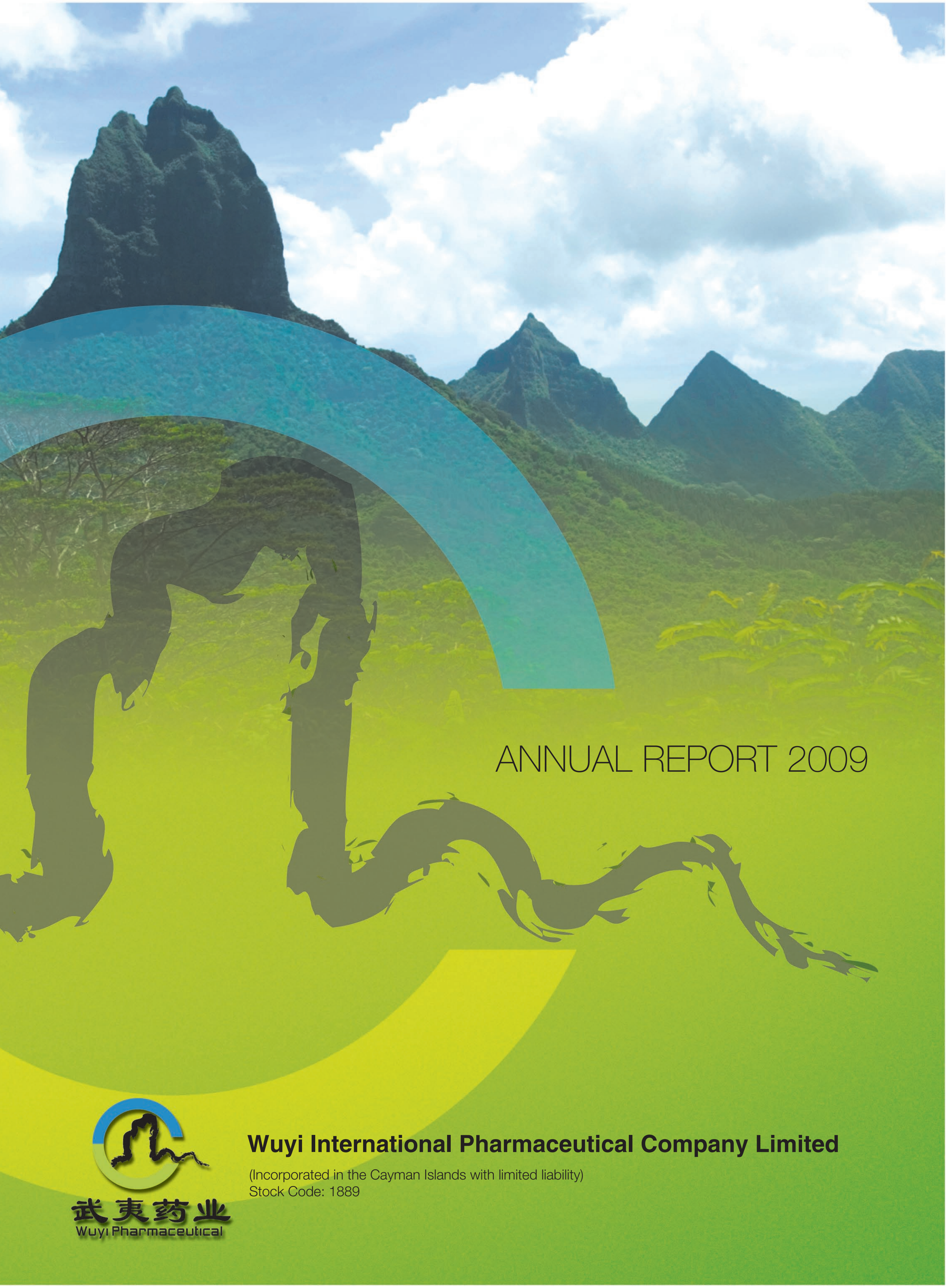


ANNUAL REPORT 2009

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. Liu Jun
Mr. Lam Yat Cheong
Mr. Du Jian

COMPANY SECRETARY

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. Liu Jun
Mr. Du Jian

REMUNERATION COMMITTEE

Mr. Lin Ou Wen *(Chairman)*
Mr. Liu Jun
Mr. Lam Yat Cheong
Mr. Du Jian

NOMINATION COMMITTEE

Mr. Lin Ou Wen *(Chairman)*
Mr. Lin Qing Ping
Mr. Liu Jun
Mr. Lam Yat Cheong
Mr. Du Jian

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 Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
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

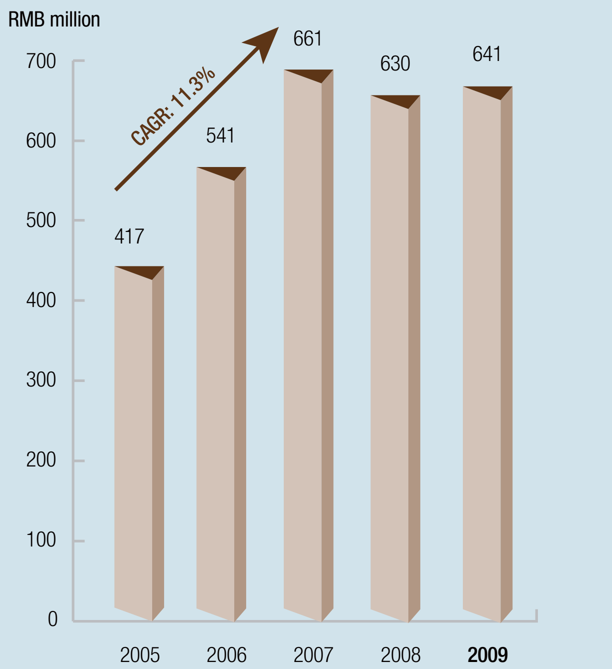
1889

WEBSITE

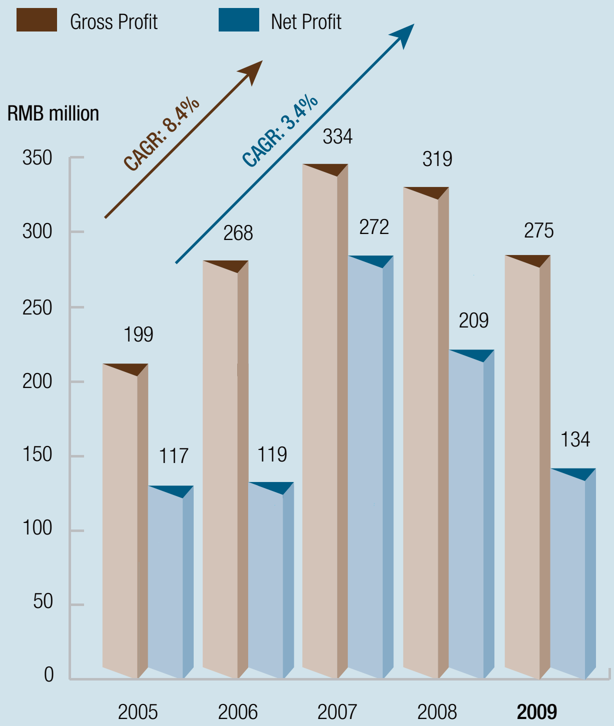
www.wuyi-pharma.com

Financial Highlights

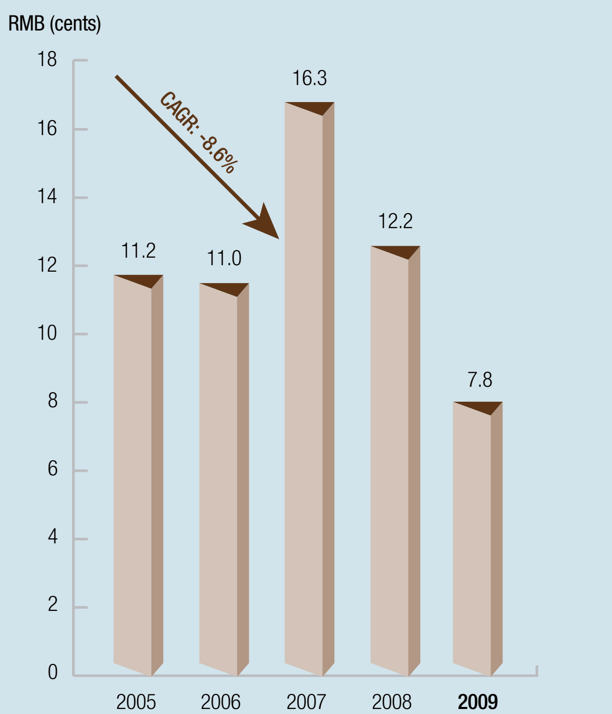
Turnover



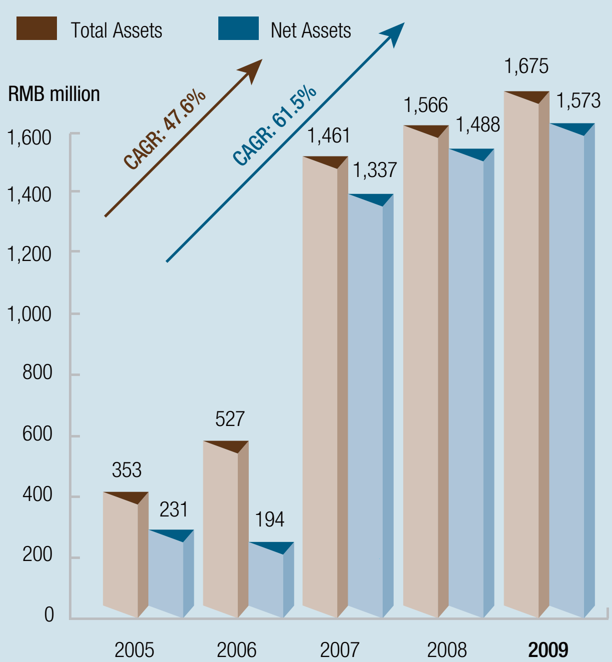
Gross Profit & Net Profit



Earnings per share - Basic and diluted



Total Assets & Net Assets



Chairman's Statement

To All Shareholders

On behalf of the Board of Directors, 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 2009.

Business Review

Reviewing 2009, the financial crisis continued to spread and the world economy has suffered the impact. The Chinese economy was also faced with a number of difficulties. Under the influence of a series of financial and monetary policies promulgated by the Chinese government, slowdown in economic growth has been effectively contained and the economic position has recovered in general. Under such economic background, Wuyi Pharmaceutical seized the opportunities to adopt strategy in response to the market and achieved growth in sales for the year. Sales revenue of the Group for the year ended 31 December 2009 was approximately RMB641.4 million an increase of approximately 1.8% as compared to last year.

As a return of investment to our shareholders, the Board recommended the payment of a final dividend of HK2.0 cents per share with a dividend payout ratio cap of approximately 29% after deduction of the PRC Statutory Reserve Fund of approximately RMB31.9 million, which was in line with last year.

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 60. In addition, we also actively explored market in rural area, and developed 2A and 2B grade county hospitals and community hospitals, increased the number of promotional staff in each office, and made use of the distribution network of a third party to distribute products to health centers in villages and towns. As our actively developing market, rural area achieved sales revenue of approximately RMB70.1 million in 2009, representing approximately 10.9% of total sales revenue, an increase of 1.3 percentage point as compared to approximately RMB60.7 million in 2008, which represents approximately 9.6% of total sales revenue.

As for our products, N(2)-L-Alanyl-L-Glutamine Injectible achieved the highest sales again with increased sales due to wide recognition by hospitals and patients and price reduction strategy implemented by the Company although the protection period has expired. Perilla Oil Capsule, another key pharmaceutical product promoted by the Group during the year, achieved satisfactory results with an increase of 31.2% in sales as compared to 2008 (the product was launched in the market in March) and it represented 8.7% of total sales revenue, which has made a significant contribution to the Group's turnover. Yuxingcao Injectible, another key product of the Group, achieved the same market share of 20.0% as last year among similar products due to outstanding efficacy.

As for pharmaceutical product development, the Group focused on research of new medicine for prevention and treatment of cardiocerebrovascular diseases. The Pazufloxacin Mesilate is undergoing approval procedures and the Omeprazole Enteric-Coated Capsule was approved for production and could be launched in market in the second half of 2010.

The operation of Fujian Sanai Pharmaceutical Trading Co., Limited ("Sanai Pharmaceutical Trading") established by the Group continued to progress orderly. During the period under review, Sanai Pharmaceutical Trading was the agency of seven types of drugs which included Levamlodipine Besulate Tablets mainly sold in the five provinces and cities of Fujian, Jiangsu, Zhejiang, Liaoning and Beijing and will become the platform of our pharmaceutical product operation.

Future Prospect

The pharmaceutical industry is an important component of China's national economy and is having a favourable position in terms of the policies of the industry. In March 2009, the State Council's "Opinions Concerning Further Reform of the Medical and Health System" was implemented. It was decided that the government at various level will invest RMB850 billion in the 3 years period from 2009 to 2011 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. This macroeconomic policy will fully promote the expansion of the pharmaceutical market and contribute to our business development in the future. In August 2009, the Chinese Ministry of Health released a 2009 version of the national basic drugs directory and except for our Perilla Oil Capsule which was under application (already listed in the medical insurance directory of Fujian Province), other products have already been listed in the national medical insurance directory, which will increase drug usage in hospitals thus increasing our sales revenue and economic efficiency.

In 2010, the Group will provide training for the staff based on requirements of the GMP certification and strictly control the quality of our material procurement and finished products. Meanwhile, we will strengthen the technical exchange with our sister factories through visits and studies and designate senior management to participate in professional learning so as to acquire new technology and enhance professional standards from time to time.

Furthermore, the Group plans to intensify our effort in the development of new products and strives to develop products similar to the Perilla Oil Capsule so as to generate new profit growth for the Group. Meanwhile, the Group will continue to work with Jointown Pharmaceutical Group Co., Ltd. ("Jointown"), the most advanced logistic company in the PRC, to penetrate into the rural markets by making better use of the network. Sanai Pharmaceutical Trading, which was established by the Group, will also continue to optimize its product structure and complement the advantages with the Group so as to expand our business structure. 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.

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, 12 April 2010

NATURE

NATURE

Management Discussion and Analysis

Business Review

Reviewing 2009, the global economy rode a bumpy ride as it continued to suffer from the adverse impact of the global financial tsunami while China also encountered many difficulties in its pursuit of economic and social development due to the unfavorable international environment. The pharmaceutical industry in the country faced many challenges as well. During the year, the central government of the PRC implemented a package of monetary and financial policies, helping sustain a relatively rapid growth in the national economy. The pharmaceutical industry also shook off the negative factors gradually, pushing ahead with its development amid adjustments and reforms. Under such economic environment, the Group seized the opportunities and achieved a steady growth in its annual sales revenue.

In 2009, the prices of some raw materials and packaging materials rose as fuel prices increased. Against this backdrop, the Group tightened up its cost control with measures such as cutting unnecessary expenditure, eliminating the waste of materials and reducing inventory cost, helping it to buffer the impact of higher costs on the profit.

In consideration of the operating environment and the market demand in 2009, the Group slowed down the construction work on its new plant in Jianyang, Fujian Province, in order to avoid overcapacity and an increase in depreciation cost, which may harm profit. Based on statistical data, the Company's existing production capacity is sufficient to meet the current demand of the market. The Group will also have sufficient fund and facilities for future capacity expansion when the market situation warrants. The Group maintains a very stable financial position with more than RMB1 billion in cash and amply cash flows, which has helped the Company survive the financial crisis and laid an extremely solid foundation for future business growth.

During 2009, the central government of the PRC implemented a series of new policies on medical reform, posing many shocks to the pharmaceutical industry. In view of the complex economic situation and the changes in the industry, the Group took strategies responsively to maintain stable operation and results. The Board has made sound decisions based on correct judgments in various situations while the whole staff have worked industriously. The Group maintains sound operation and healthy financial position. The Group recorded a turnover of approximately RMB641.4 million (2008: approximately RMB630.3 million) for the financial year ended 31 December 2009, an increase of 1.8% over last year.

1. **Product Development**

   i) Perilla Oil Capsule

   The Perilla Oil Capsule, the Group's key product, can effectively control hyperlipidemia, demonstrating notable curative effect in raising the high density lipoprotein (HDL). After nearly two years of vigorous marketing and promotion since its launch in March 2008, the sales of the product have been successful, with sales revenue totaling RMB55.5 million for the whole year 2009 and yielding a gross profit margin of 64.3%.

   The product, which accounted for approximately 8.7% of the Group's total sales in 2009, mainly targets middle-age and elderly hyperlipidemia patients, with its major markets and sales outlets in the economically-advanced Zhejiang Province and Jiangsu Province.

   To boost the brand awareness of the product, the Group spent a lot of resources in marketing and promotion activities during the year, promoting the general image and quality of the product through media including television programs and magazines.

The Group also introduced and promoted the unique curativeness of the product via academic and new-product promotion activities, as well as by conducting academic promotion and providing guidance by our sales representatives in hospitals. Having taken all the efforts, the sales of this product posted a considerable growth.

In August 2009, the Ministry of Health of the PRC promulgated the 2009 national basic drugs directory. The Group is aggressively applying for the inclusion of its Perilla Oil Capsule in the national medical insurance directory (the product has been listed on the medical insurance directory of Fujian Province).

ii) Yuxingcao Injectible

Yuxingcao Injectibles contributed sales revenue of approximately RMB21.5 million, accounting for 3.4% of the Group's total sales revenue for the year and yielding a gross profit margin of 47.9%.

Only a few pharmaceutical manufacturers in China are qualified to produce Yuxingcao Injectibles. The Group's Yuxingcao planting base has been authenticated with the national GAP. Fresh Yuxingcao grass produced by regulated planters normally guarantees higher quality. The Group promoted the product through its existing sales network and channels, which have been strengthened, and distributed the product to rural markets through Jointown. Yuxingcao Injectible enjoys a competitive edge with a market share of 20.0%, as the product is priced at an affordable level while demonstrating notable curative effect.

iii) Other products

The market share of the Group's N(2)-L Alanyl-L-Glutamine Injectible (a parenteral nutritional agent specifically for severe patients) was affected by generic products produced by other manufacturers despite the fact that monitoring period of the product has expired. In view of the market condition, the Group took some measures including adjustments in pricing. The effectiveness of the strategy, coupled with the acceptance of the product by hospitals and patients in the past several years, helped boost sales of the product, offsetting the adverse impact of lower selling prices to a certain extent.

Xiangdan Injectible (specifically for cardiocerebrovascular diseases), is another saleable product of the Group. The Group distributed the product through existing sales channels, and vigorously promoted it in rural and community markets by emphasizing its advantages in terms of strong curative effect and low pricing.

iv) Drug sales agency operation

Fujian Sanai Pharmaceutical Trading Co., Ltd. ("Sanai Pharmaceutical Trading"), a subsidiary of the Group, generated sales revenue of approximately RMB17.8 million, representing a 2.8% of the total sales revenue during the year, by acting as a sales agent and distributing 7 drugs produced by other manufacturers mainly in the provinces of Fujian, Jiangsu, Zhejiang, Liaoning and Beijing city.

The Group will expand its drug sales agency operation through the newly established pharmaceutical trading platform, which has yet to be fully operational, by distributing products the Group does not produce, which shall complement the Group's own products. The Group will also promote all of its products and boost the general popularity of the Group more readily by sharing the sales networks via the pharmaceutical trading platform.

2. Marketing and Sales network

The Group's sales networks have covered 20 key provinces, cities, autonomous regions and municipalities around the whole country, mainly covering the affluent coastal cities and provinces of the eastern region and the northeastern region of China. During the year, the Group gained another distributor, increasing the total number to 60. The Group also continued to aggressively exploit the market in rural areas, generating sale revenue of RMB70.1 million from that market during the year, which represented approximately 10.9% of the total sales revenue. The contribution of the rural market to the Group's operational results continued to rise.

Outlooks and Future Development

The pharmaceutical industry, being a key component of the country's national economy, is facing an extremely-favorable regulatory environment. The implementation of the new pharmaceutical program shall guarantee growth in the industry for the long term. In March 2009, China's State Council officially implemented the "Proposal on Further Reform of the Medical and Health System for 2009-2011", with aims of fast tracking the establishment of a basic medical insurance system and initially setting up a national basic drugs system as well as improving the basic medical and health services system in the grass-root level. Governments in all levels are expected to spend a total of RMB850 billion in the three years.

In February 2010, five ministries and commissions under China's State Council, including the Ministry of Health, the State Commission Office for Public Sector Reform, the National Development and Reform Commission, the Ministry of Finance and the Ministry of Human Resources and Social Security, jointly launched the "Guiding Opinions on Trial Reforms in Public Hospitals", signaling the all-out launch of the "New Medical Reform" ("New Medical Reform") which will last through 2020 from 2009. This will help optimize the competition system in the whole industry chain, implying a "golden decade" with optimistic prospects for growth for the pharmaceutical industry in the future.

In February 2010, the State Administration of Traditional Chinese Medicine of the People's Republic of China published the "Outline of Key Tasks for Traditional Chinese Medicines for 2010", calling for the implementation of the provisions on traditional chinese medicines in the national basic public health services program, and proactively pushing ahead with the trial reforms in public traditional chinese medicine hospitals.

The implementation of the New Medical Reform implies that the government of the PRC will significantly boost the coverage of the medical insurance in cities and towns and raise the new rural cooperation medical insurance subsidies for residents in rural areas. It will push ahead with the establishment of the basic medicine system and the integration of the market of basic medicines, as well as improving the medical and health system in the grass-root level. In the coming years, the Chinese government will push ahead with new reforms in the medical system with an aim of covering all citizens with medical insurance. The government's expenditure in healthcare is likely to continue to grow rapidly, boosting pharmaceutical consumption of citizens. The pharmaceutical industry in China will continue to develop and find new opportunities as the market environment continues to improve.

Furthermore, China's population is bracing for a fast-aging period between 2010 and 2020, with the aged population likely to increase by around 6 million annually, implying an annual growth rate of 3.3%. By 2020, the aged population is estimated to reach 248 million, accounting for 17.2% of the total population, with people aged 80 or above reaching 30.7 million or accounting for 12.4% of the total population.

The development trend in the population also poses huge demand for high-quality pharmaceuticals. In view of the favorable prospects, the Group will equip itself in a number of ways in order to seize all business opportunities and boost its revenue and other economic benefits.

1. **Aggressively expand its sales network and increase penetration in the rural market**

   In the aspect of market expansion, the Group will strive to exploit the rural market, increase the number of marketing staff in each office, and continue to make use of the nationwide distribution network of Jointown to distribute products in rural communities in a dozen of southern provinces in China in order to expand our sales network further. The Group expects to significantly increase the proportion of sales in the rural market in 2010 through effective advertising and promotion programs. The Group's existing sales networks have extensively covered the rural market. We will strive to increase penetration in the rural market in the future, with focus on 2A and 2B grade county hospitals and community hospitals.

2. **Enhancing product research and development and laying the foundation for profit gains**

   In the aspect of production development, the Pazufloxacin Mesilate Injectible of the Group is undergoing approval procedures in accordance with the registration and administration measures, while the Omeprazole Enteric-Coated Capsule has been approved from the State Food and Drug Administration for mass production and launching in market. The Group plans to launch the product in the second half of 2010. The Group currently also cooperates with Peking University's Faculty of Medicine in research work in areas involving the prevention and medication for cardiocerebrovascular diseases.

3. **Increasing investment in advertising to boost sales of products**

   The Group spent approximately RMB60.7 million in 2009, mainly on tapping major TV stations and print media including the CCTV and national professional magazines. The Group will accelerate the process of the inclusion of its key product – the Perilla Oil Capsule – in the national basic drugs directory, and strengthen advertising and academic promotion for the product to help it capture market. Meanwhile, the Group will promote old products such as Xiangdan Injectible and Yuxingcao Injectible, which have high quality and low prices, to the rural and community markets through the extensive sales networks.

4. **Strengthening corporate governance and boosting the popularity of the company**

   In 2010, the Group will train its staff according to the requirements for GMP authentication, and strictly control the quality of procured raw materials and the quality of products. The Group will strengthen its communication and exchange of technological know-how with peers, and will send high-ranking staff to professional training sessions in order to learn new technologies and raise the our professional standards.

5. **Seizing business opportunities based on sound judgments of market conditions**

   As medical reforms push ahead in China, relevant policies will be improved gradually, opening a new era in the country's pharmaceutical industry, which poses challenges and opportunities. Meanwhile, uncertainties remain in the operating environment as the global financial market has yet to fully recover. The Group will proactively expand its operations based on sound judgments on market situations while maintaining a stable financial position. The Group will continue to invest in a measured pace and complete the construction of its new plant in the west side of the Taiwan Strait. The Group will continue to pay attention to cooperation programs, optimize its product mix and structure, and spend more in advertising and promotion to raise the popularity of the Company and its products.

   The Group will continue to invest in the research and development of new drugs for the sake of the long-term development of the Company despite the long and complex procedure for the approval new drugs.

   We remain cautiously optimistic about the prospects for the Group despite the fact that the economic situation remains somewhat tough.

   We will strive to further exploit the market and more rigorously promote our brand and the quality of our products in order to shake off the adverse impact of the global financial crisis and sustain our business growth.

Financial Review

1. **Turnover**

   The Group recorded a turnover of approximately RMB641.4 million (2008: approximately RMB630.3 million), a slight increase of 1.8% over last year. As disclosed in the 2009 Interim Report and the profit warning announcements of the Company dated 5 February 2010 and 31 July 2009, turnover in the first half of 2009 was continuously affected by the financial crisis. In addition, as the protection period of some products has expired, some manufacturers started producing imitated products and our market shares were affected to some degree amid severe competition. As a result, turnover in the first half of 2009 decreased approximately 18.0% compared with the same period last year.

   However, with the rapid recovery of the Chinese economy in the second half of last year, domestic demand continued to increase and the marketing environment has improved. In addition, our wholly-owned subsidiary in the PRC 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 year. Furthermore, the Perilla Oil Capsule launched in March last year and the newly added pharmaceutical trading business in the second half of last year both recorded satisfactory revenue. The decrease in total turnover in the first half of the year was offset and a slight increase was recorded in the year.

   Turnover in 2009 was yet dominated by Western medicines, with a turnover volume of approximately RMB330.8 million, representing approximately 51.6% of total turnover and a decrease of approximately 5.0% over last year (2008: approximately RMB347.3 million, representing approximately 55.1% of total turnover). Turnover of Chinese medicines amounted to approximately RMB292.8 million, representing approximately 45.6% of total turnover, and an increase of approximately 8.5% over last year (2008: approximately RMB269.9 million, representing approximately 42.8% of total turnover).

With the increase in turnover of the Perilla Oil Capsule, growth of sales in the year amounted to approximately RMB55.5 million, representing approximately 8.7% of total turnover, and a satisfactory increase of approximately 31.2% over last year (2008: approximately RMB42.3 million, representing approximately 6.7% of total turnover). The gap between the turnover of Western medicines and Chinese medicines has been further narrowed. In addition, the newly added pharmaceutical trading revenue starting in the second half of last year recorded a turnover of approximately RMB17.8 million, representing approximately 2.8% of total turnover (2008: approximately RMB13.1 million, representing approximately 2.1% of total turnover), a satisfactory increase of approximately 35.9% over last year.

The highest sales volume during the year was again achieved by Western medicines, N(2)-L Alanyl-L-Glutamine Injectible, with a turnover volume of approximately RMB87.4 million, representing approximately 13.6% of total turnover (2008: approximately RMB82.3 million, representing approximately 13.1% of total turnover). Sales volume of the 5 most saleable medicines amounted to approximately RMB303.7 million, representing approximately 47.3% of total turnover (2008: approximately RMB287.5 million, representing approximately 45.6% of total turnover).

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

Gross profit decreased by 13.9% to approximately RMB274.6 million (2008: approximately RMB318.9 million), and gross profit margin decreased by 7.8 percentage points to approximately 42.8% over last year (2008: approximately 50.6%). The main reasons for the decrease were due to four aspects as follows:

1) As mentioned in the above Turnover section, the protection period of some products has expired and other manufacturers started producing imitated products to compete in the market. Therefore, prices of some products with higher gross profit margin have to be reduced. For example, although the total turnover of the N(2)-L Alanyl-L-Glutamine Injectible increased approximately 6.2%, its average price was reduced for approximately RMB4.0 in order to maintain the market position;

2) In order to increase the market share, particularly for medicines in the rural market, the Group marketed quality and low price products which in general are some products with lower gross profit margin to adjust for the purchasing power of the market, the total gross profit margin was therefore reduced;

3) In addition, the higher price of raw materials and packaging materials for some products has increased the production cost for approximately RMB33.1 million over last year; and

4) As according to the hardware management requirement of the GMP certification rules, changes have to be made to our large volume injectible, small volume injectible and tablet plants and some public facilities. Therefore, our capital expenditure for plant and equipment both increased in last year and this year and the depreciation charges for the year increased for approximately RMB12.4 million. Gross profit decreased due to higher cost of sales. However, except that the depreciation charges increased its proportion of cost of sales, other proportion of cost of goods sold, including raw materials, packaging materials, energy and fuel costs, and direct labor cost remained essentially the same compared with last year.

3. **Profit for the Year**

In 2009, profit for the year decreased 35.8% from 2008 to approximately RMB134.2 million (2008: approximately RMB208.9 million). Turnover decreased as the first half of 2009 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 costs of the Group increased approximately 63.5% to approximately RMB82.1 million (2008: approximately RMB50.2 million). During the year, the advertising and marketing expenses of our wholly-owned subsidiaries in the PRC totalled approximately RMB60.1 million (2008: approximately RMB37.0 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. Advertising also helped in the exploration of new rural market and product promotion, especially the brand awareness of "Sanai" in rural market during the year. The management believed that the effects of advertising will be achieved soon. In addition, the Group increased the sales commission from 1% to 1.5% from January 2009 as an encouragement to the frontline medicine sales staff to promote business and sales.

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 year amounted to approximately RMB8.6 million (2008: approximately RMB5.5 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.

There is no material change in administrative and other expenses for 2009, compared to the previous year. A net exchange loss of approximately RMB2.1 million (2008: approximately RMB300,000) arose due to appreciation of Renminbi against Hong Kong dollar.

Finally, 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 RMB22.3 million (2008: approximately RMB28.2 million) and the effective tax rate was 14.2% (2008: approximately 11.9%). It included withholding deferred income tax for the dividend provision of undistributed profits after 1 January 2008 for the three wholly-owned subsidiaries in the PRC and the deferred income tax expense amounted to approximately RMB3.9 million.

4. Liquidity, Financial Resources and Capital Structure

The Group maintains a stable financial position. As at 31 December 2009, the Group had cash and cash equivalents of approximately RMB1,054.5 million (2008: approximately RMB1,086.4 million) without any bank loan (2008: a short-term bank loan of RMB30.0 million). A short-term bank loan for the financial year ended 31 December 2008 was denominated in RMB, at prevailing market interest and repayable within 1 year. During the year, 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 0.0% as at 31 December 2009 (2008: 2.0%).

5. Exposure to Fluctuation in Exchange Rates

For the year ended 31 December 2009, 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 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 was 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 of the Financial Statements.

6. Significant Acquisitions and Disposal of Investments

For the year ended 31 December 2009, the Group did not have any significant acquisition and disposal of investment.

7. The Number and Remuneration of Employees

As at 31 December 2009, the Group employed approximately 474 employees (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. **Charge on Group Assets**

   As at 31 December 2009, the net book value of furniture, fixtures and equipment of approximately RMB38.5 million (2008: approximately RMB42.7 million) includes an amount of approximately RMB9,000 (2008: approximately RMB14,000) in respect of asset held under a finance lease.

9. **Contingent Liabilities**

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

10. **Capital Expenditure**

    For the year ended 31 December 2009, capital expenditure of the Group for property, plant and equipment amounted to approximately RMB127.3 million (2008: approximately 174.3 million).

11. **Capital Commitments**

    As at 31 December 2009, the Group had capital expenditure contacted for but not provided in the financial statements amounted to approximately RMB16.6 million (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 Fujian Sanai and 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.

For the year ended 31 December 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.

In 2009, the Group has continuously spent approximately RMB60.7 million for promotion of our brand through advertisement in some major national TV channels in the PRC. In addition, approximately RMB41.4 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 2009, 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 further regulated and improved the structure of corporate governance of the Company, except for a deviation from the Code provision A.2.1. in respect of the roles of Chairman and Chief Executive Officer which should not be performed by the same individual. The Company's actual compliance with the Code is detailed in the report of Corporate Governance.

Directors' Securities Transactions

The Company adopts 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 had confirmed that during the year 31 December 2009, they have fully complied with the required standards.

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 of this report.

On 11 June 2009, Independent Non-executive Director Mr. Goh Jin Hian resigned as the Director of the Company due to personal reason. On the same day, Mr. Du Jian was appointed as an Independent Non-executive Director through a board meeting signed by all Directors.

Mr. Lin Ou Wen, the Chairman is the younger brother of Mr. Lin Qing Ping.

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 Company has complied with the requirement of the Listing Rules which requires that at least one of its Independent Non-executive Directors have appropriate professional qualifications or accounting or related financial management expertise. Each Independent Non-executive Directors has, pursuant to Rule 3.13 of the Listing Rules, confirmed that he is independent of the Company and the Board also considers that they are independent.

The Board meets regularly throughout the year to review the overall strategy 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 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 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 2009, the Board had convened four Board meetings. Attendance record of the Directors:

Directors	Number of attendance
Executive Directors	
Mr. Lin Ou Wen *(Chairman)*	4/4
Mr. Lin Qing Ping	4/4
Mr. Xu Chao Hui	4/4
Non-executive Directors	
Mr. Tang Bin	4/4
Mr. John Yang Wang	4/4
Independent Non-executive Directors	
Mr. Goh Jin Hian *(resigned on 11 June 2009)*	3/4*
Mr. Lam Yat Cheong	4/4
Mr. Liu Jun	4/4
Mr. Du Jian *(appointed on 11 June 2009)*	1/4*

Note:* Three board meetings were held before 11 June 2009 and 1 board meeting was held after 11 June 2009.

Chairman and Chief Executive Officer

Under Paragraph 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 is the Chairman and Chief Executive Officer of the Company 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 review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

Non-executive Directors

In full compliance with Rules 3.10(1) and (2) of the Listing Rules, during the year ended 31 December 2009, 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, and the Company considers such directors to be independent in accordance with each and every guideline set out under 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 Remuneration Committee and Nomination Committee; and scrutinizing and monitoring the performance of the Company.

Committees

The monitoring and assessment of certain governance matters are allocated to three committees which operate under defined 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. Liu Jun	Member	Member	Member
Mr. Du Jian	Member	Member	Member

Audit Committee

The Company has established an audit committee ("the 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 committee his valuable experience in reviewing financial statements and evaluating significant control and financial issues of the Company 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 2009 and the annual result announcement and annual report for the year ended 31 December 2009 have been reviewed by the AC, and with recommendation to the Board for approval.

The AC shall meet at least twice a year. On 1 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 statement of the Company for the year ended 31 December 2009 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 Remuneration Committee ("the RC") with written terms of reference in compliance with the Listing Rules. The RC comprises three Independent Non-executive Directors with an 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 2009 with Mr. Lin Ou Wen (Chairman), Mr. Goh Jian Hian, Mr. Lam Yat Cheong and Mr. Liu Jun, being all members of the RC, present and has 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 2010.

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. Details of the share option scheme are set out in note 30 to the financial statements.

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 Nomination Committee ("the 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 1 June 2009, a NC meeting was held with Mr. Lin Ou Wen (Chairman), Mr. Lin Qing Ping, Mr. Goh Jin Hian, Mr. Lam Yat Cheong, and Mr. Liu Jun being all members of the NC, present to perform appraisal of the Directors so as to recommend to 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 only provides audit service to the Group. The fee for the audit of the Group's financial statements for the year ended 31 December 2009 was HK$740,000.

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 2009, 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 27.

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 an 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 the checks and supervision of implementation of the internal control systems by the audit department and according to some 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 2009 and March 2010, 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 disclosure on the Company's website (www.wuyi-pharma.com), 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.

Director and Senior Management

Executive Directors

Mr. Lin Ou Wen, aged 53, 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 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 10 years of experience in the pharmaceutical industry. He is the younger brother of Mr. Lin Qing Ping.

Mr. Lin Qing Ping, aged 60, 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 Fuzhou Sanai and Wuyi BVI since January 2004 and July 2006 respectively. He has over 22 years of experience in business management and 13 years' experience in the pharmaceutical industry with a thorough understanding in the pharmaceutical industry. He is elder brother of Mr. Lin Ou Wen.

Mr. Xu Chao Hui, aged 40, 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.

Non-executive Directors

Mr. Tang Bin, aged 52, 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. John Yang Wang, aged 40, 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 13 years of experience in investment banking and consulting. He joined the Company since October 2006 and has been appointed as a director of Wuyi BVI since July 2006.

Independent Non-executive Directors

Mr. Liu Jun, aged 43, 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 48, 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. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accounts. He has been registered as a Certified Public Accountant (Practising) in Hong Kong since 2000.

Mr. Du Jian, aged 69, is an Independent Non-executive Director. He graduated from the Fujian College of Traditional Chinese Medicine in 1965 and obtained a diploma in traditional Chinese medicine. Before he was appointed as the Independent Non-executive Director in June 2009, he had worked as a teacher, physician, lecturer, associate professor, professor, chief physician and doctoral advisor at the Fujian College of Traditional Chinese Medicine from September 1965 to April 2008. Mr. Du worked as a vice president of the college from November 1983 to December 1986 and was promoted and acted as the president of the college from January 1987 to April 2008. In addition, he has acted as a vice president of the Institute of Integrated Traditional and Western Medicine from May 2008 up to the present.

Senior Management

Mr. Chen Zhi Chuan, aged 45, 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 9 years of experience in the pharmaceutical industry. He joined the Group since January 2001.

Mr. Cheng Shi De, aged 51, 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 27 years of experience in the pharmaceutical industry. He joined the Group since June 2002.

Mr. Chen Gui Dong, aged 44, 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 22 years of experience in the pharmaceutical industry. He joined the Group since January 2001.

Ms. Yang Ai Min, aged 34, 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 11 years of experience in the pharmaceutical industry. She joined the Group since January 2001.

Company Secretary

Mr. Kung Wai Chiu, Marco, aged 36, is the Company Secretary 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 Accounts. 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. He joined the Group since August 2006.

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 2009.

Principal Activities

The Company is an investment holding company. The principal activities of its major subsidiaries are set out in note 21 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 28.

A final dividend for the year ended 31 December 2009 of HK2.0 cents (2008: HK3.3 cents) per share, amounting to a total final dividend of approximately HK$34.2 million, is to be proposed for the approval of shareholders at the forthcoming annual general meeting.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity on page 31 and in note 29 to the financial statements respectively.

Property, Plant and Equipment

Movements in the property, plant and equipment of the Company during the year are set out in note 17 to the financial statements.

Share Capital

Movements in the share capital of the Company during the year are set out in note 29 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of associations 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

The Company has not purchased, sold or redeemed any of its listed securities during the year end of 31 December 2009.

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

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)*
Mr. Goh Jin Hian *(resigned on 11 June 2009)*

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. Lin Ou Wen, Mr. Lin Qing Ping and Mr. Du Jian will retire and being eligible, offer themselves for re-election in the forthcoming annual general meeting.

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 Directors an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out in rule 3.13 of 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 Annual Report.

Directors' Service Contracts

Each of the Executive Directors 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 contracts 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 Directors and Independent Non-executive Directors 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 which cannot be 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 33 to the financial statements.

Directors' interests in Contracts of Significance

Save as disclosed in section under "Continuing Connected Transaction" on pages 24 to 25 of this report, 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 Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its associated corporations

As at 31 December 2009, the interests or short positions of the Directors and Chief Executives in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules were as follows:

Name of Directors	Company/name of associated corporation	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
Mr. Lin Ou Wen	The Company	Beneficial owner	12,000,000 (L)	0.7%
		Interest of controlled corporation (Note 2)	378,812,000 (L)	22.16%
		Interest of spouse (Note 3)	42,687,267 (L)	2.5%
Mr. Lin Qing Ping	The Company	Interest of controlled corporation (Note 4)	280,352,000 (L)	16.4%
Mr. Tang Bin	The Company	Interest of controlled corporation (Note 5)	88,412,000 (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 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 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 who is deemed to be interested in all the Shares in which Bright Elite Management Limited is interested by virtue of the SFO.

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

Save as disclosed above, none of the Directors or Chief Executive of the Company aware of any other Director or Chief Executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of the Company or any associated corporation as at 31 December 2009.

Directors' Right to Acquire Shares or Debentures

At no time during the year ended 31 December 2009 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 Director or their respective spouse or minor children, or were any such rights exercised by them; or 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 31 December 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)	16.4%
Mr. Lin Qing Ping	The Company	Interest of controlled corporation (Note 2)	280,352,000 (L)	16.4%
Thousand Space Holdings Limited	The Company	Beneficial owner	378,812,000 (L)	22.16%
Mr. Lin Ou Wen	The Company	Beneficial owner	12,000,000 (L)	0.7%
		Interest of controlled corporation (Note 3)	378,812,000 (L)	22.16%
		Interest of spouse (Note 4)	42,687,267 (L)	2.5%
Ms. Xue Mei	The Company	Interest of spouse (Note 4)	390,812,000 (L)	22.86%
		Interest of controlled corporation (Note 4)	42,687,267 (L)	2.5%
Orient Day Management Limited	The Company	Beneficial owner	136,951,000 (L)	8.01%
Mr. Liu Dao Hua	The Company	Interest of controlled corporation (Note 4)	136,951,000 (L)	8.01%
Good East Management Limited	The Company	Beneficial owner	88,412,000 (L)	5.17%
Mr. Tang Bin	The Company	Interest of controlled corporation (Note 5)	88,412,000 (L)	5.17%
Mr. Chen Shi Yan	The Company	Interest of controlled corporation (Note 5)	88,412,000 (L)	5.17%
Orchid Asia III, L.P.	The Company	Beneficial owner (Note 6)	117,952,000 (L)	6.9%
Orchid Asia Group Management, Limited	The Company	Interest of controlled corporation (Note 6)	117,952,000 (L)	6.9%
Orchid Asia Group, Limited	The Company	Interest of controlled corporation (Note 6)	117,952,000 (L)	6.9%
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)	155,527,000 (L)	9.1%
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% 3.9%
Credit Suisse (International) Holding AG	The Company	Interest of controlled corporation (Notes 9 and 10)	133,545,000 (L) 66,772,500 (S)	7.81% 3.9%
Credit Suisse	The Company	Interest of controlled corporation (Notes 9 and 10)	133,545,000 (L) 66,772,500 (S)	7.81% 3.9%
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%
Ma Siu Fong	The Company	Interest of controlled corporation (Note 11)	896,527,000 (L)	52.43%

Notes:

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

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

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

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

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

(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) Kingston Finance Limited is respectively owned as to 51% and 49% by Chu Yuet Wah and Ma Siu Fong who are therefore deemed to have an interest in Shares in which Kingston Finance Limited is interested by virtue of under Part XV of the SFO.

Save for the disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under 336 by the SFO as at 31 December 2009.

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 "Old Tenancy Agreement"). Mr. Lin Qing Xiang is the brother of Mr. Lin Ou Wen and the Substantial Shareholder, Mr. Lin Qing Ping and Mr. Lin Qing Mei, a shareholder of Orient Day Management Limited, one of our shareholders. The Old Tenancy Agreement expired on 31 December 2008 and a new tenancy agreement was entered into between Fuijian Sanai and Mr. Liu Qing Xiang in respect of the lease of the aforementioned office premises for a term of three years from 1 January 2009 to 31 December 2011 (the "Tenancy Agreement"). The monthly rental payments under the Tenancy Agreement is RMB17,004.75. The annual rental payable by the Group to Mr. Liu Qing Xiang under the Tenancy Agreement is RMB204,057.

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

福州宏宇包裝工業有限公司 Fuzhou Hongyu Packing Co., Ltd. ("Fuzhou Hongyu") has historically provided and will continue to provide the packaging materials to the Group on an arm's length basis for the pharmaceutical products manufactured by the Group 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.

福建三愛藥業有限公司 Fujian Sanai Pharmaceutical Co. Ltd. ("Fujian Sanai"), a wholly-owned subsidiary of the Company, and Fuzhou Hongyu entered into a sale and purchase agreement for the sale and purchase of packaging materials from Fuzhou Hongyu to Fujian Sanai. The aforementioned sale and purchase agreement expires on 31 December 2008 and on 5 December 2008, Fujian Sanai and 福州三愛藥業有限公司 Fuzhou Sanai Pharmaceutical Co. Ltd. ("Fuzhou Sanai"), a wholly-owned subsidiary of the Company, entered into a new sale and purchase agreement with Fuzhou Hongyu in respect of the sale and purchase of packaging materials from Fuzhou Hongyu for a term of 3 years from 1 January 2009 to 31 December 2011.

The entire share capital of Fuzhou Honyu is owned by Lin Ou Wen, the chairman of the Company, the executive Director and a substantial shareholder. Accordingly, Fuzhou Honyu is a connected person of the Company.

By reference to (i) the actual amounts of the transactions under the old sale and purchase agreement 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 RMB10,000,000 (equivalent to HK$11,364,000) for each of the years ending 31 December 2009, 2010 and 2011.

The unit purchase prices of the packaging materials under the new sale and purchase agreement were 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.

The Board has approved and the Independent Non-executive Directors have reviewed and confirmed that the above continuing connected transaction has been entered into:

(a) in the usual and ordinary course of businesses of the Group;

(b) on normal commercial terms; and

(c) in accordance with the relevant written agreements governing on terms that are fair and reasonable and in the interests of the shareholders as a whole.

The related party transactions are disclosed in the note 34 to the financial statements and have complied with the disclosure requirements under Chapter 14A of the Listing Rules if applicable.

Share Options

Details of the Company's share option scheme are set out in note 30 to the financial statements.

No share options had been granted or exercised during the year ended 31 December 2009. As at 31 December 2009, 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 11 and 12 respectively to the 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:

	2009	2008
	%	%
Turnover		
The largest customer	**4.4**	4.5
Five largest customers in aggregate	**20.4**	21.2
Purchases		
The largest supplier	**15.2**	15.4
Five largest suppliers in aggregate	**48.7**	45.5

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 as required under the Listing Rules.

Donations

During this year, the Group made charitable donations amounting to RMB80,000 (2008: RMB1.2 million).

Code of Best Practice

The Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2009.

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 the annual 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 provides 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 practice adopted by the Company as well as the audited financial statement of the Company for the year ended 31 December 2009 have been reviewed by the audit committee before recommending to the Board for approval.

Auditor

The financial statements of the Company for the year ended 31 December 2009 have been audited by Messrs. CCIF CPA Limited. A resolution will be submitted at the annual general meeting of the Company to re-appoint Messrs. CCIF CPA Limited as auditor of the Company.

On behalf of the Board

LIN OU WEN
Chairman

Hong Kong, 12 April, 2010

Independent Auditor's Report

CCIF CPA LIMITED
34/F The Lee Gardens
33 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 28 to 71, which comprise the consolidated and company statements of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these 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 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 financial statements based on our audit and to report our opinion 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 Company and of the Group as at 31 December 2009 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, 12 April 2010

Ho Chun Shing
Practising Certificate Number P04396

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Turnover	7	**641,361**	630,326
Cost of sales		**(366,755)**	(311,381)
Gross profit		**274,606**	318,945
Other revenue	8	**3,877**	7,937
Distribution costs		**(82,070)**	(50,176)
Administrative and other expenses		**(38,642)**	(37,277)
Finance costs	9	**(1,234)**	(2,377)
Profit before tax	10	**156,537**	237,052
Income tax expense	14	**(22,324)**	(28,166)
Profit for the year attributable to owners of the Company		**134,213**	208,886
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year attributable to owners of the Company		**134,213**	208,886
Earnings per share			
– Basic and diluted	16	**RMB7.8 cents**	RMB12.2 cents

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	17	**372,380**	306,965
Land use rights	18	**49,080**	11,180
Intangible assets	19	**18,838**	21,224
Deposit for the acquisition of land use rights	20	**17,109**	55,275
Deferred tax assets	28(b)	**1,671**	–
		459,078	394,644
Current assets			
Inventories	22	**22,503**	18,754
Trade and other receivables	23	**139,359**	66,488
Cash and cash equivalents	24	**1,054,467**	1,086,361
		1,216,329	1,171,603
Current liabilities			
Trade and other payables	25	**89,029**	41,369
Short-term bank loan	26	**–**	30,000
Tax payable	28(a)	**5,940**	2,639
		94,969	74,008
Net current assets		**1,121,360**	1,097,595
Total assets less current liabilities		**1,580,438**	1,492,239
Non-current liabilities			
Obligations under a finance lease	27	**5**	11
Deferred tax liabilities	28(b)	**7,812**	3,889
		7,817	3,900
Net assets		**1,572,621**	1,488,339
Capital and reserves			
Share capital	29	**17,098**	17,098
Reserves		**1,555,523**	1,471,241
Total equity		**1,572,621**	1,488,339

The financial statements on pages 28 to 71 were approved and authorised for issue by the board of directors on 12 April 2010 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

Statement of Financial Position

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current assets			
Investments in subsidiaries	21	**214,786**	214,786
Current assets			
Other receivables	23	**1,009,053**	666,220
Cash and cash equivalents		**84**	11
		1,009,137	666,231
Current liabilities			
Other payables	25	**13**	22
Net current assets		**1,009,124**	666,209
Net assets		**1,223,910**	880,995
Capital and reserves			
Share capital	29	**17,098**	17,098
Reserves	29	**1,206,812**	863,897
Total equity		**1,223,910**	880,995

The financial statements on pages 28 to 71 were approved and authorised for issue by the board of directors on 12 April 2010 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 2009

	Share capital (note 29(b)) RMB'000	Share premium (note 29(c)(i)) RMB'000	Special reserve (note 29(c)(ii)) RMB'000	Capital reserve (note 29(c)(iii)) RMB'000	Statutory surplus reserve (note 29(c)(iv)) RMB'000	Non-distributable reserve (note 29(c)(v)) RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2008	17,098	929,533	(124,106)	53,000	102,773	23,752	335,413	1,337,463
Total comprehensive income for the year	–	–	–	–	–	–	208,886	208,886
Transfers	–	–	–	–	46,336	–	(46,336)	–
Dividends approved in respect of the previous year (note 15)	–	–	–	–	–	–	(58,010)	(58,010)
At 31 December 2008 and 1 January 2009	17,098	929,533	(124,106)	53,000	149,109	23,752	439,953	1,488,339
Total comprehensive income for the year	–	–	–	–	–	–	134,213	134,213
Transfers	–	–	–	–	31,835	–	(31,835)	–
Dividends approved in respect of the previous year (note 15)	–	–	–	–	–	–	(49,931)	(49,931)
At 31 December 2009	17,098	929,533	(124,106)	53,000	180,944	23,752	492,400	1,572,621

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
Profit before tax	**156,537**	237,052
Adjustments for:		
Interest income	**(3,877)**	(7,937)
Finance costs	**1,234**	2,377
Depreciation of property, plant and equipment	**23,724**	13,242
Amortisation of intangible assets	**2,386**	2,386
Amortisation of land use rights	**266**	230
Write down of inventories	**–**	24
Operating profit before changes in working capital	**180,270**	247,374
(Increase)/decrease in inventories	**(3,749)**	5,032
(Increase)/decrease in trade and other receivables	**(72,871)**	79,851
Increase/(decrease) in trade and other payables	**47,659**	(42,159)
Cash generated from operations	**151,309**	290,098
PRC corporate income tax paid	**(16,771)**	(26,395)
Net cash generated from operating activities	**134,538**	263,703
Investing activities		
Interest received	**3,877**	7,937
Purchase of property, plant and equipment	**(89,139)**	(174,338)
Deposit paid on acquisition of land use rights	**–**	(48,000)
Net cash used in investing activities	**(85,262)**	(214,401)
Financing activities		
Interest paid	**(1,234)**	(2,377)
Dividends paid to owners of the Company	**(49,931)**	(58,010)
New bank loans raised	**–**	52,000
Repayment of bank loans	**(30,000)**	(57,000)
Repayment of obligations under a finance lease	**(5)**	(4)
Net cash used in financing activities	**(81,170)**	(65,391)
Decrease in cash and cash equivalents	**(31,894)**	(16,089)
Cash and cash equivalents at 1 January	**1,086,361**	1,102,450
Cash and cash equivalents at 31 December	**1,054,467**	1,086,361
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,054,467**	1,086,361

Notes to the Financial Statements

For the year ended 31 December 2009

1. General

Wuyi International Pharmaceutical Company Limited (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 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")

The Hong Kong Institute of Certified Public Accountants (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 Company and its subsidiaries (collectively referred to as the "Group"). 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
- HKAS 32 & 1, Amendments to Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to HKFRS 2, Share-based payment – vesting conditions and cancellations
- HK(IFRIC**) – Int 9 & HKAS 39, embedded Derivatives
- HK(IFRIC) – Int 13, Customer Loyalty Programmes
- HK(IFRIC) – Int 15, Agreements for the construction of real estate
- HK(IFRIC) – Int16, Hedges of a net investment in a foreign operation
- HK(IFRIC) – Int 18, Transfers of Assets from Customers

* HKAS represents Hong Kong Accounting Standards.

** IFRIC represents the International Financial Reporting Interpretations Committee.

Except for HKFRS 8 and HKAS 1 (revised), the above amendments to HKFRSs and new Interpretations 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 and the Company. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the financial statements. The impact of the remainder of these developments on the financial statements is 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.

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

b) HKAS 1 (revised) affects certain disclosures of the financial statements. Under the revised standard, the Income Statement is renamed as the "Statement of Comprehensive Income", the Balance Sheet is renamed as the "Statement of Financial Position" and the Cash Flow Statement is renamed as the "Statement of Cash Flows". All income and expenses arising from transactions with non-owners (i.e. the non-owner movements of equity) are presented under the "Income Statement" and "Statement of Comprehensive Income", and the total carried to the "Statement of Changes in Equity", while the owner changes in equity are presented in the "Statement of Changes in Equity".

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 the income statement, 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.

The application of the new and revised 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 and the Company have 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)	Amendment to HKFRS 5 as part of improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 24 (Revised)	Related party disclosures[3]
HKAS 27 (Revised 2008)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of rights issues[4]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[5]
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions[5]
HKFRS 3 (Revised 2008)	Business combinations[1]
HKFRS 9	Financial instruments[6]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a minimum funding requirement[3]
HK(IFRIC)-Int 17	Distributions of non-cash assets to owners[1]
HK(IFRIC)-Int 19	Extinguishing financial liabilities with equity instruments[7]

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 January 2010
6 Effective for annual periods beginning on or after 1 January 2013
7 Effective for annual periods beginning on or after 1 July 2010

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, other new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. Summary of Significant Accounting Policies

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRS, HKASs and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure 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.

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group").

The financial statements have been prepared under the historical cost convention except as otherwise set out in the accounting policies below.

The preparation of financial statements in conformity to 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 the carrying amounts 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.

c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transaction are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

3. Summary of Significant Accounting Policies (Continued)

d) Revenue recognition

Revenue is measured at fair value of the consideration received or receivable. Provided 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 the statement of comprehensive income 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.

e) 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 statement of financial position 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 statement of comprehensive income.

Rentals payable under operating leases are charged to the statement of comprehensive income 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.

f) 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 subsequent accumulated impairment loss.

Construction in progress is stated at cost less 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.

3. Summary of Significant Accounting Policies (Continued)

f) Property, plant and equipment (Continued)

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:

Buildings	3.33%
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.

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 statement of comprehensive income in the period in which the item is derecognised.

g) Land use rights

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

h) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets is charged to the statement of comprehensive income on a straight-line basis over the assets' estimated useful lives. The following intangible assets are amortised from the date they are available for use and their estimated useful lives are as follows:

– product development costs	5 years
– patents	5 years

Both the period and method of amortisation are reviewed annually.

3. Summary of Significant Accounting Policies (Continued)

i) 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.

j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the statement of comprehensive income over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

l) Trade and other payables

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

m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments 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.

3. Summary of Significant Accounting Policies (Continued)

n) Impairment of assets

(i) Impairment of other receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's 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.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of comprehensive income. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the statement of comprehensive income.

3. Summary of Significant Accounting Policies (Continued)

n) Impairment of assets (Continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each reporting date to identify indications that the following assets may be impaired, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- land use rights;
- intangible assets; and
- investment in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its net selling price 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the statement of comprehensive income in the year in which the reversals are recognised.

(iii) 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)

o) Borrowing costs

Borrowing costs are expensed in the statement of comprehensive income 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.

p) 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 statement of comprehensive income 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 reporting 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.

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 reporting date. Deferred tax assets and liabilities are not discounted.

3. Summary of Significant Accounting Policies (Continued)

p) Income tax (Continued)

iii) (Continued)

The carrying amount of a deferred tax asset is reviewed at each reporting 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 realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

q) 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 preparation 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 reporting date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the reporting date.

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

3. Summary of Significant Accounting Policies (Continued)

r) 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 the statement of comprehensive income 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.

s) 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.

3. Summary of Significant Accounting Policies (Continued)

t) 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.

u) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's Chief Executive Officer for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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.

4. Critical Accounting Estimates and Judgements (Continued)

b) Useful lives of intangible assets

The Group determines the estimated useful lives and related amortisation charges for its intangible assets. Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date.

c) Impairment of non-current assets (other than intangible assets)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2009, the impairment of non-current assets (other than deferred tax assets) of the Group was nil (2008: nil).

d) 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.

e) 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 of receivables and doubtful debt expenses in the period in which such estimate has been changed.

f) 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 realisable 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.

g) Income taxes

Determining income tax provisions involves judgement of the future tax treatment of certain transactions and the interpretation of tax rules. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

4. Critical Accounting Estimates and Judgements (Continued)

h) Recoverability of deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the recognised temporary differences (including tax losses) can be utilised. The assessment on the probability of whether the recognised deferred tax assets can be fully recovered involves the uses of judgement and estimates. As at 31 December 2009, the Group has recognised deferred tax assets of RMB1,671,000 (note 28(b)). The management considers that the Group is capable to generate sufficient taxable profit from its future business operations for utilising the recognised temporary differences.

i) Withholding tax on the distributable profits of the Group's PRC subsidiaries

On 16 March 2007, National People's Congress approved the Corporate Income Tax Laws of the PRC (the "New CIT Laws") which was effective from 1 January 2008. According to the relevant regulations of the New CIT Laws, when a foreign investment enterprise distributes dividends out of the profits earned from 1 January 2008 onwards to its overseas investors, it is subject to corporate income tax. The applicable corporate income tax rate varies with the origin of the overseas investors.

One of the Group's PRC subsidiaries has distributed all its distributable profits earned before 1 January 2008, therefore, the Board of Company believes that the Company will not require its PRC subsidiaries to declare further dividends out of the profits earned from 1 January 2008 to 31 December 2009 in the foreseeable future. However, the Group will make provision for withholding tax on dividends expected to be remitted from group entities incorporated in the PRC, based on the Group's general dividend policy which is set out in the paragraph headed "Financial Information" to the prospectus dated 22 January 2007 issued by the Company for the net profits generated by the Group's PRC subsidiaries after 1 January 2008. The Group provided withholding tax for such undistributed profits as deferred tax liabilities. The directors of the Company will regularly review the dividend distribution policy of its subsidiaries from time to time.

5. Financial Instruments

a) Categories of financial instruments

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Trade and other receivables	**138,961**	66,025	**1,008,857**	665,771
Cash and cash equivalents	**1,054,467**	1,086,361	**84**	11
	1,193,428	1,152,386	**1,008,941**	665,782
Financial liabilities				
Trade and other payables	**78,841**	36,574	**13**	22
Obligations under a finance lease	**10**	15	**–**	–
Short-term bank loan	**–**	30,000	**–**	–
Financial liabilities measured at amortised cost	**78,851**	66,589	**13**	22

5. Financial Instruments (Continued)

b) Financial risk management objectives and policies

Details of the 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 risks to ensure appropriate measures are implemented on a timely and effective manner.

i) Currency risk

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

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

i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the reporting 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. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of the reporting period.

	The Group				**The Company**	
	2009		2008		**2009**	2008
	USD'000	**HKD'000**	USD'000	HKD'000	**HKD'000**	HKD'000
Cash and cash equivalents	**7**	**1,436**	7	510	**84**	11
Trade and other payables	**–**	**(989)**	–	(705)	**(13)**	(22)
Obligations under a finance lease	**–**	**(10)**	–	(15)	**–**	–
Net exposure arising from recognised assets and liabilities	**7**	**437**	7	(210)	**71**	(11)

ii) Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% in the 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 adjusted at each reporting date for a 5% change in foreign currency rates.

A positive number below indicates an increase/(decrease) 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. The analysis is performed on the same basis for 2008.

	2009	2008
	RMB'000	RMB'000
Profit of the Group for the year	**22**	(10)

The Group's equity would not be affected (2008: nil) by changes in foreign exchange rates.

5. Financial Instruments (Continued)

b) Financial risk management objectives and policies (Continued)

ii) Interest rate risk

The Group's fair value interest rate risk arises primarily from short-term bank loan and obligations under a finance lease carried at fixed rates. 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 exposures should the need arises.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to cash flow interest rates at the reporting date.

At 31 December 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB9,527,000 (2008: RMB10,864,000). Other components of consolidated equity would not change (2008: 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 reporting date and had been applied to the exposure to interest rate risk for the amount of variable-rate bank balances 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 reporting date. The analysis is performed on the same basis for 2008.

iii) Credit risk

At 31 December 2009, 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, arises from the carrying amounts of trade and receivables, and cash and cash equivalents as stated in the statement of financial position. In order to minimise credit risks, the management 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 manager reviews the recoverable amount of each individual trade debt at each reporting 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 expose 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)

b) Financial risk management objectives and policies (Continued)

iv) Liquidity risk

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 mitigate the effects of fluctuations in cash flows. The Group held cash and cash equivalents amounting to approximately RMB1,054,467,000 at 31 December 2009 (2008: approximately RMB1,086,361,000).

The following table details the Group's and the Company's remaining contractual maturity at the reporting 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 and the Company can be required to pay. The table includes both interest and principal cash flows.

The Group

	Weighted average effective interest rate	Less than 6 months	6-12 months	1-5 years	Total undiscounted cash flows	Carrying amount at the reporting date
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2009						
Trade payables	Nil	**55,250**	**–**	**–**	**55,250**	**55,250**
Other payables	Nil	**23,591**	**–**	**–**	**23,591**	**23,591**
Obligations under a finance lease	5.6	**3**	**3**	**5**	**11**	**10**
		78,844	**3**	**5**	**78,852**	**78,851**
2008						
Trade payables	Nil	23,800	–	–	23,800	23,800
Other payables	Nil	12,774	–	–	12,774	12,774
Obligations under a finance lease	5.6	3	3	11	17	15
Short-term bank loan	7.47	1,121	30,187	–	31,308	30,000
		37,698	30,190	11	67,899	66,589

The Company

	Weighted average effective interest rate	Less than 6 months	6-12 months	1-5 years	Total undiscounted cash flows	Carrying amount at the reporting date
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2009						
Other payables	Nil	**13**	**–**	**–**	**13**	**13**
2008						
Other payables	Nil	22	–	–	22	22

5. Financial Instruments (Continued)

c) Fair value of financial instruments

The directors of the Company 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 2009 and 2008 because of the short maturity of these instruments.

6. 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 is organised into one single reporting segment in respect of the development, manufacturing, marketing and sales of pharmaceutical products primarily in the PRC. Accordingly, no segment analysis by business and geographical information is provided.

The Group's revenue from external customers is derived solely from its operations in the PRC and all material non-current assets of the Group are located in the PRC.

During 2009 and 2008, no revenue from transactions with a single external customer accounted for 10% or more of the Group's total revenue.

7. Turnover

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

	2009	2008
	RMB'000	RMB'000
Sales of pharmaceutical products	**641,361**	630,326

8. Other Revenue

	2009	2008
	RMB'000	RMB'000
Bank interest income	**3,877**	7,937
Total interest income on financial assets not at fair value through profit or loss	**3,877**	7,937

9. Finance Costs

	2009	2008
	RMB'000	RMB'000
Interest on bank advances wholly repayable within five years	**1,233**	2,376
Finance charges on obligations under a finance lease	**1**	1
Total interest expense on financial liabilities not at fair value through profit or loss	**1,234**	2,377

10. Profit Before Tax

	2009 RMB'000	2008 RMB'000
Profit before tax is arrived at after charging:		
Directors' emoluments (note 11)	**3,342**	4,412
Other staff retirement benefits scheme contributions	**3,600**	3,249
Other staff costs	**36,496**	22,837
	43,438	30,498
Less: Staff costs included in research and development costs	**(1,297)**	(906)
	(42,141)	29,592
Depreciation of property, plant and equipment		
– owned by the Group	**23,719**	13,238
– held for use under a finance lease	**5**	4
	23,724	13,242
Less: Depreciation included in research and development costs	**(784)**	(592)
	22,940	12,650
Amortisation of intangible assets	**2,386**	2,386
Amortisation of land use rights	**266**	230
Auditor's remuneration	**652**	625
Exchange loss included in administrative and other expenses	**2,099**	316
Operating lease payments in respect of		
– rental premises	**896**	927
Research and development costs	**3,428**	1,812
Cost of inventories #	**366,755**	311,381
Write down of inventories	**–**	24

Cost of inventories includes RMB30,227,000 (2008: RMB14,537,000) relating to staff costs and depreciation in which the amount is also included in the respective total amounts disclosed separately above.

11. Directors' Emoluments

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

	2009				2008			
	Fees RMB'000	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors								
Lin Ou Wen	1,031	248	42	1,321	1,393	201	44	1,638
Lin Qing Ping	688	248	40	976	836	201	43	1,080
Xu Chao Hui	207	181	32	420	278	157	35	470
Dennis Luan Thuc Nguyen (resigned on 3 December 2008)	–	–	–	–	319	–	–	319
Non-executive directors								
Tang Bin	137	–	–	137	209	–	–	209
John Yang Wang	137	–	–	137	209	–	–	209
Independent non-executive directors								
Goh Jin Hian (resigned on 11 June 2009)	–	–	–	–	209	–	–	209
Liu Jun	137	–	–	137	139	–	–	139
Lam Yat Cheong	137	–	–	137	139	–	–	139
Du Jian (appointed on 11 June 2009)	77	–	–	77	–	–	–	–
	2,551	677	114	3,342	3,731	559	122	4,412

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 (2008: Nil).

12. Individuals With Highest Emoluments

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

	2009	2008
Number of directors	3	3
Number of other individuals	2	2
	5	5

The emoluments of the directors of the Company are disclosed in note 11. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	2009 RMB'000	2008 RMB'000
Salaries and other benefits	945	949
Retirement benefits scheme contributions	43	43
	988	992

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

	Number of individuals	
	2009	2008
Emoluments bands		
Nil – HK$1,000,000 (approximately equivalent to RMB880,000)	2	2

13. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company includes a profit of approximately RMB392,846,000 (2008: a loss of approximately RMB51,931,000) which has been dealt with in the financial statements of the Company.

14. Income Tax in the Consolidated Statement of Comprehensive Income

	2009 RMB'000	2008 RMB'000
Current tax – PRC corporate income tax		
Provision for the year	**20,072**	29,034
Over-provision in respect of prior years	**–**	(868)
	20,072	28,166
Deferred taxation		
– origination and reversal of temporary differences (note 28(b))	**(1,671)**	–
– effect of withholding tax at 5% on the distributable profits of the PRC subsidiaries (note 28(b))	**3,923**	–
	2,252	–
	22,324	28,166

a) PRC corporate 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 Corporate 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 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 qualified as Production Enterprises during the year 2006 and 2008 respectively, shall be entitled to exemption from PRC corporate 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 corporate income tax for the following three years.

Fujian Sanai, a wholly foreign owned enterprise, was subject to PRC corporate income tax at a rate of 25% applicable to the company on the assessable profits for the year (2008: 25%). It was exempted from PRC corporate 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 corporate income tax rate applicable. Such tax exemption will expire on 31 December 2010.

Fuzhou Sanai, a wholly foreign owned enterprise, was subject to PRC corporate income tax at a rate of 25% applicable to the company on the assessable profits for the year (2008: 25%). It was exempted from PRC corporate income tax for 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 rate of 12.5%, being half of the corporate income tax rate applicable. Such tax exemption will expire on 31 December 2012.

Fujian Sanai Pharmaceutical Trading Co., Limited ("Sanai Pharmaceutical Trading"), the PRC enterprise, was subject to PRC corporate income tax at a rate of 25% applicable to the Company on the assessable profits for the year (2008: 25%).

14. Income Tax in the Consolidated Statement of Comprehensive Income (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 2009 (2008: Nil).

c) The charge for the year is reconciled to profit before tax as follows:

	2009 RMB'000	2008 RMB'000
Profit before tax	156,537	237,052
Notional tax on profit before tax, calculated at the rates applicable to profits in the jurisdictions concerned	39,883	61,568
Tax effect of non-deductible expenses	3,676	15,356
Tax effect of non-taxable income	(126)	(13,462)
Tax effect of income tax exemption granted to the PRC subsidiaries	(24,878)	(34,428)
Over-provision in prior years	–	(868)
Tax effect of unrecognised temporary differences	(154)	–
Tax effect of withholding tax at 5% on the distributable profits of the PRC subsidiaries	3,923	–
Actual tax expense	22,324	28,166

15. Dividends

a) **Dividends payable to owners of the Company attributable to the year:**

	2009 HK$'000	2008 HK$'000
Final dividend proposed after the reporting date of HK2.0 cents per share (2008: HK3.3 cents per share)	34,195	56,422
	RMB'000	RMB'000
Approximately equivalent to	29,996	49,931

15. Dividends (Continued)

b) On 12 April 2010, the Board resolved to propose a final dividend of HK2.0 cents (approximately equivalent to RMB1.8cents) per share for the year ended 31 December 2009 to the shareholders on the register of members of the Company which is subject to the approval of the shareholders in the forthcoming Annual General Meeting of the Company.

c) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the year.

	2009 HK$'000	2008 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK3.3 cents per share (2008: HK$3.8cents)	**56,422**	64,971
	RMB'000	RMB'000
Approximately equivalent to	**49,931**	58,010

16. Earnings Per Share

a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately RMB134,213,000 (2008: approximately RMB208,886,000) and the weighted average of 1,709,772,500 shares (2008: 1,709,772,500 shares) in issue throughout the year.

b) Diluted earnings per share

Diluted earnings per share equals to basic earnings per share as there were no dilutive potential ordinary shares outstanding for the two years ended 31 December 2009 and 2008.

17. Property, Plant and Equipment

The Group

	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 2008	66,646	7,373	6,796	85,779	–	166,594
Additions	–	36,836	–	77,502	60,000	174,338
At 31 December 2008 and 1 January 2009	66,646	44,209	6,796	163,281	60,000	340,932
Additions	–	180	–	78,959	10,000	89,139
At 31 December 2009	66,646	44,389	6,796	242,240	70,000	430,071
Accumulated depreciation						
At 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 and 1 January 2009	5,636	1,490	3,815	23,026	–	33,967
Charge for the year	2,138	4,388	883	16,315	–	23,724
At 31 December 2009	7,774	5,878	4,698	39,341	–	57,691
Carrying amount						
At 31 December 2009	58,872	38,511	2,098	202,899	70,000	372,380
At 31 December 2008	61,010	42,719	2,981	140,255	60,000	306,965

All of the Group's buildings are located 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 RMB9,000 (2008: RMB14,000) in respect of assets held under a finance lease.

18. Land Use Rights

The Group

	RMB'000
Cost	
At 1 January 2008, 31 December 2008 and 1 January 2009	12,438
Transfer (note (ii))	38,166
31 December 2009	50,604
Accumulated amortisation	
At 1 January 2008	1,028
Amortisation for the year	230
At 31 December 2008 and 1 January 2009	1,258
Amortisation for the year	266
At 31 December 2009	1,524
Carrying amount	
At 31 December 2009	49,080
At 31 December 2008	11,180

(i) The balance of land use rights represent prepaid operating lease payments for land use rights situated in the PRC under medium-term leases.

(ii) The Group obtained the land use rights title in relation to a deposit paid in 2008 of RMB38,166,000 (note 20) and transferred the deposit to land use rights during the year.

19. Intangible Assets

The Group

	Patents RMB'000	Product development costs RMB'000	Total RMB'000
Cost			
At 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009	16,230	7,977	24,207
Accumulated amortisation			
At 1 January 2008	357	240	597
Charge for the year	1,426	960	2,386
At 31 December 2008 and 1 January 2009	1,783	1,200	2,983
Charge for the year	1,426	960	2,386
At 31 December 2009	3,209	2,160	5,369
Carrying amount			
At 31 December 2009	13,021	5,817	18,838
At 31 December 2008	14,447	6,777	21,224

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

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.

20. Deposit for the Acquisition of Land Use Rights

The Group

	RMB'000
At 1 January 2008	7,275
Addition	48,000
At 31 December 2008 and 1 January 2009	55,275
Transfer (note 18)	(38,166)
At 31 December 2009	17,109

21. Investment in Subsidiaries

	The Company 2009 RMB'000	The Company 2008 RMB'000
Unlisted shares, at cost	**214,786**	214,786

Details of the Company's subsidiaries at 31 December 2009 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 International Pharmaceutical Investment Company Limited ("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

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

22. Inventories

	The Group	
	2009	2008
	RMB'000	RMB'000
Raw materials	**8,149**	5,478
Work in progress	**1,262**	935
Finished goods	**12,993**	12,222
Merchandise	**99**	119
	22,503	18,754

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

	The Group	
	2009	2008
	RMB'000	RMB'000
Carrying amount of inventories sold	**366,755**	311,357
Write down of inventories	**–**	24
	366,755	311,381

23. Trade and Other Receivables

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**138,961**	66,025	**–**	–
Amount due from a subsidiary (note (ii))	**–**	–	**1,008,857**	665,771
Loans and receivables	**138,961**	66,025	**1,008,857**	665,771
Deposits and prepayments	**398**	463	**196**	449
	139,359	66,488	**1,009,053**	666,220

23. Trade and Other Receivables (Continued)

Notes:

(i) The amount of the Group's and the Company's deposits and prepayments expected to be recovered after more than one year is RMB137,000 (2008: RMB10,000) and nil (2008: Nil) respectively. All of the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

(ii) At 31 December 2009 and 2008, the amount due from a subsidiary is unsecured, interest-free and repayable on demand.

(iii) 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(b)(iii). The following is an ageing analysis of trade receivables at the reporting date:

	The Group	
	2009	2008
	RMB'000	RMB'000
Age		
0 to 30 days	**70,414**	35,248
31 to 60 days	**68,547**	30,777
	138,961	66,025

(iv) Management closely monitors 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. The Group does not hold any collateral over these balances.

(v) There are no trade and other receivables that are past due or impaired for the two years ended 31 December 2009 and 2008.

24. Cash and cash equivalents

Cash and cash equivalents of the Group and of the Company comprise cash at bank and in hand. During the year, the bank deposits of the Group carry interest at rates ranging from 0.1% to 0.36% (2008: 0.1% to 0.81%) per annum.

25. Trade and Other Payables

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables				
– a related company *	**1,978**	1,666	**–**	–
– others	**53,272**	22,134	**–**	–
	55,250	23,800	**–**	–
Payroll and welfare payables	**4,047**	911	**–**	–
Payable for acquisition of property, plant and equipment	**8,650**	5,150	**–**	–
Accrued charges	**6,784**	3,015	**13**	22
Obligations under a finance lease (note 27)	**5**	4	**–**	–
Other payables	**4,110**	3,698	**–**	–
Financial liabilities measured at amortised cost	**78,846**	36,578	**13**	22
Other PRC tax payables	**10,183**	4,791	**–**	–
	89,029	41,369	**13**	22

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

The following is an ageing analysis of trade payables at the reporting date:

	The Group	
	2009	2008
	RMB'000	RMB'000
Age		
0 to 30 days	**25,604**	11,767
31 to 60 days	**29,646**	12,033
	55,250	23,800

26. Short-Term Bank Loan

At 31 December 2008, the bank loan of the Group is unsecured, carrying interest at fixed rate of 7.47% per annum and is repayable within 1 year.

27. Obligations Under a Finance Lease

At 31 December 2009, the Group had obligations under a finance lease repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**6**	6	**5**	5
After 1 year but within 2 years	**5**	6	**5**	5
After 2 years but within 5 years	**–**	5	**–**	5
	11	17	**10**	15
Less: Total future finance charges	**(1)**	(2)		
Present value of lease obligations	**10**	15		
Less: Amount due within one year shown under trade and other payables (note 25)			**(5)**	(4)
Amount due after one year			**5**	11

It is the Group's policy to lease certain of its furniture, fixtures and equipment under a finance lease. 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% (2008: 5.6%) per annum.

28. Income Tax in the Consolidated Statement of Financial Position

a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2009	2008
	RMB'000	RMB'000
Provision for the PRC corporate income tax for the year	**20,072**	29,034
PRC corporate income tax paid	**(14,132)**	(26,395)
	5,940	2,639

28. Income Tax in the Consolidated Statement of Financial Position (Continued)

b) Deferred tax liabilities recognised:

The following is the deferred tax (assets)/liabilities recognised and movements thereon during the year:

	The Group			
	Deferred product development costs and patents	Related depreciation in excess of depreciation allowance	Withholding tax on distributable profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008, 31 December 2008 and 1 January 2009	3,889	–	–	3,889
(Credited)/debited to the statement of comprehensive income for the year (note 14)	–	(1,671)	3,923	2,252
At 31 December 2009	3,889	(1,671)	3,923	6,141

Pursuant to the New CIT Laws, a 10% withholding tax is levied on dividends declared to foreign investors from foreign investment enterprise established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable tax rate is 5%. The Group is therefore liable to withholding taxes on dividend distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008 onwards. The Group recognised deferred tax liabilities in respect of expected distributable earnings from its subsidiaries established in the PRC since 1 January 2008 with reference to the Group's dividend policy, no matter whether such earnings have been declared or not by the subsidiaries at the reporting date. The directors of the Company will review the funding requirements of the Group from time to time and revise the dividend policy of its subsidiaries as appropriate.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The following is the analysis of the deferred tax balances for financial reporting purposes:

	The Group	
	2009	2008
	RMB'000	RMB'000
Deferred tax assets	**(1,671)**	–
Deferred tax liabilities	**7,812**	3,889
	6,141	3,889

c) The Group and the Company had no significant unprovided deferred tax assets or liabilities at 31 December 2009 and 2008.

29. Share Capital and Reserves

a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Detailed of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital (note b) RMB'000	Share premium (note c(i)) RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2008	17,098	929,533	44,305	990,936
Total comprehensive loss for the year	–	–	(51,931)	(51,931)
Dividends approved in respect of the previous year (note 15(c))	–	–	(58,010)	(58,010)
At 31 December 2008 and 1 January 2009	17,098	929,533	(65,636)	880,995
Total comprehensive income for the year	–	–	392,846	392,846
Dividends approved in respect of the previous year (note 15(c))	–	–	(49,931)	(49,931)
At 31 December 2009	17,098	929,533	277,279	1,223,910

b) Share capital

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009	3,200,000,000	32,000
Issued and fully paid:		
At 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009	1,709,772,500	17,098

	2009 RMB'000	2008 RMB'000
Shown in the consolidated statement of financial position at 31 December 2008 and 31 December 2009	**17,098**	17,098

29. Share Capital and Reserves (Continued)

c) 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 a 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 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.

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) Statutory surplus reserve

As stipulated by the relevant laws and regulations for foreign investment enterprises in 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 a capitalisation issue.

v) Non-distributable reserve

In accordance with the Articles of Association of Fujian Sanai, Fujian Sanai may appropriate funds to the 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.

29. Share Capital and Reserves (Continued)

d) 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 or its liabilities and its share capital account.

As at 31 December 2009, the Company's reserves available for distribution to shareholders amounted to approximately RMB1,206,812,000 (2008: RMB863,897,000) 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 (2008: RMB929,533,000), add retained profits of RMB277,279,000 (2008: less accumulated losses of RMB65,636,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

e) 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 loan, trade and other payables and obligations under a finance lease; 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 2009, the Group's strategy was unchanged from 2008. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on the 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 debts or the redemption of existing debts.

The debt-to-equity ratio at December 2009 and 2008 was as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current liabilities				
Trade and other payables	**89,029**	41,369	**13**	22
Short-term bank loan	**–**	30,000	**–**	–
	89,029	71,369	**13**	22
Non-current liabilities				
Obligations under a finance lease	**5**	11	**–**	–
Total debt	**89,034**	71,380	**13**	22
Total equity	**1,572,621**	1,488,339	**1,223,910**	880,995
Debt-to-equity ratio	**5.66%**	4.80%	**Nil**	Nil

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

30. 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 of the Group whom the Board considers, at its sole discretion, has contributed or contributes to the Group.

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 the 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 the 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 2009, no options were granted under the Scheme.

31. Operating Lease Commitments

The Group as leasee

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

	2009 RMB'000	2008 RMB'000
Within one year	**765**	584
In the second to fifth year inclusive	**1,146**	13
	1,911	597

Significant leasing arrangements in respect of land held under operating leases are described in note 18.

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 market rentals. None of the leases includes contingent rentals.

32. Capital Commitments

	The Group	
	2009 RMB'000	2008 RMB'000
Capital expenditure contracted for but not provided for in the financial statements in respect of the acquisition of		
– intangible assets	**8,100**	8,100
– land use rights	**2,922**	2,922
– property, plant and equipment	**5,600**	600
	16,622	11,622

33. 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.

34. 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 as follows:

					Balance as at 31 December 2009		Balance as at 31 December 2008	
Name of related party	Relationship with related party	Nature of transaction	2009 RMB'000	2008 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	6,539	13,174	1,978	–	1,666	–
Mr. Lin Qin Xiang	Brother of Mr. Lin Ou Wen and Mr. Lin Qing Ping*	Property rentals paid	204	204	–	816	–	612

* 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 notes 11 and 12.

35. Comparative Figures

As a result of the application of HKAS 1 (revised), Presentation of financial statements, certain comparative figures have been provided of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

Five-Year Financial Summary

RESULTS

	Year ended 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	417,349	541,320	660,661	630,326	**641,361**
Cost of sales	(218,479)	(272,827)	(326,453)	(311,381)	**(366,755)**
Gross profit	198,870	268,493	334,208	318,945	**274,606**
Other revenue	470	2,233	19,850	7,937	**3,877**
Distribution costs	(13,363)	(11,679)	(12,265)	(50,176)	**(82,070)**
Administrative and other expenses	(8,394)	(38,432)	(66,972)	(37,277)	**(38,642)**
Fair value change on convertible bonds	–	(63,890)	–	–	**–**
Finance costs	(2,917)	(2,704)	(2,535)	(2,377)	**(1,234)**
Profit before tax	174,666	154,021	272,286	237,052	**156,537**
Income tax expense	(57,463)	(34,630)	(170)	(28,166)	**(22,324)**
Profit for the year	117,203	119,391	272,116	208,886	**134,213**
Attributable to:					
Owners of the Company	117,288	119,774	272,116	208,886	**134,213**
Non-controlling interests	(85)	(383)	–	–	**–**
	117,203	119,391	272,116	208,886	**134,213**
Dividends paid	59,146	84,120	–	58,010	**49,931**
Earnings per share					
– Basic and diluted	RMB11.2 cents	RMB11.0 cents	RMB16.3 cents	RMB12.2 cents	**RMB7.8 cents**

ASSETS AND LIABILITIES

	As at 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	353,420	527,216	1,460,763	1,566,247	**1,675,407**
Total liabilities	(122,076)	(332,958)	(123,300)	(77,908)	**(102,786)**
Net assets	231,344	194,258	1,337,463	1,488,339	**1,572,621**

The results and summary of assets and liabilities for the year ended 31 December 2005 which was 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.