Interim Report 2009

武夷药业
Wuyi Pharmaceutical

Wuyi International Pharmaceutical Company Limited

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

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. Liu Jun
Mr. Lam Yat Cheong
Mr. Du Jian (appointed on 11 June 2009)

COMPANY SECRETARY

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

AUTHORIZED REPRESENTATIVES

Mr. Lin Ou Wen
Mr. Kung Wai Chiu, Marco
FCPA (Practicing), FCCA, ACIS and ACS

AUDIT COMMITTEE

Mr. Lam Yat Cheong *(Chairman)*
Mr. Liu Jun
Mr. Du Jian (appointed on 11 June 2009)

REMUNERATION COMMITTEE

Mr. Lin Ou Wen *(Chairman)*
Mr. Liu Jun
Mr. Lam Yat Cheong
Mr. Du Jian (appointed on 11 June 2009)

NOMINATION COMMITTEE

Mr. Lin Ou Wen *(Chairman)*
Mr. Lin Qing Ping
Mr. Liu Jun
Mr. Lam Yat Cheong
Mr. Du Jian (appointed on 11 June 2009)

AUDITOR

CCIF CPA Limited
Certified Public Accountants

SOLICITORS

Gallant Y. T. Ho & Co.

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 Fulcrum (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
George Town
Grand Cayman
Cayman Islands
British West Indies

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

Report on Review of Interim Financial Statements

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

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

INTRODUCTION

We have reviewed the interim financial statements set out on pages 3 to 13, which comprise the consolidated statement of financial position of Wuyi International Pharmaceutical Company Limited (the "Company") and its subsidiaries as of 30 June 2009 and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The directors of the Company are responsible for the preparation and presentation of these interim financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of the interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements as at 30 June 2009 is not prepared, in all material respects, in accordance with HKAS 34.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 10 September 2009

Ho Chun Shing
Practising Certificate Number P04396

The Board of Directors (the "Board") of Wuyi International Pharmaceutical Company Limited ("Wuyi Pharmaceutical" or the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2009, together with the unaudited comparative figures for the corresponding period in 2008.

These interim financial statements have not been audited, but have been reviewed and agreed by the Company's audit committee and the Company's external auditor in accordance with the Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

		Six months ended 30 June	
	Notes	**2009 RMB'000 (Unaudited)**	2008 RMB'000 (Unaudited)
Turnover		**294,959**	359,932
Cost of sales		**(167,210)**	(172,948)
Gross profit		**127,749**	186,984
Other revenue		**1,966**	4,697
Distribution costs		**(41,006)**	(13,715)
Administrative and other expenses		**(21,081)**	(20,841)
Finance costs	5	**(1,136)**	(1,282)
Profit before taxation	5	**66,492**	155,843
Income tax	6	**(8,413)**	(19,440)
Profit for the period		**58,079**	136,403
Total comprehensive income for the period		**58,079**	136,403
Profit and total comprehensive income for the period and attributable to owners of the company		**58,079**	136,403
Earnings per share – Basic and diluted	8	**RMB3.4 cents**	RMB8.0 cents

Consolidated Statement of Financial Position

At 30 June 2009

	Notes	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**302,936**	306,965
Land use rights		**11,047**	11,180
Intangible assets		**20,031**	21,224
Deposit made on acquisition of land use right		**55,275**	55,275
		389,289	394,644
Current assets			
Inventories		**21,156**	18,754
Trade and other receivables	10	**152,998**	66,488
Bank balances and cash		**1,063,104**	1,086,361
		1,237,258	1,171,603
Current liabilities			
Trade and other payables	11	**90,469**	41,369
Short-term bank loan	12	**30,000**	30,000
Current taxation		**5,695**	2,639
		126,164	74,008
Net current assets		**1,111,094**	1,097,595
Total assets less current liabilities		**1,500,383**	1,492,239
Non-current liabilities			
Obligations under a finance lease		**7**	11
Deferred tax liabilities		**3,889**	3,889
		3,896	3,900
Net assets		**1,496,487**	1,488,339
Capital and reserves			
Share capital	13	**17,098**	17,098
Reserves		**1,479,389**	1,471,241
Total equity		**1,496,487**	1,488,339

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Non-distributable reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2008 (audited)	17,098	929,533	(124,106)	53,000	102,773	23,752	335,413	1,337,463
Total comprehensive income for the period	–	–	–	–	–	–	136,403	136,403
Dividends approved in respect of the previous year (note 7)	–	–	–	–	–	–	(58,010)	(58,010)
At 30 June 2008 (unaudited)	17,098	929,533	(124,106)	53,000	102,773	23,752	413,806	1,415,856
At 1 January 2009 (audited)	**17,098**	**929,533**	**(124,106)**	**53,000**	**149,109**	**23,752**	**439,953**	**1,488,339**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**58,079**	**58,079**
Dividends approved in respect of the previous year (note 7)	**-**	**-**	**-**	**-**	**-**	**-**	**(49,931)**	**(49,931)**
At 30 June 2009 (unaudited)	**17,098**	**929,533**	**(124,106)**	**53,000**	**149,109**	**23,752**	**448,101**	**1,496,487**

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2009

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash generated from operations	**36,268**	141,242
PRC enterprise income tax paid	**(5,357)**	(9,975)
Net cash generated from operating activities	**30,911**	131,267
Net cash (used in)/generated from investing activities	**(3,097)**	4,424
Net cash used in financing activities	**(51,071)**	(89,294)
Net (decrease)/increase in cash and cash equivalents	**(23,257)**	46,397
Cash and cash equivalents at 1 January	**1,086,361**	1,102,450
Cash and cash equivalents at 30 June	**1,063,104**	1,148,847
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,063,104**	1,148,847

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands and acts as an investment holding company. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 1 February 2007. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the interim report. The principal activities of its principal subsidiaries are the development, manufacturing, marketing and sales of pharmaceutical products.

The unaudited interim financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Company and the Group.

2. BASIS OF PREPARATION

The unaudited interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with the Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the HKICPA. It was authorised for issue on 10 September 2009.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008 except for as described in note 3 below.

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, Operating segments
- HKAS 1 (revised), Presentation of financial statements
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate
- Amendments to HKFRS 7, Financial instruments: Disclosures – improving disclosures about financial instruments
- HKAS 23 (revised 2007), Borrowing costs
- Amendments to HKFRS 2, Share-based payment – vesting conditions and cancellations

The amendments to HKAS 23, HKAS 27 and HKFRS 2 and Improvements to HKFRSs (2008) have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial statements. The impact of the remainder of these developments on the interim financial statements as follows:

a) HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and to assess its performance. The chief operating decision maker of the Group has been identified as the Chief Executive Officer.

b) HKAS 1 (revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has chosen to present one statement.

4. SEGMENT INFORMATION

The Group determines its operating segments based on the internal reports reviewed by the Chief Executive Officer that are used to make strategic decisions.

The Group has one reportable segment in respect of development, manufacturing, marketing and sales of pharmaceutical products in the PRC. Accordingly, no further business segment information is required.

As the Group's revenue is mainly derived from operations carried out in the PRC, no further geographical segment information is provided.

5. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Profit before taxation has been arrived at after charging/(crediting):		
Finance costs		
Interest on bank advances wholly payable within five years	**1,135**	1,281
Finance charges on obligations under a finance lease	**1**	1
	1,136	1,282
Directors' emoluments	**1,525**	2,017
Other staff's retirement benefits scheme contributions	**1,775**	1,431
Other staff costs	**17,498**	7,864
	20,798	11,312
Less: Staff costs included in research and development costs	**(458)**	(249)
	20,340	11,063
Depreciation of property, plant and equipment		
– owned by the Group	**9,090**	6,620
– held under a finance lease	**2**	2
	9,092	6,622
Less: Depreciation included in research and development costs	**(393)**	(297)
	8,699	6,325
Amortisation of intangible assets	**1,193**	1,193
Exchange loss included in administrative and other expenses	**2,075**	2,512
Operating lease rentals in respect of		
– land use rights	**133**	97
– rented premises	**466**	445
Research and development cost	**1,091**	833
Bank interest income	**(1,966)**	(4,697)

6. INCOME TAX

	Six months ended 30 June	
	2009 **RMB'000** **(Unaudited)**	2008 RMB'000 (Unaudited)
Current tax – PRC income tax	**8,413**	19,440

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 changed the tax rate from current rate of 33% to 25% from 1 January 2008 for enterprises established in the PRC. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or 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 period (six months ended 30 June 2008: 25%). 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, followed by a 50% reduction for the next three years. The first year of profitable operations is the year ended 31 December 2006. 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 period (six months ended 30 June 2008: 25%). 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., Limited ("Sanai Pharmaceutical Trading"), a PRC enterprise, was subject to PRC enterprise income tax at a rate of 25% applicable to the company on the assessable profits for the period (six months ended 30 June 2008: Nil).

b) No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong for the period ended 30 June 2009 (six months ended 30 June 2008: Nil).

c) The Group had no significant unprovided deferred tax assets or liabilities at 30 June 2009 and 2008.

7. DIVIDENDS

Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the period:

	Six months ended 30 June	
	2009 **HK$'000** **(Unaudited)**	2008 HK$'000 (Unaudited)
Final dividend in respect of the previous financial year, approved and paid during the interim period of HK3.3 cents per share (six months ended 30 June 2008: HK3.8 cents per share)	**56,422**	64,971
	RMB'000	RMB'000
Approximately equivalent to	**49,931**	58,010

The directors do not recommend payment of interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: HK$Nil).

8. EARNINGS PER SHARE

a) Basic earnings per share

The calculation of basis earnings per share is based on the profit for the period attributable to owners of the Company of approximately RMB58,079,000 (six months ended 2008: RMB136,403,000) and the weighted average number of 1,709,772,500 shares (six months ended 30 June 2008: 1,709,772,500 shares) in issue during the interim period.

b) Diluted earnings per share

Diluted earnings per share is equal to basic earning per share as there were no dilutive potential ordinary shares outstanding for the two periods ended 30 June 2009 and 2008.

9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2009, the Group acquired property, plant and equipment with a cost of approximately RMB5,063,000 (six months ended 30 June 2008: RMB273,000).

10. TRADE AND OTHER RECEIVABLES

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Trade receivables	**151,509**	66,025
Other receivables	**350**	463
Loan and receivables	**151,859**	66,488
Prepayments	**1,139**	–
	152,998	66,488

The Group normally grants credit terms of 30 days to 60 days to its customers. The ageing analysis of trade receivables is as follows:

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
0 to 30 days	**83,570**	35,248
31 to 60 days	**67,939**	30,777
	151,509	66,025

There are no trade and other receivables that are past due or impaired for the period ended 30 June 2009 and year ended 31 December 2008.

11. TRADE AND OTHER PAYABLES

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Trade payables		
– a related company*	**1,044**	1,666
– others	**60,194**	22,134
	61,238	23,800
Accruals and other payables	**17,133**	12,774
Obligations under a finance lease	**4**	4
Financial liabilities measured at amortised cost	**78,375**	36,578
Other non-income tax payables	**12,094**	4,791
	90,469	41,369

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

11. TRADE AND OTHER PAYABLES (CONTINUED)

The ageing analysis of trade payables is as follows:

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
0 to 30 days	**31,864**	11,767
31 to 60 days	**29,374**	12,033
	61,238	23,800

12. SHORT-TERM BANK LOAN

The bank loan is unsecured, carries interest at fixed rate of 7.47% (31 December 2008: 7.47%) per annum and is repayable within 1 year.

13. SHARE CAPITAL

	Number of shares	**Amount** HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 30 June 2009 and 31 December 2008	3,200,000,000	32,000
Issued and fully paid:		
At 30 June 2009 and 31 December 2008	1,709,772,500	17,098
Shown in the consolidated statement of financial position at 30 June 2009 and 31 December 2008		RMB: 17,098,000

14. CAPITAL COMMITMENTS

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of		
– intangible assets	**8,100**	8,100
– land use right	**2,922**	2,922
– property, plant and equipment	**10,600**	600
	21,622	11,622

15. 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 reporting date.

			Six months ended 30 June		Balance as at 30 June 2009 (unaudited)		Balance as at 31 December 2008 (audited)	
Name of related party	Relationship with related party	Nature of transaction	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)	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	**3,627**	8,289	**1,044**	**-**	1,666	–
Mr. Lin Qin Xiang	Brother of Mr. Lin Ou Wen and Mr. Lin Qing Ping*	Property rentals paid	**102**	102	**-**	**714**	–	612

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

16. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised), Presentation of financial statements, certain comparative figures have been provided in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 3.

Management Discussion and Analysis

BUSINESS REVIEW

The financial turmoil has occurred in the United States since the second half of 2008 and has spread to the rest of the world. Under the shadow of a global economic downturn, consumer confidence was weakened and consumption patterns became more cautious, which has brought a lot of challenges to the retail market. As one of the competitive specialty pharmaceutical groups in the PRC, Wuyi Pharmaceutical has suffered a certain degree of impact in its overall sales during the period due to a cut on expenditures on medicines by the Chinese people.

As the domestic economy started to stabilize in this year, sales revenue and profit for the first quarter of 2009 increased approximately 13% and 19% respectively compared with the fourth quarter of 2008. However, decrease was inevitably recorded when comparing the sales revenue and profit for the first half of 2009 with that for the first half of 2008 which was benefited from the economic development at that time.

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 on our operation performance, it proposed and was immediately approved by the chairman to issue a profit warning at the end of July 2009 through the websites of The Stock Exchange of Hong Kong Limited and the Company to provide the shareholders and potential investors with timely, accurate and reliable information for them to make informed decisions.

As the price of raw materials for medicines increased during the period under review, the production cost of certain products increased significantly. To increase our market share, the Group has lowered the unit price of certain products during the period, which has affected their gross profit margin. In addition, the Group strived to promote the new product Perilla Oil Capsule in the market during the period under review and increased the investment in promotion and advertisement of new products, which increased the distribution expenses for the first half of 2009 and lowered the profit attributable to owners of the Company during the period.

Wuyi Pharmaceutical recorded sales revenue of approximately RMB295.0 million for the six months ended 30 June 2009, representing a decrease of approximately 18.0% from the same period of last year (30 June 2008: RMB359.9 million). Profit for the period was approximately RMB58.1 million, representing a decrease of 57.4% from the same period of last year (30 June 2008: approximately RMB136.4 million). The Board of Wuyi Pharmaceutical does not recommend payment of interim dividend for 2009.

1. Product Development

I. Perilla Oil Capsule

Perilla Oil Capsule, a key product of the Group, effectively controls hyperlipidemia and has more outstanding efficacy in increasing high density lipoproteins. 2009 is the second year since the Perilla Oil Capsule was launched in the market. Through two years of efforts by the marketing staff and the marketing strategy of the Group which strived to develop the market for the product during the period under review, we have achieved results in the sales of the product. Sales revenue of the product amounted to RMB26.4 million for the first half of 2009, representing an increase of 45.1% from the same period of last year and the gross profit margin was 65.3%. With the overall economic downturn and the significantly weakened global financial market, such results were satisfactory.

The sales revenue of Perilla Oil Capsule accounted for approximately 9.0% of the total sales revenue during the period under review. The key markets of the product were located in the economically developed Jiangsu Province and Zhejiang Province and the key customers are the middle-and-old-aged with hyperlipidemia. Sales in these two provinces accounted for 49.2% of the total sales of the products.

To enhance the popularity of our products, the Group invested in promotion and marketing through media such as television and magazines to promote the overall image and product quality during the period. On the other hand, the Group also introduced the unique efficacy of the product through academic promotional seminars and new medicine promotional seminars and designated marketing representatives to offer academic promotion and dosage instruction in hospitals. Therefore, sales of the products increased remarkably during the period.

II. Yuxingcao Injectible

Yuxingcao Injectible contributed sales revenue of approximately RMB9.8 million, representing a market share of approximately 20% among similar products.

As not many manufacturers were qualified for manufacturing Yuxingcao Injectible and the Group was one of the first three enterprises approved for manufacturing Yuxingcao Injectible in China, the Group specially operates its Yuxingcao production base in South China to grow Yuxingcao and can therefore ensure a stable supply of fresh Yuxingcao. This 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. Drug Sales Agency

The Group established Sanai Pharmaceutical Trading in the first half of 2008 and commenced the operation and development of its drug sales agency business in July 2008. During the period, Sanai Pharmaceutical Trading was the agency of seven types of drugs which included Levamlodipine Besulate Tablets and contributed sales revenue of approximately RMB8.9 million, representing approximately 3.0% of the total sales revenue.

2. Marketing and Sales Network

Our sales network covers 20 key provinces, municipality cities and autonomous regions, mainly covering the affluent coastal cities and provinces of the eastern region and northeastern region of China. During the period under review, there is a total of 60 distributors, representing an increase of one compared with the same period of last year. The Group continued to actively develop product distribution in rural market. Sales revenue from rural market contributed RMB38.3 million for the first half of 2009, representing approximately 13.0% of the total sales revenue.

OUTLOOKS AND FUTURE DEVELOPMENT

Looking into the second half of 2009, the business environment is still challenging as the international financial crisis has resulted in a global economic recession. Although the Chinese government has implemented economic stimulus plan, there are still periodic and structural adjustments on the economy. Moreover, the national basic drugs directory, new Good Manufacturing Practice (GMP) and the newly amended pricing policy on drugs, which will be implemented shortly, are going to intensify the competition and affect the operating cost and profit of the pharmaceutical industry.

However, the official announcement of the "New Medical Reform" ("New Medical Reform") will bring about favourable factors to the pharmaceutical market. The New Medical Reform proposed to increase the number of employees and residents in cities and towns participating in basic medical insurance to approximately 390 million people, to raise the medical insurance and new rural cooperation medical insurance subsidies for residents in cities and towns and to raise the payment standard of individuals. The New Medical Reform will also achieve total network coverage of the grass-root medical and health service and expand the scope of the public health service. The policy not only drives the demand in the pharmaceutical market, but also makes positive impact in various aspects of the supply chain in the industry, which creates opportunities for the pharmaceutical enterprises in China.

In view of that, the Group will actively equip itself in a number of ways to seize opportunities for business development so as to increase the sales revenue and economic efficiency.

1. Active exploration of sales network and increase penetration in the rural market

In respect of market exploration, the Group will strive to explore the rural market, increase the number of marketing staff in each office and continue to make use of the distribution network of Jointown Group Co., Ltd. ("Jointown") to promote the product distribution in the rural communities in a dozen of southern provinces in China so as to expand our sales network even further. The Group expects to increase the proportion of sales in rural market in 2009 through effective advertising and promotion programs. Our current sales network has extensively covered the rural market and we will strive to increase penetration in the rural market and focus on 2A and 2B grade county hospitals and community hospitals.

2. Enhance product research and development and lay foundation for bigger profit

In respect of production development, 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 mass production and launching in market. Furthermore, the new anti-hepatitis compound drug Liver & Gall Bladder Tablets developing under the cooperation of the Group and Peking University's Faculty of Medicine has completed toxicity test and entered into the stage of efficacy testing.

3. Increase investment in advertising to promote sales of products

For sales of products, the Group continues to promote the brand of "Sanai Pharmaceutical" and the efficacy and safety of the Perilla Oil Capsule through investing in television advertisement in the second half of the year. We will also strive to promote the entrance of the drug into the medical insurance directory of certain provinces and cities so as to increase the utilization and sales volume to meet the target of the Group.

Even though the economic conditions of 2009 will remain severe, we are cautiously optimistic about the prospects of the Group. The Group expects that the sales revenue and efficiency for the second half of 2009 will increase from the first half of the year. We will strive for market development, increase promotion for our brand and the quality of our products so as to avoid the impact of the financial crisis and maximize returns for shareholders through growth in business.

FINANCIAL REVIEW

1. Turnover

During the period under review, the Group's turnover recorded approximately RMB295.0 million (30 June 2008: approximately RMB359.9 million), representing a decrease of approximately 18.0% as compared to the same period of last year. The main reason for the decrease was that the global economic downturn has lowered the overall sales of products. In addition, as the protection period of products has expired, some manufacturers started producing imitated products and took up some market shares amid severe competition.

Turnover for the first half of the year was still dominated by the Western medicines, with a turnover of approximately RMB158.0 million, representing approximately 53.6% of the overall turnover, a decrease of approximately 23.6% over the same period of last year (30 June 2008: approximately RMB206.9 million, representing approximately 57.5% of the overall turnover). Turnover of the Chinese medicines amounted to approximately RMB128.0 million, representing approximately 43.4% of the overall turnover, a decrease of approximately 16.3% over the same period of last year (30 June 2008: approximately RMB153.0 million, representing approximately 42.5% of the overall turnover). In addition, the newly added pharmaceutical trading revenue in the second half of last year recorded a turnover of approximately RMB9.0 million for the period under review, representing approximately 3.0% of total turnover (30 June 2008: nil).

The highest sales was again achieved by the Western medicine, N(2)-L-Alanyl-L-Glutamine Injectible (a parenteral nutritional product specifically for severe patients), which was with a turnover of approximately RMB41.5 million, representing approximately 14.1% of the overall turnover (30 June 2008: approximately RMB54.2 million, representing approximately 15.1% of the overall turnover). Sales of the 5 top selling medicines amounted to approximately RMB137.4 million, representing approximately 46.6% of the overall turnover (30 June 2008: approximately RMB175.6 million, representing approximately 56.4% of the overall turnover).

2. Gross profit and Gross Profit Margin

During the period under review, gross profit of the Group decreased to approximately RMB127.7 million, representing a decrease of 31.7% over the same period of last year (30 June 2008: approximately RMB 187.0 million). Gross profit margin decreased by approximately 8.7 percentage points to approximately 43.3% over the same period of last year (30 June 2008: approximately 52.0%). The main reasons for the decrease were that the Group had to reduce the price of some products in order to increase the market share so as to allow quality and low price to maintain the market position. In addition, the higher price of raw material for some products has increased the production cost while the drugs launched in the rural market are generally products with lower gross profit margin. Finally, affected by the financial crisis, our product structure has changed, which inhibited the sales of products with higher gross profit margin and caused the overall gross profit margin to drop.

However, related proportion of cost of goods sold, including raw material, packaging material, energy and fuel costs, and direct labor cost remained essentially the same compared with the same period of last year, except that such related amount decreased in 2008 with sales volume.

3. Profit for the period

During the period under review, profit for the period amounted to approximately RMB58.1 million, representing a decrease of approximately 57.4% from 2008 (30 June 2008: approximately RMB136.4 million). Turnover decreased as the first half of the year was still affected by the financial turmoil occurred in the United States since the second half of 2008 and under the shadow of a global economic downturn, consumer confidence was weakened and consumption patterns became more cautious. In addition, distribution expenses of the Group increased approximately 199.3% to approximately RMB41.0 million (30 June 2008: approximately RMB13.7 million). During the year, the advertising and marketing expenses of our wholly-owned subsidiaries in the PRC totalled approximately RMB31.1 million (30 June 2008: approximately RMB6.5 million).

The main reasons for the increase in advertising and marketing expenses were to increase the brand and product awareness of “Sanai” and contribute to a wide recognition of our products by the public and patients, especially the brand awareness of “Sanai” in rural market. Advertising also helped in the exploration of new rural market and product promotion and the management believed that the effects of advertising will be achieved soon.

In addition, it is the second year since our new product Perilla Oil Capsule was launched in the market. To increase the awareness and social acceptance of the product, our advertising and marketing expenses for the product during the period under review amounted to approximately RMB4.1 million, which was used in television advertisement and academic promotion. The Group recruited experts of professional specialists to hold academic promotional seminars nationwide for staffing from the industry. Through the seminars, doctors and patients had a clearer understanding of the pharmacology, effect and benefits of our products.

Finally, during the period under review, the administrative and other expenses remained essentially unchanged compared with the same period of last year.

4. Liquidity, Financial Resources and Capital Structure

The Group maintains a stable financial position. As at 30 June 2009, the Group had bank balances and cash of approximately RMB1,063.1 million (31 December 2008: approximately RMB1,086.4 million) and short-term bank loans of RMB30.0 million (31 December 2008: RMB30.0 million). All short-term bank loans were denominated in RMB and at prevailing market interest. During the period under review, the Group did not use any financial instruments for any hedging purpose.

The gearing ratio representing the ratio of short-term bank loans to total equity of the Group was 2.0% as at 30 June 2009 (31 December 2008: 2.0%).

5. Exposure to fluctuation in exchange rates

During the period under review, the Group conducted its business transactions principally in Renminbi. The Group has not experienced any material difficulties or negative impacts on its operations as a result of fluctuations in currency exchange rates. Although the Group has certain bank balances denominated in Hong Kong dollars, the Group adopts a conservative financial policy and all of its bank deposits are in Renminbi and Hong Kong dollars. As at 30 June 2009, the Group did not have any bank liabilities, foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group is not exposed to any material interest and exchange risks.

6. Significant Acquisitions and Disposals of Investments

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

7. The Number and Remuneration of Employees

As at 30 June 2009, the Group employed approximately 478 employees (31 December 2008: 468 employees). The Group determines staff remuneration in accordance with prevailing market salary scales, individual qualifications and performance. Remuneration packages including performance bonuses and entitlements to share options are reviewed on regular basis.

8. Charges on Group Assets

As at 30 June 2009, the net book value of furniture, fixtures and equipment of approximately RMB41.4 million (31 December 2008: RMB42.7million) includes an amount of approximately RMB12,000 (31 December 2008: approximately RMB14,000) in respect of assets held under a financial lease.

9. Contingent Liabilities

As at 30 June 2009, the Group did not have any contingent liabilities (31 December 2008: Nil).

10. Capital Expenditure

During the period under review, capital expenditure of the Group for property, plant and equipment amounts to approximately RMB5.1 million. (31 December 2008: approximately RMB174.3 million)

11. Capital Commitments

As at 30 June 2009, the Group had capital expenditure contracted for but not provided in the financial statements amounts to approximately RMB 21.6 million (31 December 2008: approximately RMB11.6 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 in the PRC Fujian Sanai and Fuzhou Sanai respectively. The capital injected to these two subsidiaries is intended to be used in the construction and expansion of new plants and production lines in Fuzhou and Jianyang. In addition, approximately HK$62.0 million (equivalent to approximately RMB62.0 million) had been used for repayment of an interest-free shareholder's loan for the acquisition of a 40% interest in Fuzhou Sanai from Mr. Lin Ou Wen.

For the year ended 31 December 2008, the Group spent approximately RMB37.0 million for the 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 Jiangyang factory.

Up to 30 June 2009, the Group has spent approximately RMB31.1 million for promotion our brand through advertisement in some major national TV channels in the PRC. In addition, approximately RMB5.1 million was utilized in the construction and acquisition of manufacturing equipment in Jiangyang factory.

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

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2009. Accordingly, no closure of the Register of Members of the Company is proposed.

SHARE OPTION SCHEME

The Company's share option scheme was adopted on 8 January 2007 by the way of passing resolutions by all the shareholders of the Company. For the six months ended 30 June 2009, no share option has been granted under the share option scheme.

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

As at 30 June 2009, the interests or short positions of the Directors and Chief Executive in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules were as follows:

Name of Directors	Company/name of associated corporation	Capacity	Number of Shares (Note 1)	Approximate percentage of interest
Mr. Lin Ou Wen	The Company	Beneficial Owner	12,000,000 (L) 12,000,000 (S)	0.7% 0.7%
		Interest of controlled corporation (Note 2)	378,812,000 (L) 378,812,000 (S)	22.16% 22.16%
		Interest of spouse (Note 3)	42,687,627 (L) 42,687,627 (S)	2.49% 2.49%
Mr. Lin Qing Ping	The Company	Interest of controlled corporation (Note 4)	280,352,000 (L) 280,352,000 (S)	16.4% 16.4%
Mr. Tang Bin	The Company	Interest of controlled corporation (Note 5)	88,412,000 (L) 88,412,000 (S)	5.17% 5.17%

Note:

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 Thousand Space Holdings Limited, which is wholly owned by Mr. Lin Ou Wen who is deemed to be interested in all the Shares and the short position in which Thousand Space Holdings Limited is interested by virtue of the SFO.
3. 136,951,000 Shares are registered in the name of Orient Day Management Limited, which is owned as to 23.38%, 45.45% and 31.17% by Mr. Lin Qing Mei, Mr. Liu Dao Hua and Ms. Xue Mei respectively. Mr. Lin Ou Wen is deemed to be interested in all the Shares and the short position in which Ms. Xue Mei, his spouse, is interested by virtue of the SFO.
4. These Shares are registered in the name of Bright Elite Management Limited, which is wholly owned by Mr. Lin Qing Ping, our Executive Director, who is deemed to be interested in all the Shares and the short position in which Bright Elite Management Limited is interested by virtue of the SFO.
5. 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, our Non-executive Director, and Mr. Chen Shi Yan respectively. Mr. Tang Bin is deemed to be interested in all the Shares and the short position in which Good East Management Limited is interested by virtue of the SFO.

Save as disclosed above, none of the Directors or Chief Executive of the Company aware of any other Director or Chief Executive of the Company who had held any interests or short positions in any shares and underlying shares in, and debentures of the Company or any of its associated corporation as defined in the SFO as at 30 June 2009.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the first six months of 2009 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

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

As at 30 June 2009, the interests and short positions of the following shareholders, other than a Director or Chief Executive of the Company, in the shares or underlying shares or debentures of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO are as follows:

Name of Shareholder	Company/name of subsidiary	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
Bright Elite Management Limited	The Company	Beneficial owner	280,352,000 (L) 280,352,000 (S)	16.4% 16.4%
Mr. Lin Qing Ping	The Company	Interest of controlled corporation (Note 2)	280,352,000 (L) 280,352,000 (S)	16.4% 16.4%
Thousand Space Holdings Limited	The Company	Beneficial owner	378,812,000 (L) 378,812,000 (S)	22.16% 22.16%
Mr. Lin Ou Wen	The Company	Beneficial owner	12,000,000 (L) 12,000,000 (S)	0.7% 0.7%
		Interest of controlled corporation (Note 3)	378,812,000 (L) 378,812,000 (S)	22.16% 22.16%
		Interest of spouse (Note 4)	42,687,627 (L) 42,687,627 (S)	2.49% 2.49%
Ms. Xue Mei	The Company	Interest of spouse (Note 4)	390,812,000 (L) 390,812,000 (S)	22.86% 22.86%
		Interest of controlled corporation (Note 4)	42,687,627 (L) 42,687,627 (S)	2.49% 2.49%
Orient Day Management Limited	The Company	Beneficial owner	136,951,000 (L) 136,951,000 (S)	8.01% 8.01%
Mr. Liu Dao Hua	The Company	Interest of controlled corporation (Note 4)	136,951,000 (L) 136,951,000 (S)	8.01% 8.01%
Good East Management Limited	The Company	Beneficial owner	88,412,000 (L) 88,412,000 (S)	5.17% 5.17%
Tang Bin	The Company	Interest of controlled corporation (Note 5)	88,412,000 (L) 88,412,000 (S)	5.17% 5.17%

Name of Shareholder	Company/name of subsidiary	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
Chen Shi Yan	The Company	Interest of controlled corporation (Note 5)	88,412,000 (L) 88,412,000 (S)	5.17% 5.17%
Orchid Asia III, L.P.	The Company	Beneficial owner (Note 6)	117,952,000 (L)	6.90%
Orchid Asia Group Management Limited	The Company	Interest of controlled corporation (Note 6)	117,952,000 (L)	6.90%
Orchid Asia Group Limited	The Company	Interest of controlled corporation (Note 6)	117,952,000 (L)	6.90%
YM Investment Limited	The Company	Interest of controlled corporation (Note 7)	121,600,000 (L)	7.11%
Ms. Lam Lai Ming	The Company	Founder of trust	133,612,500 (L)	7.81%
Mr. Gabriel Li	The Company	Founder of trust	133,612,500 (L)	7.81%
Manage Corp Limited	The Company	Trustee	133,612,500 (L)	7.81%
Pope Investments LLC	The Company	Beneficial owner	102,400,000 (L)	5.99%
Pope Asset Management LLC	The Company	Interest of controlled corporation (Note 8)	155,527,500 (L)	9.10%
Wells William P	The Company	Interest of controlled corporation (Note 8)	102,400,000 (L)	5.99%
Credit Suisse (Hong Kong) Limited	The Company	Beneficial owner (Note 9)	133,545,000 (L) 66,772,500 (S)	7.81% 3.90%
Credit Suisse (International) Holding AG	The Company	Interest of controlled corporation (Notes 9 & 10)	133,545,000 (L) 66,772,500 (S)	7.81% 3.90%
Credit Suisse	The Company	Interest of controlled corporation (Notes 9 & 10)	133,545,000 (L) 66,772,500 (S)	7.81% 3.90%
Kingston Finance Limited	The Company	Person having a security interest in shares	896,527,000 (L)	52.43%
Chu Yuet Wah	The Company	Interest of controlled corporation (Note 11)	896,527,000 (L)	52.43%

Name of Shareholder	Company/name of subsidiary	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
Ma Siu Fong	The Company	Interest of controlled corporation (Note 11)	896,527,000 (L)	52.43%

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 and the short position 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 and the short position in which Thousand Space Holdings Limited is interested for the purpose of the SFO.

(4) 136,951,000 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, spouse of Mr. Lin Ou Wen, respectively, therefore Mr. Liu Dao Hua is deemed to be interested in all the Shares and the short position 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 and the short position 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 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 and Mr. Chen Shi Yan are deemed to be interested in all the Shares and the short position in which Good East Management Limited is interested for the purpose of the SFO.

(6) 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.

(7) 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.

(8) 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.

(9) 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.

(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 hold or hold a short position of 66,772,500 Shares as defined under Part XV of the SFO.

(11) These Shares are registered in the name of Kingston Finance Limited, which is owned as to 51% by Chu Yuet Wah and 49% by Ma Siu Fong. Therefore, Chu Yuet Wah and Ma Siu Fong are deemed to hold or hold a long position of 896,527,000 Shares as defined under Part XV of the SFO.

Save for the disclosed above, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO as at 30 June 2009.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2009.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provision of the Code on Corporate Governance Practices (the "Code") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company complied with the provision of the Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the six months ended 30 June 2009, except for a deviation from provision A.2.1 of the Code that the roles of the Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The roles of the Chairman and Chief Executive Officer of the Company have been performed by Mr. Lin Ou Wen. The Board considers that vesting the roles of the Chairman and Chief Executive Officer in the same person facilities the execution of the Company's business strategies and maximizes the effectiveness of its operations.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's own code for securities transactions by its Directors. Following specific detailed enquiries made with all Directors, the Company confirms that all Directors have fully complied with the required standards as set out in the Model Code during the six months ended 30 June 2009.

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules and appointed three independent non-executive Directors including one with financial management expertise, details of their biographies were set out in the 2008 Annual Report of the Company and the announcement dated 11 June 2009 in respect of appointing Mr. Du Jian as a new Independent Non-executive Director of the Company.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with Rule 3.21 of the Listing Rules. The audit committee comprises the three Independent Non-executive Directors, has reviewed the accounting principles and practices adopted by the Company as well as auditing, internal control and financial reporting matters, including the review of the unaudited interim results for the six months ended 30 June 2009. The interim financial statements of the Company for the period ended 30 June 2009 have been reviewed and approved by the audit committee, who are of the opinion that such statements have complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

REMUNERATION COMMITTEE

The remuneration committee comprises the three Independent Non-executive Directors and one Executive Director, is responsible for reviewing and determining the appropriate remuneration polices of the Directors and senior management and making recommendations to the Board from time to time.

NOMINATION COMMITTEE

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

Corporate Governance and Other Information

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

The 2009 Interim Report will be dispatched to the Shareholders as well as made available on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.wuyi-pharma.com.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our shareholders for their continuous support and to express our gratitude to the Board, management, our staff and relevant professional parties for their contributions and dedication to the Company.

On behalf of the Board
LIN OU WEN
Chairman and Chief Executive Officer

Hong Kong, 10 September 2009