	–	–	–	–	46,336	–	(46,336)	–
Dividends declared or approved during the year	–	–	–	–	–	–	–	–	(58,010)	(58,010)
	–	–	–	–	–	–	46,336	–	(104,346)	(58,010)
At 31 December 2008	17,098	929,533	(124,106)	53,000	–	–	149,109	23,752	439,953	1,488,339

Consolidated Cash Flow Statement

For the Year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
Operating activities		
Profit before taxation	237,052	272,286
Adjustments for:		
Interest income	(7,937)	(19,850)
Finance costs	2,377	2,535
Depreciation of property, plant and equipment	13,242	6,210
Amortisation of intangible assets	2,386	597
Operating lease rentals in respect of land use rights	230	254
Write down of inventories	24	–
Operating cash flows before movements in working capital	247,374	262,032
Decrease/(increase) in inventories	5,032	(2,237)
Decrease/(increase) in trade and other receivables	79,851	(10,107)
(Decrease)/increase in trade and other payables	(42,159)	953
Cash from operations	290,098	250,641
PRC enterprise income tax paid	(26,395)	–
Net cash generated from operating activities	263,703	250,641
Investing activities		
Interest received	7,937	19,850
Purchase of property, plant and equipment	(174,338)	(19,437)
Deposit paid on acquisition of land use right	(48,000)	(7,275)
Net cash used in investing activities	(214,401)	(6,862)
Financing activities		
Interest paid	(2,377)	(2,535)
Dividends paid to equity holders of the Company	(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	52,000	59,900
Repayment of bank loans	(57,000)	(67,900)
Repayment of obligations under a finance lease	(4)	(4)
Net cash (used in)/generated from financing activities	(65,391)	658,906
(Decrease)/increase in cash and cash equivalents	(16,089)	902,685
Cash and cash equivalents at 1 January	1,102,450	199,765
Cash and cash equivalents at 31 December	1,086,361	1,102,450
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	1,086,361	1,102,450

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2008

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 annual report. The principal activities of its principal subsidiaries are the development, manufacturing, marketing and sales of pharmaceutical products.

The 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. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has where applicable applied the following amendments and interpretations ("INTs") (collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
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 application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for the current accounting period.

HKFRSs (Amendments)	Improvements to HKFRSs[5]
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]
HKAS 39 (Amendment)	Eligible hedged items[2]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate[1]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[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]
HK(IFRIC)-Int 17	Distributions of non-cash assets to owners[2]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[6]

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

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
5 Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
6 Effective for transfers of assets from customers received on or after 1 July 2009

The directors of the Company anticipate that the application of these standards or INTs will have no impact on the results and the financial position of the Group except for the adoption of HKFRS 3 (Revised) "Business combinations" and HKAS 27 (Revised) "Consolidation and separate financial statements". The application 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 or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment on changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The adoption of HKAS 1 (Revised) may result in a change in presentation of the primary statements of the financial statements.

3. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared under the historical cost convention except as otherwise set out in the accounting policies below. In addition, these financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 4 to the financial statements.

3. Summary of Significant Accounting Policies (Continued)

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and subsidiaries controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of a subsidiary so as to obtain benefit from its activities.

All significant inter-company transactions, balances, income and expenses within the Group are eliminated on consolidation.

b) Revenue recognition

Provided that it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit on loss as follows:

i) Sale of goods

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities and is shown net of sales related taxes, returns, rebates and discounts and after eliminating sales within the Group.

ii) Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

c) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as leasee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of the rental expense over the lease term on a straight-line basis.

3. Summary of Significant Accounting Policies (Continued)

d) Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods, or for administrative purposes, other than construction in progress, are stated at cost less accumulated depreciation and any identified accumulated impairment loss at the balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefit is expected to arise from the continued use of the assets. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period in which the item is derecognised.

The cost of buildings is depreciated over 30 years using the straight-line method.

Construction in progress is stated at cost less any recognised impairment loss and includes all development expenditure and other direct costs attributable to such projects. They are not depreciated until completion of construction and the asset is ready for their intended use. Cost of completed construction work is transferred to the appropriate category of property, plant and equipment.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Furniture, fixtures and equipment	10%-20%
Motor vehicles	20%
Plant and machinery	10%-20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

e) Land use rights

Payment for obtaining land use right is considered as an operating lease payment and charged to the income statement over the lease term of the right using the straight-line method.

f) Intangible assets

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its estimated useful life, and is carried at cost less significant accumulated amortisation and any accumulated impairment loss.

When no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

3. Summary of Significant Accounting Policies (Continued)

f) Intangible assets (Continued)

Product development costs

Product development costs are amortised using the straight-line basis over the useful lives of the underlying products, starting from the time when the product is available for sale.

Patents

Purchased patents are stated at cost less accumulated amortisation and any identified impairment losses. Amortisation is calculated on a straight-line basis over the useful life of the underlying products, starting from the time when the patent is available for use.

Impairment

Intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

g) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3. Summary of Significant Accounting Policies (Continued)

h) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a Group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the income statement.

Financial assets

The Group's financial assets are mainly classified into loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Bank balances and cash

Bank balances and cash comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. Summary of Significant Accounting Policies (Continued)

h) Financial instruments (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. Summary of Significant Accounting Policies (Continued)

h) Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a Group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Trade and other payables, and obligations under a finance lease

Trade and other payables are initially recognised at fair value. Trade and other payables and, obligations under a finance leases are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Bank loans

Interest-bearing bank loans are subsequently measured at amortised cost, using the effective interest method.

Put option

Where the put option written by the Company will be settled by delivering of cash and receiving a fixed number of the Company's shares, a financial liability is recognised on the consolidated balance sheet representing the present value of the obligation with a corresponding adjustment to equity. If the put option expires without delivery, the carrying amount of the financial liability is reclassified to equity.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. Summary of Significant Accounting Policies (Continued)

i) Impairment of tangible and intangible assets (other than intangible assets not available for use)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

3. Summary of Significant Accounting Policies (Continued)

j) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

k) Income tax

i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those difference are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period or periods, in which the tax loss or credit can be utilised.

3. Summary of Significant Accounting Policies (Continued)

k) Income tax (Continued)

iii) (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;

  - the same taxable entity; or

  - different taxable entities which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

3. Summary of Significant Accounting Policies (Continued)

l) Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Renminbi ("RMB"), which is the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are recognised in the income statement in the period in which they arise.

m) Employee benefits

i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

3. Summary of Significant Accounting Policies (Continued)

n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of an outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of an outflow of economic benefits is remote.

o) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii) the Group and the party are subject to common control;

iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. Summary of Significant Accounting Policies (Continued)

p) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intragroup balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

4. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Impairment of intangible assets

The policy for impairment of intangible assets of the Group is based on an evaluation of their recoverable amount with reference to expected future cash flows based on management's estimation. A considerable amount of judgement is required in estimating the expected future cash flows from the Group's pharmaceutical products under development. If the recoverable amounts are less than the carrying amounts of the intangible assets, impairment may be required.

b) Useful lives of property, plant and equipment

The management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry activities. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4. Critical Accounting Estimates and Judgements (Continued)

c) Estimated provision for impairment of trade and other receivables

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade and other receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates based on the credit history of the customers and the current market conditions. Where the expectation is different from the original estimate, such difference will impact the carrying amount receivables and doubtful debt expenses in the period in which such estimate has been changed.

d) Estimated net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to completion and selling expenses. The Group writes down slow-moving or obsolete inventories based on an assessment of the net realizable value of the inventories. Write down of inventories will be made where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of the inventories and written down of inventory expense in the period in which such estimate has been changed.

5. Financial Instruments

Categories of financial instruments

	2008	2007
	RMB'000	RMB'000
Financial assets		
Trade and other receivables	**66,488**	146,339
Bank balances and cash	**1,086,361**	1,102,450
	1,152,849	1,248,789
Financial liabilities		
Financial liabilities measured at amortised cost	**66,574**	107,786
Obligations under a finance lease	**15**	19
	66,589	107,805

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, short-term bank loans, trade and other payables and obligations under a finance lease. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors manage and monitor these expenses to ensure appropriate measures are implemented on a timely and effective manner.

5. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Foreign currency risk management

The Group's presentation currency and the functional currency for the operations to which they relate are primarily Renminbi (RMB).

The Group currently does not have a foreign currency hedging policy but the directors monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

*i) **Exposure to currency risk***

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2008		2007	
	USD'000	HKD'000	USD'000	HKD'000
Bank balances and cash	1	578	10	95,499
Other receivables	–	516	–	380
Accruals and other payables	–	(791)	–	(1,718)
Obligations under a finance lease	–	(16)	–	(20)
	1	287	10	94,141

*ii) **Sensitivity analysis***

The following table details the Group's sensitivity to a reasonably possible change of 5% in exchange rate of RMB against USD/HKD while all other variables are held constant. 5% is the sensitivity rate used when reporting foreign currency risk internally adopted by key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at each balance sheet date for a 5% change in foreign currency rates.

A positive number below indicates an increase in profit for the year where RMB weakens by 5% against the relevant currency. For a 5% strengthening of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative. The analysis is performed on the same basis for 2007.

	2008	2007
	RMB'000	RMB'000
Profit for the year	12	4,403

The Group's equity would not be affected (2007: nil) by changes in foreign exchange rate.

5. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Interest rate risk management

The Group's interest rate risk arises primarily from short-term bank loans and obligations under a finance lease at fixed rates, which expose the Group to fair value interest rate risk. The Group's cash flow interest rate risk relates primarily to variable-rate bank balances. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management of the Company will consider hedging significant interest rate exposure should the need arises.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to cash flow interest rates at the balance sheet date. The analysis is prepared assuming the amount of variable-rate bank balances at the balance sheet date.

At 31 December 2008, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would decrease the Group's profit after tax and retained profits by approximately RMB10,864,000 (2007: RMB11,025,000). Other components of consolidated equity would not decrease/increase (2007: Nil) in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis points increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

Credit risk

At 31 December 2008, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, is arises from the carrying amounts of trade and other receivables, and bank balances and cash as stated in the balance sheet. In order to minimise credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

In respect of bank balances, the Group has diversified its exposure into different financial institutions. Substantially all of the Group's bank balances are held in major financial institutions located in the PRC, which management believes are of high credit ratings and exposes no high credit risk in this aspect.

The Group does not have any significant concentration of credit risk on its trade receivables and does not obtain collateral from customers.

5. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk management

To manage liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the directors to finance the Group's operations and mitigates the effects of fluctuations in cash flows. The Group held cash and cash equivalents amounting to approximately RMB1,086,361,000 at 31 December 2008 (2007: RMB1,102,450,000).

The following table details the Group's remaining contractual maturity at the balance sheet date for its financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2008

	Weighted average effective interest rate	Less than 6 months	6-12 months	1-5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2008						
Trade payables		23,800	–	–	23,800	23,800
Other payables		12,774	–	–	12,774	12,774
Obligations under a finance lease	5.6	3	3	11	17	15
Short-term bank loans	7.47	1,121	30,187	–	31,308	30,000
		37,698	30,190	11	67,899	66,589

2007

	Weighted average effective interest rate	Less than 6 months	6-12 months	1-5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2007						
Trade payables		63,120	–	–	63,120	63,120
Other payables		9,666	–	–	9,666	9,666
Obligations under a finance lease	5.6	3	3	17	23	19
Short-term bank loans	7	23,546	13,914	–	37,460	35,000
		96,335	13,917	17	110,269	107,805

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flows analysis using prices or rates from observable current market transactions as input.

The directors consider the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values as at 31 December 2008 and 2007 because of the short maturity of these instruments.

6. Turnover and Other Revenue

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

	2008 RMB'000	2007 RMB'000
Turnover		
Sales of pharmaceutical products	630,326	660,661
Other revenue		
Bank interest income	7,937	19,850
Total interest income on financial assets not at fair value through profit or loss	7,937	19,850
	638,263	680,511

7. Finance Costs

	2008 RMB'000	2007 RMB'000
Interest on bank advances wholly repayable within five years	2,376	2,533
Finance charges on obligations under a finance lease	1	2
Total interest expenses on financial liabilities not at fair value through profit or loss	2,377	2,535

8. Profit Before Taxation

	2008 RMB'000	2007 RMB'000
Profit before taxation is arrived at after charging:		
Directors' emoluments (note 9)	**4,412**	4,874
Other staff's retirement benefits scheme contributions	**3,249**	2,256
Other staff costs	**22,837**	19,015
	30,498	26,145
Less: Staff costs included in research and development costs	**(906)**	(780)
	29,592	25,365
Depreciation of property, plant and equipment		
– owned by the Group	**13,238**	6,205
– held for use under a finance lease	**4**	5
	13,242	6,210
Less: Depreciation included in research and development costs	**(592)**	(376)
	12,650	5,834
Amortisation of intangible assets	**2,386**	597
Auditor's remuneration	**625**	1,658
Exchange loss included in administrative and other expenses	**316**	13,492
Operating lease rentals in respect of		
– land use rights	**230**	254
– rented premises	**927**	958
Research and development costs	**1,812**	1,476
Cost of inventories	**311,381**	326,453

9. Directors' Emoluments

Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2008				2007			
	Fees	Salaries and other benefits	Retirement scheme contributions	Total	Fees	Salaries and other benefits	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors								
Lin Ou Wen	1,393	201	44	1,638	1,736	185	39	1,960
Lin Qing Ping	836	201	43	1,080	834	185	37	1,056
Xu Chao Hui	278	157	35	470	278	101	21	400
Dennis Luan Thuc Nguyen	319	–	–	319	556	–	–	556
Non-executive directors								
Tang Bin	209	–	–	209	208	–	–	208
John Yang Wang	209	–	–	209	208	–	–	208
Independent non-executive directors								
Goh Jin Hian	209	–	–	209	208	–	–	208
Liu Jun	139	–	–	139	139	–	–	139
Lam Yat Cheong	139	–	–	139	139	–	–	139
	3,731	559	122	4,412	4,306	471	97	4,874

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year (2007: Nil).

10. Individuals With Highest Emoluments

The five highest paid individuals of the Group for the year include:

	2008	2007
Number of directors	3	4
Number of other individuals	2	1
	5	5

The emoluments of the directors of the Company are disclosed in note 9. Details of the emoluments of the remaining individuals are as follows:

	2008 RMB'000	2007 RMB'000
Salaries and other benefits	949	621
Retirement benefits scheme contributions	43	12
	992	633

The emoluments of the remaining individuals fell within the following bands:

	Number of individuals	
	2008	2007
Emoluments bands		
Nil – RMB1,000,000	2	1

11. Profit Attributable to Equity Holders of the Company

The consolidated profit attributable to equity holders of the Company includes a loss of approximately RMB51,931,000 (2007: a profit of approximately RMB44,569,000) which has been dealt with in the financial statements of the Company.

12. Income Tax in the Consolidated Income Statement

	2008 RMB'000	2007 RMB'000
Current tax-PRC income tax		
Provision for the year	(29,034)	(868)
Over-provision in respect of prior years	868	–
	(28,166)	(868)
Deferred taxation		
– origination and reversal of temporary differences	–	(763)
– effect of change in tax rate	–	1,461
	(28,166)	(170)

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 from current rate of 33% to 25% from 1 January 2008 for subsidiaries established in 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 the liability is settled.

Pursuant to the Income Tax Law for the Foreign Investment Enterprises and Foreign Enterprises in the PRC, Fujian Sanai Pharmaceutical Co., Ltd. ("Fujian Sanai") and Fuzhou Sanai Pharmaceutical Co., Ltd. ("Fuzhou Sanai"), which were qualified as Production Enterprises during the year 2006 and 2008 respectively, 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 Enterprise Income Tax for the following three years.

Fujian Sanai, a wholly foreign owned enterprise, was subject to PRC enterprise income tax at a rate of 25% applicable to the company on the assessable profits for the year (2007: 33%). It was exempted from PRC enterprise income tax for the two years starting from the first year of profitable operations after offsetting prior year losses, being the year ended 31 December 2006, followed by a 50% reduction for the next three years. Commencing from 2008, the profit generated from Fujian Sanai is subject to an income tax rate of 12.5%, being half of the enterprise income tax rate applicable. Such tax exemption will expire on 31 December 2010.

Fuzhou Sanai, a wholly foreign owned enterprise, was subject to PRC enterprise income tax at a rate of 25% applicable to the company on the assessable profits for the year (2007: 33%). It was exempted form PRC enterprise income tax for the two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. The first year of profitable operations is the year ended 31 December 2008. Commencing from 2010, the profit generated from Fuzhou Sanai will be subject to an income tax of 12.5%, being half of the enterprise income tax rate applicable. Such tax exemption will expire on 31 December 2012.

Fujian Sanai Pharmaceutical Trading Co., Ltd. ("Sanai Pharmaceutical Trading"), the PRC enterprise, was subject to PRC enterprise income tax at a rate of 25% applicable to the company on the assessable profits for the year (2007: Nil).

12. Income Tax in the Consolidated Income Statement (Continued)

b) No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong for the year ended 31 December 2008 (2007: Nil).

c) The Group had no significant unprovided deferred tax assets or liabilities at 31 December 2008.

d) The charge for the year is reconciled to profit before taxation as follows:

	2008	2007
	RMB'000	RMB'000
Profit before taxation	**237,052**	272,286
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**(61,568)**	(89,854)
Tax effect of non-deductible expenses	**(15,356)**	(26,964)
Tax effect of non-taxable income	**13,462**	14,780
Tax effect of income tax exemption granted to the PRC subsidiaries	**34,428**	100,250
Over-provision in prior years	**868**	–
Decrease in deferred tax liability brought forward resulting from a decrease in applicable tax rate	**–**	1,461
Others	**–**	157
Actual tax expense	**(28,166)**	(170)

13. Dividends

a) Dividends payable to equity holders of the Company attributable to the year:

	2008	2007
	HK$'000	HK$'000
Final dividend proposed after the balance sheet date of HK3.3 cents per share (2007: HK3.8 cents per share)	**56,422**	64,971
	RMB'000	RMB'000
Equivalent to	**49,493**	58,010

13. Dividends (Continued)

a) Dividends payable to equity holders of the Company attributable to the year: (Continued)

Subsequent to the year ended date, the Board resolved to propose a final dividend of HK3.3 cents (equivalent to approximately RMB2.9 cents) per share for the year ended 31 December 2008 to the shareholders on the register of members of the Company on 2 June 2009, which is subject to the approval by the shareholders in the forthcoming Annual General Meeting of the Company.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

b) Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the year.

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

14. Earnings Per Share

a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of RMB208,886,000 (2007: RMB272,116,000) and the weighted average of 1,709,772,500 shares (2007: 1,672,539,521 shares) in issue throughout the year, calculated as follows:

	2008	2007
	'000	'000
Weighted average number of shares		
Issued shares at 1 January	1,709,773	1,280,000
Shares issued under public offering	–	392,540
Weighted average number of shares at 31 December	1,709,773	1,672,540

14. Earnings Per Share (Continued)

b) Diluted earnings per share

Diluted earnings per share is equal to basic earnings per share as there were no dilutive potential ordinary shares outstanding for the two years ended 31 December 2008 and 2007.

15. Segment Reporting

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 year, all of the Group's sales are made in Mainland China (the "PRC"). Accordingly, no segment analysis of business and geographical segments is presented for the years ended 31 December 2008 and 2007.

16. Property, Plant and Equipment

	Buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2007	30,746	6,342	2,438	71,708	35,900	147,134
Additions	–	1,031	4,358	14,071	–	19,460
Transfers	35,900	–	–	–	(35,900)	–
At 31 December 2007 and 1 January 2008	66,646	7,373	6,796	85,779	–	166,594
Additions	–	36,836	–	77,502	60,000	174,338
At 31 December 2008	66,646	44,209	6,796	163,281	60,000	340,932
Accumulated depreciation						
At 1 January 2007	2,799	445	647	10,624	–	14,515
Charge for the year	989	279	185	4,757	–	6,210
At 31 December 2007 and 1 January 2008	3,788	724	832	15,381	–	20,725
Charge for the year	1,848	766	2,983	7,645	–	13,242
At 31 December 2008	5,636	1,490	3,815	23,026	–	33,967
Carrying amount						
At 31 December 2008	61,010	42,719	2,981	140,255	60,000	306,965
At 31 December 2007	62,858	6,649	5,964	70,398	–	145,869

All of the Group's buildings are erected on land held under medium-term land use rights in the PRC.

Included in the carrying amount of furniture, fixtures and equipment is an amount of RMB14,000 (2007: RMB18,000) in respect of assets held under a finance lease.

17. Land Use Rights

	2008	2007
	RMB'000	RMB'000
Carrying amount		
At 1 January	**11,410**	11,664
Amortisation	**(230)**	(254)
At 31 December	**11,180**	11,410

The balance of land use right represents prepaid operating lease payments for land use rights situated in the PRC under medium-term leases.

18. Intangible Assets

	Patents	**Product development costs**	**Total**
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2007, 31 December 2007, 1 January 2008 and 31 December 2008	16,230	7,977	24,207
Amortisation			
At 1 January 2007	–	–	–
Charge for the year	357	240	597
At 31 December 2007 and 1 January 2008	357	240	597
Charge for the year	1,426	960	2,386
At 31 December 2008	1,783	1,200	2,983
Carrying amount			
At 31 December 2008	14,447	6,777	21,224
At 31 December 2007	15,873	7,737	23,610

The amortisation charge for the year is included in "administrative and other expenses" in the consolidated income statement.

The above intangible assets have finite useful lives and are amortised on a straight-line basis over its estimated useful life of five years, except for certain of the intangible assets which are not yet available for use.

19. Inventories

	2008 RMB'000	2007 RMB'000
Raw materials	**5,478**	11,537
Work in progress	**935**	425
Finished goods	**12,222**	11,848
Merchandise	**119**	–
	18,754	23,810

The analysis of the amount of inventories recognised as an expense is as follows:

	2008 RMB'000	2007 RMB'000
Carrying amount of inventories sold	**311,357**	326,453
Write down of inventories	**24**	–
	311,381	326,453

20. Trade And Other Receivables

	2008 RMB'000	2007 RMB'000
Trade receivables	**66,025**	145,879
Other receivables	**463**	460
Loans and receivables	**66,488**	146,339

The Group normally grants credit terms of 30 days to 60 days to its customers. Further details on the Group's credit policy are set out in note 5. The following is an ageing analysis of trade receivables at the balance sheet date:

	2008 RMB'000	2007 RMB'000
Age		
0 to 30 days	**35,248**	74,104
31 to 60 days	**30,777**	71,775
	66,025	145,879

Management closely monitor the credit quality of trade and other 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.

There are no trade and other receivables that are past due or impaired for the two years ended 31 December 2008 and 2007.

The Group does not hold any collateral over these balances.

21. Bank Balances and Cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. During the year, the bank deposits carry interest at rates ranging from 0.1% to 3.05% (2007: 1.75% to 5.8%) per annum.

22. Trade and Other Payables

	2008 RMB'000	2007 RMB'000
Trade payables		
– a related company*	1,666	2,546
– others	22,134	60,574
	23,800	63,120
Payroll and welfare payables	911	798
Payable for acquisition of property, plant and equipment	5,150	–
Accrued charges	3,015	6,147
Obligations under a finance lease (note 24)	4	4
Others	3,698	2,721
Financial liabilities measured at amortised cost	36,578	72,790
Other non-income tax payables	4,791	10,738
	41,369	83,528

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

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

	2008 RMB'000	2007 RMB'000
Age		
0 to 30 days	11,767	35,357
31 to 60 days	12,033	27,763
	23,800	63,120

23. Short-Term Bank Loans

The bank loans are unsecured, carry interest at fixed rates of 7.47% (2007: 7.029%-7.29%) per annum and are repayable within 1 year.

24. Obligations Under a Finance Lease

At 31 December 2008, the Group had obligations under a finance lease repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under a finance lease:				
Within 1 year	**6**	6	**5**	4
After 1 year but within 2 years	**6**	6	**5**	5
After 2 years but within 5 years	**5**	11	**5**	10
	17	23	**15**	19
Less: Total future finance charges	**(2)**	(4)		
Present value of lease obligations	**15**	19		
Less: Amount due within one year shown under trade and other payables (note 22)			**(4)**	(4)
Amount due after one year			**11**	15

It is the Group's policy to lease certain of its fixtures and equipment under financial leases. The average lease term is 5 years. Interest rate underlying the obligations under a finance lease is fixed at its contract date at 5.6% (2007: 5.6%) per annum. No arrangements have been entered into for contingent rental payments.

25. Income Tax in the Consolidated Balance Sheet

a) Current taxation in the consolidated balance sheet represents:

	2008 RMB'000	2007 RMB'000
Provision for the PRC enterprise income tax for the year	**29,034**	868
PRC enterprise income tax paid	**(26,395)**	–
	2,639	868

b) Deferred tax liabilities recognised:

The following is the deferred tax liabilities recognised and movements thereon during the year:

	Deferred product development costs and patents RMB'000
At 1 January 2007	4,587
Charged to income statement for the year	763
Effect of change in tax rate (note 12a)	(1,461)
At 31 December 2007	3,889
Charged to income statement for the year	–
At 31 December 2008	3,889

26. Share Capital and Reserves

	Share capital RMB'000	Share premium RMB'000 (b(i))	Special reserve RMB'000 (b(ii))	Capital reserve RMB'000 (b(iii))	Put option reserve RMB'000 (b(iv))	Translation reserve RMB'000	Statutory surplus reserve RMB'000 (b(v))	Non-distributable reserve RMB'000 (b(vi))	Retained profits RMB'000	Total RMB'000
At 1 January 2007	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
Transfers	–	–	–	–	–	–	61,467	–	(61,467)	–
	4,298	727,547	–	–	140,400	–	61,467	–	(61,467)	872,245
Profit for the year	–	–	–	–	–	–	–	–	272,116	272,116
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 year	–	–	–	–	–	(1,156)	–	–	272,116	270,960
At 31 December 2007	17,098	929,533	(124,106)	53,000	–	–	102,773	23,752	335,413	1,337,463
At 1 January 2008	17,098	929,533	(124,106)	53,000	–	–	102,773	23,752	335,413	1,337,463
Profit for the year	–	–	–	–	–	–	–	–	208,886	208,886
Total recognised income and expenses for the year	–	–	–	–	–	–	–	–	208,886	208,886
Transfers	–	–	–	–	–	–	46,336	–	(46,336)	–
Dividends declared or approved during the year	–	–	–	–	–	–	–	–	(58,010)	(58,010)
	–	–	–	–	–	–	46,336	–	(104,346)	(58,010)
At 31 December 2008	17,098	929,533	(124,106)	53,000	–	–	149,109	23,752	439,953	1,488,339

26. Share Capital and Reserves (Continued)

a) Share capital

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 31 December 2007 and 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 2008	1,709,772,500	17,098

	2008 **RMB'000**	2007 RMB'000
Shown in the consolidated balance sheet as	**17,098**	17,098

b) Nature and purpose of reserves

i) Share premium

Under the Companies Law (revised) of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

ii) Special reserve

Special reserve represents the aggregate of:

a) 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 equity interest in Fujian Sanai and the nominal value of the paid-in capital of Fujian Sanai pursuant to the Group reorganisation in preparation for the listing of the Company's shares in 2007;

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

c) the difference between the consideration paid for the acquisition of additional interests in Fuzhou Sanai and the carrying values of the underlying net assets attributable to the additional interests in Fuzhou Sanai pursuant to the Group reorganisation in preparation for the listing of the Company's shares in 2007.

26. Share Capital and Reserves (Continued)

b) Nature and purpose of reserves (Continued)

iii) Capital reserve

Capital reserve represents the capital contributions from Mr. Lin Qing Ping, a director and shareholder of the Company; and Fuzhou Hongyu, a company controlled by Mr. Lin Ou Wen, also a director and shareholder of the Company.

iv) Put option reserve

The put option reserve represents the recognition of the obligation of a put option written by the Company to several investors (the "Investors"), a number of original owners of Fujian Sanai, Mr. Lin Ou Wen, a director and shareholder of the Company, and the shareholders of Wuyi BVI in respect of the shares issued upon the conversion of the Convertible Bonds on 27 October 2006 and right to require the Company to repurchase all the shares held by the Investors in the event that the Company fails to complete the Hong Kong public offer within six months from 27 October 2006. The option lapsed at the expiry date, i.e. 1 February 2007, upon completion of the initial offer for subscription of the shares of the Company to the public.

Details of the convertible bond offering are set out in the paragraph headed "Convertible Bond Offering" in History and Development of the prospectus dated 22 January 2007 issued by the Company.

v) Statutory surplus reserve

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.

vi) Non-distributable reserve

In accordance with the Articles of Association of Fujian Sanai, Fujian Sanai may appropriate funds to non-distributable reserve at the discretion of its 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; and (iii) expand production operation.

c) Distributable reserves of the Company

Under the Companies Law (revised) of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its share capital account.

As at 31 December 2008, the Company's reserves available for distribution to shareholders amounted to approximately RMB863,897,000 (2007: RMB973,838,000) computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium of RMB929,533,000 (2007: RMB929,533,000), less accumulated losses of RMB65,636,000 (2007: retained profits of RMB44,305,000), which is available for distribution provided that immediately following the date on which the dividend is proposed.

26. Share Capital and Reserves (Continued)

d) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of debt, which includes the short-term bank loans disclosed in note 23 and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a semi-annual basis. During 2008, the Group's strategy was unchanged from 2007. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The debt-to-equity ratio at 31 December 2008 and 2007 was as follows:

	2008 **RMB'000**	2007 RMB'000
Current liabilities		
Trade and other payables	**41,369**	83,528
Short-term bank loans	**30,000**	35,000
	71,369	118,528
Non-current liabilities		
Obligations under a finance lease	**11**	15
Total debt	**71,380**	118,543
Total equity	**1,488,339**	1,337,463
Debt-to-equity ratio	**4.80%**	8.86%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27. Equity-Settled Share Option Scheme

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 8 January 2007 for the primary purpose of providing incentives to and recognising significant contributions from directors and eligible employees, and will expire on 31 January 2017. Under the Scheme, the board of directors of the Company (the "Board") may grant options to all full-time employees, directors (including independent non-executive directors) and part-time employees with weekly working hours of 10 hours and above, of the Group, substantial shareholders of each member of the Group, associates of the directors and substantial shareholders of any member of the Group, trustee of any trust pre-approved by the Board; and any advisor (professional or otherwise) or consultant, distributor, supplier, agent, customer, joint venture partner, service provider to the Group whom the Board considers, at its sole discretion, has contributed or contributes to the Group.

27. Equity-Settled Share Option Scheme (Continued)

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue on the date of listing of shares on the Stock Exchange which represents 164,300,000 shares (excluding the over-allotment portion), without prior approval from the Company's shareholders. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under this Scheme shall not in aggregate exceed 30% of the shares in issue from time to time. No option may be granted under this Scheme and any other share option scheme of the Company if such limit is exceeded. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's shares in issue or with an aggregate value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Upon acceptance of the options granted the grantee shall make a payment of HK$1 to the Company by way of consideration for the grant. Options may be exercised at any time immediately from the date of grant of the share options and during the period as notified by the directors at date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

Up to 31 December 2008, no options were granted under the Scheme.

28. Major Non-Cash Transactions

For the year ended 31 December 2007, the Group entered into a finance lease arrangement in respect of assets with a total capital value at the inception of the lease of RMB23,000.

29. Operating Lease Commitments

The Group as leasee

At the balance sheet date, the Group was committed to make the following future minimum lease payments in respect of office properties under non-cancellable operating leases are payable as follows:

	2008	2007
	RMB'000	RMB'000
Within one year	**584**	936
In the second to fifth year inclusive	**13**	580
	597	1,516

Significant leasing arrangements in respect of land held under operating leases are described in note 17.

Apart from these leases, the Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. Lease payments usually reflect to market rentals. None of the leases includes contingent rentals.

30. Capital Commitments

	2008 RMB'000	2007 RMB'000 (Restated)
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 rights	**2,922**	50,922
– property, plant and equipment	**600**	–
	11,622	59,022

31. Retirement Benefits Scheme

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs to the MPF Scheme, which contribution is matched by employees but subject to a maximum amount of HK$1,000 per month for each employee.

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

32. Related Party Transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions, and had balances due to related parties in trade and other payables as at the balance sheet date as follows:

					Balance as at 31 December 2008		Balance as at 31 December 2007	
Name of related party	Relationship with related party	Nature of transaction	2008 RMB'000	2007 RMB'000	Trade payables RMB'000	Other payables RMB'000	Trade payables RMB'000	Other payables RMB'000
Fuzhou Hongyu	Company controlled by Mr. Lin Ou Wen	Purchase of packaging materials	**13,174**	16,997	**1,666**	**–**	2,546	
Mr. Lin Qin Xiang	Brother of Mr. Lin Ou Wen and Mr. Lin Qing Ping*	Property rentals paid	**204**	204	**–**	**612**	–	408

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

The details of remuneration of key management personnel represent emoluments of directors of the Company paid during the year which are set out in note 9.

33. Comparative Figures

Certain comparative figures have been realigned to conform with current year's presentation.

34. Subsidiaries

Details of the Company's subsidiaries at 31 December 2008 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Proportion of ownership interest Directly	Proportion of ownership interest Indirectly	Principal activity
Direct subsidiary:					
Wuyi BVI	British Virgin Islands	US$10,000	100%	–	Investment holding
Indirect subsidiaries:					
Wuyi International Pharmaceutical (Hong Kong) Company Limited*	Hong Kong	HK$1	–	100%	Investment holding
Fujian Sanai	PRC wholly foreign owned enterprise for a term of 50 years commencing 18 January 2000	RMB290,780,000	–	100%	Develop, manufacture, marketing and sales of pharmaceutical products
Fuzhou Sanai	PRC wholly foreign owned enterprise for a term of 50 years commencing 24 December 2003	US$19,810,000	–	100%	Develop, manufacture, marketing and sales of pharmaceutical products
Sanai Pharmaceutical Trading *	PRC limited liability company for a term of 50 years commencing 25 February 2008	RMB30,000,000	–	100%	Marketing and sales of pharmaceutical products

* The subsidiaries were newly incorporated during the year.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

Five-Year Financial Summary

RESULTS

	Year ended 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	316,165	417,349	541,320	660,661	**630,326**
Cost of sales	(176,414)	(218,479)	(272,827)	(326,453)	**(311,381)**
Gross profit	139,751	198,870	268,493	334,208	**318,945**
Other revenue	478	470	2,233	19,850	**7,937**
Distribution expenses	(10,961)	(13,363)	(11,679)	(12,265)	**(50,176)**
Administrative and other expenses	(9,131)	(8,394)	(38,432)	(66,972)	**(37,277)**
Fair value change on convertible bonds	–	–	(63,890)	–	**–**
Finance costs	(2,431)	(2,917)	(2,704)	(2,535)	**(2,377)**
Profit before taxation	117,706	174,666	154,021	272,286	**237,052**
Income tax	(38,949)	(57,463)	(34,630)	(170)	**(28,166)**
Profit for the year	78,757	117,203	119,391	272,116	**208,886**
Attributable to:					
Equity holders of the Company	78,909	117,288	119,774	272,116	**208,886**
Minority interests	(152)	(85)	(383)	–	**–**
	78,757	117,203	119,391	272,116	**208,886**
Dividends paid	39,264	59,146	84,120	–	**58,010**
Earnings per share – Basic and diluted	RMB7.5 cents	RMB11.2 cents	RMB11.0 cents	RMB16.3 cents	**RMB12.2 cents**

ASSETS AND LIABILITIES

	As at 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	282,219	353,420	527,216	1,460,763	**1,566,247**
Total liabilities	(118,035)	(122,076)	(332,958)	(123,300)	**(77,908)**
Net assets	164,184	231,344	194,258	1,337,463	**1,488,339**

Notes:

1. The results and summary of assets and liabilities for each of the two years ended 31 December 2005 and 2004 which were extracted from the Company's prospectus dated 22 January 2007 have been prepared on a combined basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on The Stock Exchange of Hong Kong Limited, had been in existence throughout those years.