武夷药业
Wuyi Pharmaceutical

Wuyi International Pharmaceutical Company Limited

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

ANNUAL REPORT
2010

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,FTIHK, ACIS, ACS and CTA (HK)

AUTHORIZED REPRESENTATIVES

Mr. Lin Ou Wen
Mr. Kung Wai Chiu, Marco
FCPA (Practising), FCCA,FTIHK, ACIS, ACS and CTA (HK)

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 (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

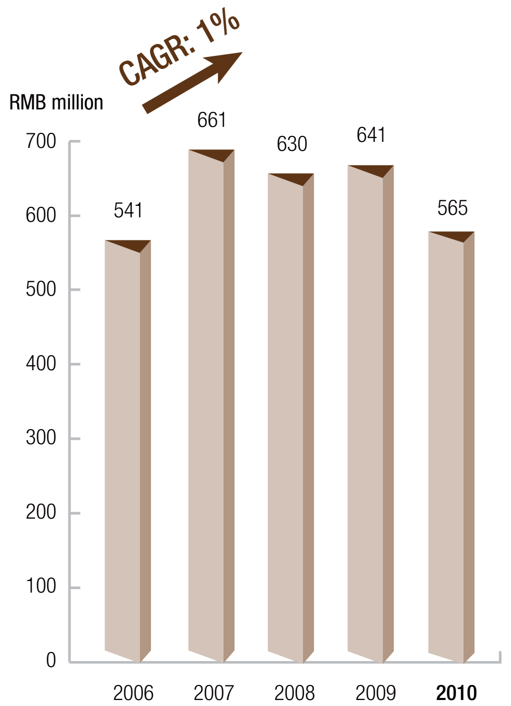
1889

WEBSITE

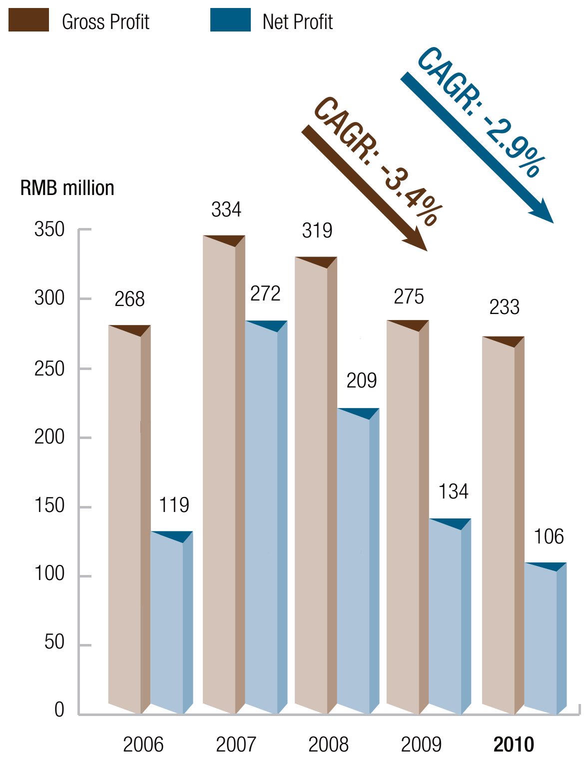
www.wuyi-pharma.com

Financial Highlights

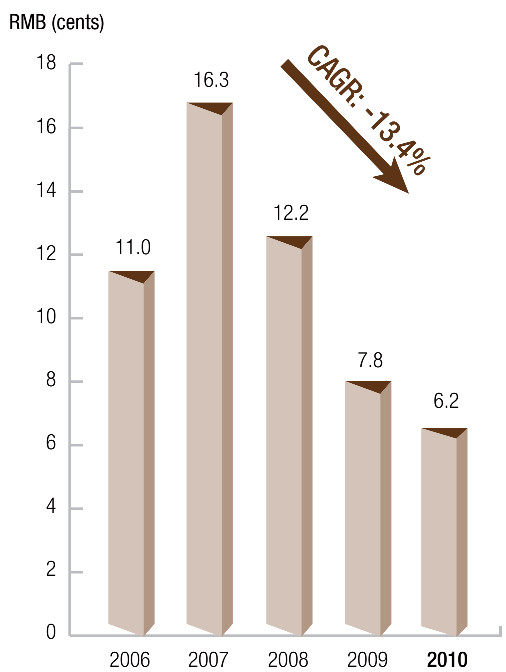
Turnover



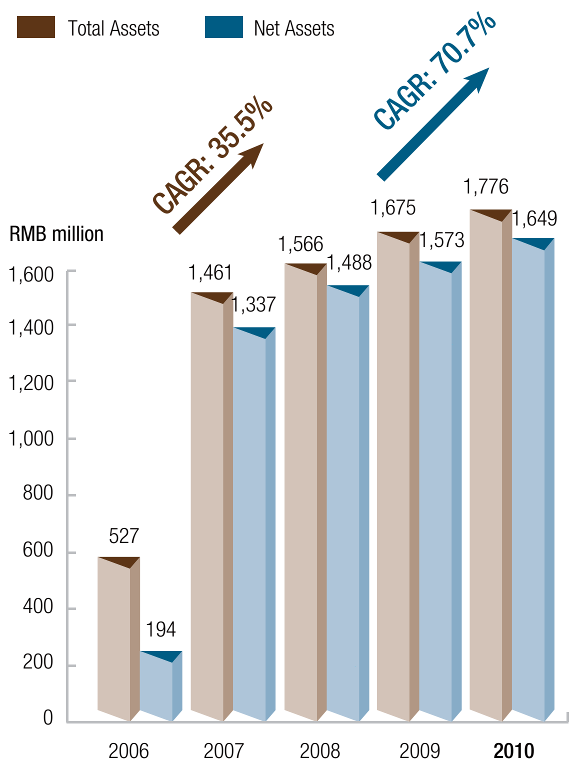
Gross Profit & Net Profit



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 2010.

BUSINESS REVIEW

2010 was a crucial year of transition since the full implementation of the reform of the medical and health system in China. During the year, a number of supporting medical reform policies were introduced. The full implementation of basic drugs system, higher regulation standards for medicines, the deepening structural adjustment in the pharmaceutical industry, the ongoing procurement of medicines through tenders, orderly proceeding of the reform on public hospitals, the increased support to the reform of the pharmaceutical industry from the country and more input in the medical expenditures together with the increased awareness and demand to the health care from the public, are all beneficial to the industry. New medical reform policies promulgated, however, imposed stricter regulation on the pharmaceutical industry in China and the government tightened its approval on the production of medicines, which are conducive to the enhancement on the quality of the pharmaceutical industry in the long run. However, the business environment faced with the whole pharmaceutical industry will become more complicated and the competition in the industry will be increasingly fierce. On the backdrop of challenging economic conditions and industry changes, the Company will clearly understand the situations, respond prudently and make effort to maintain steady development in operations and results.

During the year, as the monitoring period of N (2)-LAlanyl-LGlutamine Injectible became expired, sales and market shares of the products for the Company fluctuated, faced with the competition arising from a number of imitated products. Driven by the strategy of price cut adopted by the Company, the sales volume rose in the second half of the year, but the annual turnover was inevitably affected. During the year, due to the increasingly strict supervision and quality requirements promulgated by the State Food and Drug Administration, on Chinese medicines, the production and sales volume of the Company's Chinese medicine injection were affected, together with the increase in depreciation charges in cost of sales, which led to the decline in the gross profit margin of the Company. The Group recorded a turnover of approximately RMB564.5 million for the year ended 31 December 2010, a decrease of approximately 12.0% over last year. The profit attributable to owners of the Company amounted to approximately RMB106.0 million.

Faced with the challenges in the business environment, the Company focused on the consolidation of the existing businesses, and strived for balanced development between adjustment and reform in accordance with the prevailing situation, which sustained good operations and financial position of the Company during the period. To reward shareholders for their support during the year, the Board proposed a final dividend of HK1.6 cents per share (equivalent to the upper limit of a dividend payout ratio of approximately 29%) in accordance with the dividend payout policy of the Group. Furthermore, the Board also proposed a special dividend of HK8.8 cents per share for the first time, which resulted in a dividend payout ratio of approximately 142.2% for the year based on the results of 2010, to reward and thank shareholders for their continuous support and trust in the Company over the years.

In product development, Perilla Oil Capsule, a key product of the Group, has been well received in the market since its launch three years ago. Although the rise in the cost of product due to its new packaging during the year led to the slight decrease in gross profit margin, we recorded satisfactory overall sales. With its widely-accepted effectiveness and scale of production, the product has obtained approval from authorities in Shanxi, Inner Mongolia and Xinjiang for listing in their medical insurance directories in 2010. Xiangdan Injectible is another saleable product of the Group. The Group obtained market share in rural areas and community with great potential for its advantages in terms of strong curative effect and low pricing. Our new product, Omeprazole Enteric-Coated Capsule, has obtained the approval for production and sales, and planned to launch it in the market in the coming year.

During the period, the Group achieved encouraging results in the research and development of new medicine. The Group has conducted research of new efficacies on the Perilla Oil Capsule with Fujian University's Faculty of Medicine with breakthrough discovery. The project is now at the stage of setting up research topics to verify the feasibility of the study. In addition, the new anti-hepatitis Compound Drug Liver & Gall Bladder Tablets, co-developed by Fujian Sanai Pharmaceutical Co., Ltd., a wholly-owned subsidiary of the Group, and Peking University's Faculty of Medicine during the year, has completed toxicity test and entered into the final stage of efficacy testing.

During the period, the Group continued to press ahead with sales agency for drugs. Fujian Sanai Pharmaceutical Trading Co., Limited was the agency of ten types of drugs during the year, and gradually complemented the Group's own resources, which is conducive to sharing the sales networks in the future.

The Group's sales networks have already been relatively complete, basically covered key provinces, cities, autonomous regions and municipalities around the whole country, and made use of the distribution network of a third party to distribute products to health centers in villages and towns. The Group also distributed products in rural communities in a dozen of southern provinces in China, including 2A and 2B grade county hospitals and community hospitals.

To cope with the increasing demand for medicine in the future, the Group is constructing a new factory with the addition of two production lines for capacity expansion in 福建海西工貿開發區 to replace the existing factory. Meanwhile, the Group planned to construct a new office building in 2011, and the construction is expected to be completed and ready for use in two years.

OUTLOOK

The integration and development of the pharmaceutical industry is key point of the national policy in the future, and a number of new medical reform policies will be successively promulgated, including the "Twelfth Five Year " planning of the pharmaceutical industry, the adjustment in the prices of basic medicines, the compensation mechanism for the primary health care institutions, the adjustment in the prices of medicines newly listed in the medical insurance directories and provisions on the trial reform of public hospitals. With the improvement of related policies, the continued increase in the input in national medical protection from the Chinese government, as well as the increase in per capita income, the demand for basic drugs in both urban and rural areas will increase significantly, which will contribute to a strong position in the mid-to-long-term development of the pharmaceutical industry.

Chairman's Statement

The Chinese government is also committed to the building of medical insurance system. It is expected that both the New Rural Cooperative Medical Schemes and the level of per capita medicine consumption will continue to improve in the future. These, together with the increased medicine consumption level in the county hospitals driven by policies will result in strong growth in the consumption of prescribed medicines. On the other hand, as a key development direction of the new medical reform, primary health care services have developed rapidly. The Group expected that as the Chinese government continued to increase its input in the medical protection of the rural market, the expansion of the distribution of products in rural markets will be beneficial to the Group in seizing the market opportunities and increasing the market shares of the products.

On the other hand, Ministry of Health promulgated the newly revised Good Manufacturing Practice for Drugs, with effect in March 2011. The revision is mainly characterized by strengthening the building of quality management system in the manufacturing of drugs, fully reinforcing the requirements of the quality for people in the profession of drugs manufacturing, detailizing the management provisions of documents, including the operations regulations and production record and further improving the measures to guarantee the drug safety. The implementation of the revised Good Manufacturing Practice for Drugs is in line with the requirements of the development of emerging strategic industries and the transformation in the means of economic development, and is conducive to the concentration of resources towards the quality enterprises in the pharmaceutical industry. It will eliminate the obsolete production capacity and is conducive to the structural adjustment for the pharmaceutical economy so as to promote the industry upgrade. There will have stricter requirements for the pharmaceutical industry with higher regulation standards for drugs and production as the future policy direction. Therefore, there will be greater uncertainty in the pharmaceutical industry with more challenges and tests.

In view of these, the Group will actively make plans, cope with the serious challenges calmly and seize the opportunities of development in the primary health care services through prudent actions based on strong financial strength. On the one hand, we will continue to consolidate both the business and markets of the exiting medicines, strengthen the research and development of new medicine and expect to create new growth point for the Group. In addition, using our existing distribution network and stepping up the promotion of the brand of the Company and the quality of our products, we will further penetrate and expand the rural and urban community markets so as to increase the sales revenue and economic efficiency of the Company. Meanwhile, we will further push ahead sales agency for drugs through the platform of pharmaceutical trade. Together with the expanded production capacity from the new factories being constructed, the Group is well positioned to embrace the opportunities from the reform in pharmaceutical industry and the increasing demand for medicines.

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, 28 March 2011

Management Discussion and Analysis

Business Review

Reviewing 2010, the Chinese government promulgated a series of monetary and industrial policies and the economy was under adjustment amid rapid development. Among them, since the implementation of the reform of the medical and health system in April 2009, a number of ancillary measures were launched in last year with stricter regulation towards the pharmaceutical industry in the PRC as it strived to have a balanced development amid adjustments and reforms. Under a challenging business environment, Wuyi Pharmaceutical focused on consolidating its existing business and committed to the steady development of the Group.

The medical reform in the PRC achieved positive progress last year. The number of participants in basic medical insurance in cities and towns amounted to 424 million and the enrollment rate of the new rural cooperation medical insurance remained stable at over 90%. The basic drugs system was implemented in about 50% of the government medical and health institutions in the grass-root level with the price of basic drugs reduced about 30% as the integrated reform in the grass-root level achieved progress to a certain extent.

Among the series of new policies on medical reform implemented in the PRC last year, new restriction and quality requirements were promulgated by the State Food and Drug Administration, which included seven technical guidelines such as the safety re-evaluation and evaluation of the production process on Chinese medicine injection issued on 21 October, so as to regulate and direct the safety re-evaluation on Chinese medicine injection, strictly detect the safety risks of production and quality control of Chinese medicine injection and strengthen the supervision on Chinese medicine prescription.

On 1 October, the 2010 Chinese Pharmacopoeia was implemented and the quality requirements on Chinese medicine were significantly raised. These measures have contributed to the development of Chinese medicines. However, doctors' usage and their attitude towards accepting Chinese medicine injection was cautious as there were changes in their usage, which lead to a significant decline in the demand for these products as the Group's sales of traditional Chinese medicine products were affected.

Meanwhile, the competition in the industry has intensified and the monitoring period of some products of the Group including N(2)-L Alanyl-LGlutamine Injectible became expired. As a number of similar and even imitated products appeared in the market, the demand of our products had to be decreased due to intensified competition in the market. The impact of the imitated products on our products was under control in the second half of 2010 and our sales were stabilized. However, turnover and market shares of the products were still affected to a certain degree during the year.

In addition, the Group's decision to stop the production of Netilmicin Sulfate and Glucose Injectible for inspection voluntarily during the year due to fluctuation in quality and the increase in depreciation expenses in cost of sales and cost of raw materials lowered the gross profit margin of the Group.

Faced with the challenges of the state policies and market pressure, the Board has made sound decisions based on correct judgments in various situations to maintain steady growth in results during the year with sound operation and healthy financial position. The Company recorded a turnover of approximately RMB564.5 million (2009: approximately

RMB641.4 million) for the financial year ended 31 December 2010, a decrease of approximately 12.0% over last year. The profit attributable to owners of the Company amounted to approximately RMB106.0 million (2009: approximately RMB134.2 million) during the year, a decrease of approximately 21.0% over last year.

1. Product Development

i. Perilla Oil Capsule

Perilla Oil Capsule, a key product of the Group with middle-and-old-aged with hyperlipidemia as the key customers, has been well received in the market and recorded satisfactory sales since its launch three years ago. The product was listed in the medical insurance directory of Fujian Province in 2009 and has obtained approval from authorities in Shanxi, Inner Mongolia and Xinjiang for listing in their medical insurance directories in 2010. The listing in local medical insurance directories will be conducive to the market prospects of our products. During the year, the Company increased its investment in marketing and enhanced the popularity of our products and the Group through advertising in television and other print media, which has achieved certain results for the establishment of the overall image of our products.

Sales revenue of Perilla Oil Capsule amounted to RMB48.8 million for the whole year 2010, representing a decrease of approximately 12.1% over last year and approximately 8.6% of the overall turnover. Gross profit margin decreased slightly to approximately 62.5% (2009: approximately 64.3%). The decrease in gross profit margin of the product was mainly due to its new packaging from 60 pills to 32 pills per pack, which increased its packaging cost.

ii. N(2)-L Alanyl-LGlutamine Injectible

The sales volume and market share of the Group's N(2)-L Alanyl-LGlutamine Injectible (a parenteral nutrition supplement specifically for severe patients) were directly affected by similar and generic products produced by other manufacturers as the monitoring period of the product has expired. However, as the number of generic products has not increased significantly during the year and the product was widely recognized by hospitals and patients over the years, sales were stable during the year under our strategy in response to the market change and price adjustment of the product. Sales revenue amounted to approximately RMB81.9 million, a slight decrease of approximately 6.3% over last year.

iii. Other Products

Our new product, Omeprazole Enteric-Coated Capsule (specifically for inhibiting gastric acid secretion and helicobacter pylori reflux), has obtained the approval for production and sales from the State Food and Drug Administration at the beginning of 2010. The Group is formulating promotional strategy and conducting market research and product positioning, and planning to launch it in the market in the coming year.

Xiangdan Injectible (specifically for cardiovascular and cerebrovascular 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.

As authority in the PRC was of the view that there was fluctuation in the quality of the Netilmicin Sulfate and Glucose Injectible, its production has stopped nationally last year and the Company has also decided to stop its production for inspection voluntarily during the year. Due to the increase in depreciation expenses in its cost of sales and the direct impact on its production and sales, the gross profit margin of the Group was lowered.

iv. Research and development of new medicine

During the year, the Group actively involved in the research and development of new medicine and achieved encouraging results. The Group has conducted new research on the Perilla Oil Capsule with Fujian University's Faculty of Medicine and the experts have found new efficacies of the medicine such as softening of blood vessels and protection of liver function, which are breakthrough discovery. The project is now at the stage of setting up research topics to verify the feasibility of the study.

Fujian Sanai Pharmaceutical Co., Ltd. ("Fujian Sanai"), a wholly-owned subsidiary of the Group, entered into an agreement with Peking University's Faculty of Medicine to conduct ongoing research for new drugs during the year. The new anti-hepatitis Compound Drug Liver & Gall Bladder Tablets co-developed has completed toxicity test and entered into the stage of efficacy testing.

Due to stricter approval requirement from the domestic governmental authorities in the past two years, our new product Pazufloxacin Mesilate Injectible is still undergoing approval procedures.

v. *Sales agency for drugs*

Fujian Sanai Pharmaceutical Trading Co., Limited ("Sanai Pharmaceutical Trading") was the agency of seven types of drugs mainly sold in the five provinces and cities of Fujian, Jiangsu, Zhejiang, Liaoning and Beijing during the year and generated turnover of approximately RMB14.4 million, representing approximately 2.6% of the total turnover for the year.

2. Sales network and advertising

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 has 60 distributors, which approximates to last year. The Group also continued to aggressively exploit the market in rural areas, generating turnover of RMB55.8 million from that market during the year, which represented 9.9% of the total sales revenue. The Group estimated that with the central government's increased focus on the medical protection in the market in rural areas, the continued development of that market will increase the market share of our products.

To boost the brand awareness of the product, the Group spent a lot of resources in marketing and promotion activities in areas in addition to the provinces with its products listed in their medical insurance directories during the year, promoting our brand image and quality of the product especially our key product Perilla Oil Capsule 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. The results of the promotion were expected to be gradually reflected in the coming year.

Outlook and Future Development

The pharmaceutical industry had developed in various aspects in 2010. As the new health care reform entered the phase of substantive action during the year, a number of important policies were introduced and the state's input in medical protection also increased significantly. In line with the implementation of the basic drugs system in the PRC, the National Development and Reform Commission (the "NDRC") issued a notice requiring research on drug price of medicine listing in the national health insurance directory and certain medicine with maximum retail prices in mid-2010 as well as a series of related guidelines, which creates doubts in subsequent drug price decrease for the industry. On the other hand, the Ministry of Industry and Information Technology of the PRC, the Ministry of Health and the State Food and Drug Administration jointly published the "Guiding Opinions on Accelerating the Structural Adjustment in the Pharmaceutical Industry (《關於加快醫藥行業結構調整的指導意見》)" in November 2010 and proposed the acceleration of the structural adjustment in the pharmaceutical industry especially on the merger and reorganisation of the manufacturers for basic drugs to encourage market leadership by large pharmaceutical enterprises and achieve mass production of basic drugs. As a key development direction of the new medical reform, primary health care services have developed rapidly. Basic medicine will be promoted in the primary health care institutions run by the government, which will lead to increased use of basic medicine and growth of the pharmaceutical industry.

2011 is the last year of the three-year medical reform, which will focus on the establishment of a new medical system in the grass-root level with the next step on accelerating the establishment and implementation of the basic drugs system. In last November, the Chinese government issued the "Guiding Opinions on Establishing and Regulating the Procurement System of Basic Drugs for Primary Health Care Institutions Run by the Government (《關於建立和規範政府辦基層醫療衛生機構基本藥物採購機制的指導意見》)".

The establishment and regulation of a centralized procurement system of basic drugs have to protect the quality, price and supply of basic drugs as well as to facilitate the production of them. In the long run, a centralized procurement system would have positive meanings on regulating the production and distribution of drugs, establishing healthy competition, guiding the production of drugs and optimizing the integration of structures and resources for the enterprises.

The Group is of the view that the central government will have stricter requirements for the pharmaceutical industry with higher regulation standards for drugs and production as the future policy direction. Therefore, there will be greater uncertainty in the pharmaceutical industry with more challenges. However, in the long run, the tightened medical policies can further rectify the market and increase the concentration of the industry, which is conducive to the increase in market share for the Group and other outstanding pharmaceutical companies. With the improvement and implementation of related policies, the continued increase in the input in national medical protection from the Chinese government, as well as the attention on quality medical services and products due to increase in per capita income, the demand for basic drugs in both urban and rural areas will increase significantly, which will contribute to a strong position in the mid-to-long-term development of the pharmaceutical industry.

In view of the favorable prospects, the Group will adjust its business strategy and equip itself in order to seize opportunities of the primary health care development and continue to open up rural and urban community markets in order to boost its revenue and other economic benefits.

1. **Establish new factory for capacity expansion**

   To cope with demand for medicine in the future, the Group planned to establish a new factory with the addition of two production lines for capacity expansion in 福建海西工貿開發區 to replace the existing factory. The construction is expected to be complete at the end of 2011 and operation will be commenced at the end of 2012 with the maximum production capacity increasing more than three times. A new office building will also commence construction in the coming year with scheduled completion in 2012 to cope with the increased need for office.

2. **Aggressively expand its sales network and increase market penetration**

   The Group will 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 consolidate our sales network further and stabilize the development of the proportion of sales in the rural market. The Group's existing sales networks have extensively covered the rural market. We will strive to increase penetration in the community and rural market in the future, with focus on 2A and 2B grade county hospitals and community hospitals.

3. **Drug sales agency operation**

   The Group will expand its drug sales agency operation through Sanai Pharmaceutical Trading, a pharmaceutical trading platform established in the second half of 2008 which was under development, by distributing products the Group does not produce, which shall complement the Group's own products. The Group will also promote its business and products to a wider market by sharing the sales networks.

   The Group is of the view that the pharmaceutical industry as a whole will enter a period of adjustment in short term but the outlook in the mid-to-long-term is still optimistic. The Group will calmly respond to the challenges and offset the adverse effect of its policies by maintaining a stable financial position and acting prudently. Meanwhile, we will continue to exploit the market and develop new drugs as well as more rigorously promote our brand and the quality of our products to maintain a sustainable and healthy development of the Company and create maximum returns for our shareholders.

Financial Review

1. **Turnover**

   The Group's turnover recorded approximately RMB564.5 million (2009: RMB641.4 million), representing a decrease of approximately 12.0% over last year. As disclosed in the 2010 Interim Report and the profit warning announcements of the Company dated 30 August 2010 and 28 January 2011 respectively, 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; and as the State Food and Drug Administration (the "SFDA") has from time to time imposed new restriction and quality requirements on various aspects of Chinese medicine injection, doctors adopted prudent attitude towards Chinese medicine injection and the society's attitude towards accepting Chinese medicine injection have changed, which led to a decline in the demand for Chinese medicine injection, therefore the Group's sales of traditional Chinese medicine products were affected. In spite of this, the Group still actively improved its operation and turnover in the second half of the year amounted to approximately RMB337.5 million (first half of the year: approximately RMB227.0 million), an increase of approximately 48.7% compared with the first half of the year.

Turnover for 2010 was still dominated by the Western medicines, with a turnover of approximately RMB292.1 million, representing approximately 51.7% of the overall turnover, a decrease of approximately 11.7% over last year (2009: approximately RMB330.8 million, representing approximately 51.6% of the overall turnover). As the SFDA has from time to time imposed new restriction and quality requirements on various aspects of Chinese medicine injection, turnover of the Chinese medicines amounted to approximately RMB258.0 million, representing approximately 45.7% of the overall turnover, a decrease of approximately 11.8% over last year (2009: approximately RMB292.8 million, representing approximately 45.6% of the overall turnover). The gap between the turnover of Western medicines and Chinese medicines has been further narrowed. In addition, the newly added pharmaceutical trading revenue in the second half of 2008 recorded a turnover of approximately RMB14.4 million, representing approximately 2.6% of total turnover (2009: approximately RMB17.8 million, representing approximately 2.8% of the overall turnover), a decrease of approximately 19.1% over last year.

Although our key product, the Perilla Oil Capsule, has obtained approval from authorities in Fujian, Shanxi, Inner Mongolia and Xinjiang for listing in the medical insurance directory since August last year and is still in the protection period, as it has yet to be listed in the national medical insurance directory, its sales were affected to some extent. Sales during the year amounted to approximately RMB48.8 million, representing approximately 8.6% of the overall turnover, a slight decrease of approximately 12.1% over last year (2009: approximately RMB55.5 million, representing approximately 8.7% of the overall turnover).

The highest sales volume during the year was again achieved by Western medicines, N(2)-L Alanyl-L-Glutamine Injectible, with a turnover of approximately RMB81.9 million, representing approximately 14.5% of the overall turnover (2009: approximately RMB87.4 million, representing approximately 13.6% of the overall turnover). Sales of the five top selling medicines amounted to approximately RMB254.8 million, representing approximately 45.1% of the overall turnover (2009: approximately RMB303.7 million, representing approximately 47.3% of the overall turnover).

2. Gross Profit and Gross Profit Margin

Gross profit of the Group decreased to approximately RMB233.5 million, representing a decrease of approximately 15.0% over last year (2009: approximately RMB274.6 million). Gross profit margin decreased by approximately 1.4 percentage points to approximately 41.4% over last year (2009: approximately 42.8%). The main reasons for the decrease were due to three aspects as follows:

1) The higher price of raw materials and packaging materials for some products has increased the production costs as compared to the same period of last year;

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 were some products with lower gross profit margin to adjust for the purchasing power of the market, the total gross profit margin was therefore reduced; and

3) In addition, as the SFDA has from time to time imposed new restriction and quality requirements on various aspects of Chinese medicine injection and 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 increased last year and the depreciation charges for the period increased to approximately RMB28.3 million, representing an increase of approximately 32.2% over last year (2009: approximately RMB21.4 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 the same period of last year, except that such related amount decreased with sales.

3. Profit for the Year

In 2010, profit for the year amounted to approximately RMB106.0 million, representing a decrease of approximately 21.0% from 2009 (2009: approximately RMB134.2 million). Turnover decreased over last year as the SFDA has from time to time imposed new restriction and quality requirements on various aspects of Chinese medicine injection, doctors adopted prudent attitude towards Chinese medicine injection and the society's attitude towards accepting Chinese medicine injection have changed, which led to a decline in the demand for Chinese medicine injection, therefore consumer confidence was weakened and consumption patterns became more cautious.

In addition, distribution costs of the Group decreased approximately 7.3% to approximately RMB76.1 million (2009: approximately RMB82.1 million). During the year, the advertising and marketing expenses of our three wholly-owned subsidiaries in the PRC totalled approximately RMB56.9 million (2009: approximately RMB60.1 million). The main reasons for maintaining the 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 period. The management believed that the effects of advertising will be achieved soon.

It is the third year since our new product Perilla Oil Capsule was launched in the market. To increase the awareness and social acceptance of the product, our advertising and marketing expenses for the product during the period under review amounted to approximately RMB8.6 million (2009: approximately RMB8.6 million), which was comparable with last year and 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 compared to the previous year. A net exchange loss of approximately RMB27,000 (2009: approximately RMB2.1 million) arose due to appreciation of Renminbi against Hong Kong dollar.

Finally, our two wholly-owned subsidiaries in the PRC still enjoyed a preferential tax arrangement of 50% reduction based on half of the Corporate Income Tax rate in the PRC. Tax expenses of the Group was approximately RMB17.0 million (2009: approximately RMB22.3 million) in total and the effective tax rate was 13.8% (2009: approximately 14.2%). It included withholding deferred income tax for the provision of undistributed profits for the three wholly-owned subsidiaries in the PRC and the deferred income tax expense amounted to approximately RMB1.3 million (2009: approximately RMB3.9 million).

4. Liquidity, Financial Resources and Capital Structure

As at 31 December 2010, the Group had cash and cash equivalents of approximately RMB1,098.9 million (2009: approximately RMB1,054.5 million). The Group continued to maintain a stable financial position with low gearing and healthy cash flows. The Group generated a net cash inflow from operating activities of approximately RMB131.6 million (2009: approximately RMB134.5 million). During the year, the Group did not use any financial instruments for hedging purpose.

The Group reviewed the capital structure by using a gearing ratio. The gearing ratio representing the total debt, which includes trade and other payables and obligations under a finance lease, of the Group divided by total equity of the Group. The debt-to-equity ratio of the Group was approximately 6.6% as at 31 December 2010 (2009: approximately 5.7%).

5. Exposure to Fluctuation in Exchange Rates

For the year ended 31 December 2010, 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 2010, 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. **Material Acquisitions and Disposal of Investments**

For the year ended 31 December 2010, the Group did not have any material acquisition and disposal of investment.

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

For the year ended 31 December 2010, the Group employed approximately 468 employees (2009: 474 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 2010, the net book value of furniture, fixtures and equipment of approximately RMB34.2 million (2009: approximately RMB38.5million) includes an amount of approximately RMB4,000 (2009: approximately RMB9,000) in respect of asset held under a finance lease.

9. **Contingent Liabilities**

As at 31 December 2010, the Group did not have any contingent liabilities (2009: Nil).

10. **Capital Expenditure**

For the year ended 31 December 2010, capital expenditure of the Group for property, plant and equipment and land use rights and deposits payment for the acquisition of non-current assets amounted to approximately RMB61.1 million (2009: approximately RMB89.1 million).

11. **Capital Commitments**

As at 31 December 2010, the Group had capital expenditure contracted for but not provided in the financial statements amounted to approximately RMB55.3 million (2009: approximately RMB16.6 million).

12. **Use of Proceeds**

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

For the year ended 31 December 2007, the Company applied approximately RMB230.0 million and approximately RMB114.7 million to the capital injection in our two major subsidiaries in the PRC Fujian Sanai and Fuzhou Sanai respectively 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 HK$62.0 million had been used for repayment of an interest-free shareholder's loan for the acquisition of a 40% interest in Fuzhou Sanai from Mr. Lin Ou Wen.

For the year ended 31 December 2008, the Group spent approximately RMB37.0 million for promotion of our brand through advertisement in some major national TV channels in the PRC. In addition, approximately RMB113.1 million had been utilized in the construction and acquisition of manufacturing equipment in Jiangyang factory.

For the year ended 31 December 2009, the Group 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 utilized in the construction and acquisition of manufacturing equipment in Jianyang factory.

In 2010, the Group has continuously spent approximately RMB1.3 million for promotion of our brand through advertisement in some major national TV channels in the PRC. In addition, approximately RMB2.2 million has been utilized for research and development.

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 2010, 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 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 2010, 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 19 to 20 of this report.

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 2010, 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. Lam Yat Cheong	4/4
Mr. Liu Jun	4/4
Mr. Du Jian	4/4

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 2010, 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 internal auditor. The Company's interim result announcement and interim report for the six months ended 30 June 2010 and the annual result announcement and annual report for the year ended 31 December 2010 have been reviewed by the AC, and with recommendation to the Board for approval.

The AC shall meet at least twice a year after the Listing Date. On 22 March 2011, a meeting of the AC was held and Mr. Lam Yat Cheong (Chairman), Mr. Liu Jun and Mr. Du Jian, 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 2010 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 30 November 2010 with Mr. Lin Ou Wen (Chairman), Mr. Lam Yat Cheong, Mr. Liu Jun and Mr.Du Jian, 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 2011.

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 29 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 30 November 2010, a NC meeting was held with Mr. Lin Ou Wen (Chairman), Mr. Lin Qing Ping, Mr. Lam Yat Cheong, Mr. Liu Jun and Mr. Du Jian 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 2010 was HK$700,000 (2009: 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 2010, 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 28.

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 26 August 2010 and 22 March 2011, the Company's internal control system reports which were prepared by the Internal Control Department were reviewed and approved by the AC. The Board is satisfied with the effectiveness of the Company's internal control system, including financial, operational and compliance controls and risk management functions.

Communications with Shareholders

The Company believes that shareholders' rights should be well respected and protected. The Company endeavours to maintain good communications with shareholders on its performance through interim reports, annual reports, general meetings and public disclosures on the Company's website (www.wuyi-pharma.com), 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 54, 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 over 9 years of experience in the pharmaceutical industry. He is the younger brother of Mr. Lin Qing Ping.

Mr. Lin Qing Ping, aged 61, is a General Manager, Chief Operating Officer and founding shareholder. Mr. Lin graduated from Wuhan University with a bachelor's degree in management in 1982. He is a senior economist. He has been a Director of various companies, namely, Fuzhou Sanai and Wuyi BVI since January 2004 and July 2006. He has over 22 years of experience in business management and 12 years' experience in the pharmaceutical industry with a thorough understanding in the pharmaceutical industry. He is elder brother of Mr. Lin Ou Wen.

Mr. Xu Chao Hui, aged 41, 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 53, 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 41, is a Non-executive Director. He obtained a Bachelor of Arts in International Relations from Tufts University in 1992. Mr. Wang has a M.A.L.D. degree in International law and business from The Fletcher School of Law and Diplomacy in 1994. He has over 12 years of experience in investment banking and consulting.

Independent Non-executive Directors

Mr. Liu Jun, aged 44, 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 49, 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 registered as a Certified Public Accountant (Practising) and a Certified Tax Adviser in Hong Kong since 2000 and 2010 respectively.

Mr. Du Jian, aged 70, 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.

Director and Senior Management

Senior Management

Mr. Chen Zhi Chuan, aged 46, is the Chief Financial Officer in charge of financial management. He graduated from Fuzhou University with a bachelor's degree in Finance in 1988. He has over 8 years of experience in the pharmaceutical industry.

Mr. Cheng Shi De, aged 52, is the Deputy General Manager in charge of production. He graduated from Anhui Province Medical School with a bachelor's degree in pharmacy in 1982. He is a senior engineer. He has over 26 years of experience in the pharmaceutical industry.

Mr. Chen Gui Dong, aged 45, is the manager of Research and Development. He is a senior engineer. He obtained a bachelor's degree in chemistry from Tianjin University in 1991, and was awarded a diploma in business management by Nankai University. He has over 21 years of experience in the pharmaceutical industry.

Ms. Yang Ai Min, aged 35, is the manager of Sales and Marketing. She graduated from Fujian Medical University with a bachelor's degree in pharmacy in 1998. She has over 10 years of experience in the pharmaceutical industry.

Company Secretary

Mr. Kung Wai Chiu, Marco, aged 37, 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 the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He is also a Chartered Secretary of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. He registered as a Certified Public Accountant (Practising) and a Certified Tax Adviser in Hong Kong since 2007 and 2010 respectively. He has over ten years' experience in business advisory services and financial management. 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 2010.

Principal Activities

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

Results and Appropriations

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 29.

The Directors recommend the payment of a final dividend of HK1.6 cents (2009: HK2.0 cents) per share and a special dividend of HK8.8 cents per share for the year ended 31 December 2010 of, amounting to a total sum of approximately HK$177.8 million, is to be proposed for the approval of shareholders at the forthcoming annual general meeting

Closure of Register of Members

The Register of Members will be closed from Wednesday, 1 June 2011 to Thursday, 9 June 2011 (both days inclusive) and from Wednesday, 3 August 2011 to Thursday, 11 August 2011 (both days inclusive),. In order to establish entitlements to the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 31 May 2011. In order to qualify for the proposed special dividend, all transfer documents accompanied by the relevant share certificates, must be lodged with the Registrar of the Company, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Tuesday, 2 August 2011.

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 32 and in note 28 to the financial statements respectively.

Property, Plant and Equipment

Movements in the property, plant and equipment of the Group 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 28 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 2010.

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

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. Xu Chao Hui, Mr. Tang Bin and Mr. John Yang Wang 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 19 to 20 of this Annual Report.

Directors' Service Contracts

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

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

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

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

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

Management Contracts

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

Retirement Benefits Scheme

Details of the retirement benefits scheme is set out in note 32 to the financial statements.

Directors' interests in Contracts of Significance

Save as disclosed in section under "Continuing Connected Transaction" on pages 25 to 26 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 2010, 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	Interest of controlled corporation (Note 2)	378,812,000 (L)	22.15%
		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, in 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 2010.

Directors' Right to Acquire Shares or Debentures

At no time during the year ended 31 December 2010 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 2010, 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	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 controlled corporation (Note 4)	378,812,000 (L)	22.15%
		Interest of spouse (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	884,527,000 (L)	51.73%
Chu Yuet Wah	The Company	Interest of controlled corporation (Note 11)	884,527,000 (L)	51.73%
Ample Cheer Limited	The Company	Interest of controlled corporation (Note 11)	884,527,000 (L)	51.73%
Best Forth Limited	The Company	Interest of controlled corporation (Note 11)	884,527,000 (L)	51.73%

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 Mr. Tang Bin and Mr. Chen Shi Yan respectively. Mr. Tang Bin is deemed or taken to be interested in all the Shares in which Good East Management Limited is interested by virtue of the SFO.

(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

(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 aredeemed 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 wholly owned by Ample Cheer Limited, which was in turned owned as to 80% by Best Forth Limited, which was in turn owned 100% by Chu Yuet Wah, who is 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 2010.

Continuing Connected Transactions and Connected Transactions

Exempt 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 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 disclosed in the Note 33 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 29 to the financial statements.

No share options had been granted or exercised during the year ended 31 December 2010. As at 31 December 2010, 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 note 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:

	2010 %	2009 %
Turnover		
The largest customer	**4.5**	4.4
Five largest customers in aggregate	**19.8**	20.4
Purchases		
The largest supplier	**16.7**	15.2
Five largest suppliers in aggregate	**49.2**	48.7

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

Corporate Governance

Report for the corporate governance principles and practices adopted by the Company is set out on pages 15 to 18 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 RMB4,079,000 (2009: RMB80,000).

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 2010.

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 2010 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 2010 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, 28 March, 2011

Independent Auditor's Report

CCIF
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 (together "the Group") set out on pages 29 to 75, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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, 28 March 2011

Kwok Cheuk Yuen
Practising Certificate Number P02412

Consolidated Statement of Comprehensive Income

For the Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Turnover	7	**564,539**	641,361
Cost of sales		**(331,030)**	(366,755)
Gross profit		**233,509**	274,606
Other revenue and net income	8	**4,757**	3,877
Distribution costs		**(76,079)**	(82,070)
Administrative and other expenses		**(39,188)**	(38,642)
Finance costs	9	**(1)**	(1,234)
Profit before tax	10	**122,998**	156,537
Income tax	14	**(17,046)**	(22,324)
Profit for the year attributable to owners of the Company		**105,952**	134,213
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year attributable to owners of the Company		**105,952**	134,213
Earnings per share			
– Basic and diluted	16	**RMB6.2 cents**	RMB7.8 cents

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	17	**353,926**	372,380
Land use rights	18	**67,973**	49,080
Intangible assets	19	**16,452**	18,838
Deposits for the acquisition of non-current assets	20	**46,000**	17,109
Deferred tax assets	27(b)	**4,206**	1,671
		488,557	459,078
Current assets			
Inventories	22	**17,312**	22,503
Trade and other receivables	23	**171,654**	139,359
Cash and cash equivalents	24	**1,098,894**	1,054,467
		1,287,860	1,216,329
Current liabilities			
Trade and other payables	25	**109,557**	89,029
Tax payable	27(a)	**9,467**	5,940
		119,024	94,969
Net current assets		**1,168,836**	1,121,360
Total assets less current liabilities		**1,657,393**	1,580,438
Non-current liabilities			
Obligations under a finance lease	26	**–**	5
Deferred tax liabilities	27(b)	**8,816**	7,812
		8,816	7,817
Net assets		**1,648,577**	1,572,621
Capital and reserves			
Share capital	28	**17,098**	17,098
Reserves		**1,631,479**	1,555,523
Total equity attributable to owners of the Company		**1,648,577**	1,572,621

The financial statements on pages 29 to 75 were approved and authorised for issue by the board of directors on 28 March 2011 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 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Investments in subsidiaries	21	**214,786**	214,786
Current assets			
Other receivables	23	**943,040**	1,009,053
Cash and cash equivalents	24	**1,707**	84
		944,747	1,009,137
Current liabilities			
Other payables	25	**13**	13
Net current assets		**944,734**	1,009,124
Total assets less current liabilities		**1,159,520**	1,223,910
Capital and reserves			
Share capital	28	**17,098**	17,098
Reserves	28	**1,142,422**	1,206,812
Total equity		**1,159,520**	1,223,910

The financial statements on pages 29 to 75 were approved and authorised for issue by the board of directors on 28 March 2011 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 2010

	Attributable to owners of the Company							
	Share capital (note 28(b)) RMB'000	**Share premium** (note 28(c)(i)) RMB'000	**Special reserve** (note 28(c)(ii)) RMB'000	**Capital reserve** (note 28(c)(iii)) RMB'000	**Statutory surplus reserve** (note 28(c)(iv)) RMB'000	**Non-distributable reserve** (note 28(c)(v)) RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2009	17,098	929,533	(124,106)	53,000	149,109	23,752	439,953	1,488,339
Profit for the year and 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(c))	–	–	–	–	–	–	(49,931)	(49,931)
At 31 December 2009 and 1 January 2010	17,098	929,533	(124,106)	53,000	180,944	23,752	492,400	1,572,621
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	105,952	105,952
Transfers	–	–	–	–	26,289	–	(26,289)	–
Dividends approved in respect of the previous year (note 15(c))	–	–	–	–	–	–	(29,996)	(29,996)
At 31 December 2010	17,098	929,533	(124,106)	53,000	207,233	23,752	542,067	1,648,577

Consolidated Statement of Cash Flows

For the Year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Operating activities		
Profit before tax	**122,998**	156,537
Adjustments for:		
Interest income	**(3,941)**	(3,877)
Finance costs	**1**	1,234
Depreciation of property, plant and equipment	**30,621**	23,724
Amortisation of intangible assets	**2,386**	2,386
Amortisation of land use rights	**1,138**	266
Changes in working capital	**153,203**	180,270
Decrease/(increase) in inventories	**5,191**	(3,749)
Increase in trade and other receivables	**(32,295)**	(72,871)
Increase in trade and other payables	**20,528**	47,659
Cash generated from operations	**146,627**	151,309
PRC corporate income tax paid	**(15,050)**	(16,771)
Net cash generated from operating activities	**131,577**	134,538
Investing activities		
Interest received	**3,941**	3,877
Purchase of property, plant and equipment	**(12,167)**	(89,139)
Payment for acquisition of land use rights	**(2,922)**	–
Payment for deposits for the acquisition of non-current assets	**(46,000)**	–
Net cash used in investing activities	**(57,148)**	(85,262)
Financing activities		
Interest paid	**(1)**	(1,234)
Dividends paid to owners of the Company	**(29,996)**	(49,931)
Repayment of bank loans	**–**	(30,000)
Repayment of obligations under a finance lease	**(5)**	(5)
Net cash used in financing activities	**(30,002)**	(81,170)
Net increase/(decrease) in cash and cash equivalents	**44,427**	(31,894)
Cash and cash equivalents at 1 January	**1,054,467**	1,086,361
Cash and cash equivalents at 31 December	**1,098,894**	1,054,467
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,098,894**	1,054,467

Notes to the Financial Statements

For the Year ended 31 December 2010

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 4/F., P.O. box 2804, George Town, Grand Cayman, Cayman Islands and Room 2805, 28/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong respectively. 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 Company, rounded up to the nearest thousand.

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

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued certain new and revised standards, amendments and interpretations that are first effective for the current accounting period of the Company and its subsidiaries (together the "Group"). Of these, the following developments are relevant to the Group's financial statements:

HKAS 27 (Revised 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Financial instruments: Recognition and measurement – Eligible hedged items
HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (Revised 2008)	Business combinations
HK(IFRIC) Int 17	Distributions of non-cash assets to owners
HK(Int) 5	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of improvements to HKFRSs issued in 2008

Other than as further explained below regarding the impact of HKFRS 3 (Revised 2008) and HKAS 27 (Revised 2008), the adoption of these new and revised HKFRSs has had no significant financial effect on the Group's financial statements.

The principal effects of adopting the HKFRS 3 (Revised 2008) Business combinations and HKAS 27 (Revised 2008) Consolidated and separate financial statements are as follows:

HKFRS 3 (Revised 2008) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised 2008) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 Statement of cash flows, HKAS 12 Income taxes, HKAS 21 The effects of changes in foreign exchange rates, HKAS 28 Investments in associates and HKAS 31 Interests in joint ventures.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

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

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures: Transfer of financial assets[7]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (Revised)	Related party disclosures[4]
HKAS 32 (Amendment)	Classification of rights issues[2]
HKFRS 9	Financial instruments[6]
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a minimum funding requirement[4]
HK(IFRIC)-Int 19	Extinguishing financial liabilities with equity instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013
7 Effective for annual periods beginning on or after 1 July 2011

While the adoption of those changes will result in changes in the accounting policy, the changes are unlikely to have any significant impact on the Group. Further information about those changes that are expected to have a significant impact on the Group's policies is as follows:

HKFRS 9 Financial instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

– HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial instruments: Recognition and measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

– The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

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 HKFRSs, Hong Kong Accounting Standards ("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. 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 2010 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as otherwise set out in the accounting policies below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are 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 that are 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 major sources of estimation uncertainty 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 carried 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) Business combinations

Business combinations on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their acquisition-date fair values, except that:

– deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of acquisition are recognised and measured in accordance with HKAS 12 Income taxes;

– liabilities or assets relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 Employee benefits;

– liabilities or equity instruments relating to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based payment at the acquisition date; and

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current assets held for sale and discontinued operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

3. Summary of Significant Accounting Policies (Continued)

d) Business combinations (Continued)

Business combinations on or after 1 January 2010 (Continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, contingent liabilities and contingent assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Business combinations prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

3. Summary of Significant Accounting Policies (Continued)

e) Revenue recognition

Revenue is measured at the 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 profit or loss as follows:

i) Sale of goods

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue comprises the fair value of the consideration received or receivable for the sales of goods 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 on initial recognition.

f) 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 lessee

Assets held under finance leases are initially 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 expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. 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.

g) 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 carried at cost less subsequent accumulated depreciation and any subsequent accumulated impairment losses.

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

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

Buildings	3.33% or over the unexpired term of lease, if shorter
Furniture, fixtures and equipment	10%-20%
Motor vehicles	20%
Plant and machinery	10%-20%

3. Summary of Significant Accounting Policies (Continued)

g) Property, plant and equipment (Continued)

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 benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

h) Land use rights

Payment for obtaining land use rights are considered as an operating lease payment and amortised over the lease term of the right using the straight-line method.

i) 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 carried at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group separately are carried at cost less accumulated amortisation and impairment losses.

Amortisation of intangible assets is charged to profit or loss 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.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3. Summary of Significant Accounting Policies (Continued)

j) Inventories

Inventories are carried 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.

k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter carried 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 carried at cost less allowance for impairment of doubtful debts.

l) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently carried at amortised cost unless the effect of discounting would be immaterial, in which case they are carried 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 that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

3. Summary of Significant Accounting Policies (Continued)

n) Impairment of assets

i) *Impairment of other receivables*

Current and non-current receivables that are carried at cost or amortised cost are reviewed at the end of each reporting period 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 and other 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 the 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 profit or loss. 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 profit or loss.

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 the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- land use rights;
- intangible assets;
- deposits for the acquisition of non-current assets; and
- investments 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 higher of its fair value less costs to sell and its 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 amount 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 profit or loss 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, 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 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 profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, 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 end of the reporting period. 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 the end of each reporting period 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 realise 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 RMB, which is the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on monetary items are recognised in the profit or loss in the period in which they arise.

3. Summary of Significant Accounting Policies (Continued)

q) Foreign currencies (Continued)

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

iii) Termination benefits

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

3. Summary of Significant Accounting Policies (Continued)

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.

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, being the chief operating decision maker, 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 Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. 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.

a) Critical judgements in applying accounting policies

i) 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.

ii) 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 the end of each reporting period.

iii) Impairment of non-current assets (other than intangible assets and deferred tax assets)

The Group assesses whether there are any indicators of impairment for all non-current assets (other than intangible assets and deferred tax 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 2010 and 31 December 2009, no impairment of non-current assets (other than intangible assets and deferred tax assets) of the Group was recognised.

iv) 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.

v) 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 Judgements and Key Sources of Estimation Uncertainty (Continued)

b) Key sources of estimation uncertainty

i) *Estimated provision for impairment of trade and other receivables*

The Group makes provision for impairment of trade and other receivables 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 impairment allowance in the period in which such estimate has been changed.

The carrying amount of trade and other receivables as at 31 December 2010 was RMB171,654,000 (2009: RMB139,359,000) (note 23).

ii) *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 estimated 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.

The carrying amount of inventories as at 31 December 2010 was RMB17,312,000 (2009: RMB22,503,000) (note 22).

iii) *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 deductible 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 2010, the Group has recognised deferred tax assets of RMB4,206,000 (2009: RMB1,671,000) (note 27(b)). The management considers that the Group is capable to generate sufficient taxable profit from its future business operations for utilising the deductible temporary differences.

iv) *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 had distributed all its distributable profits earned before 1 January 2008, therefore, the Board of Directors of the Company ("the Board") 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 2010 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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Trade and other receivables	**171,451**	138,961	**943,040**	1,008,857
Cash and cash equivalents	**1,098,894**	1,054,467	**1,707**	84
	1,270,345	1,193,428	**944,747**	1,008,941
Financial liabilities				
Trade and other payables	**96,164**	78,841	**13**	13
Obligations under a finance lease	**5**	10	**–**	–
	96,169	78,851	**13**	13

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.

There has been no change to the Group's exposure to those kinds of risks or the manner in which if manages and measures these risks.

i) Currency risk

The Group's presentation currency and 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.

5. Financial Instruments (Continued)

b) Financial risk management objectives and policies (Continued)

i) Currency risk

A) Exposure to currency risk

The following table details the Group's and the Company's exposure at the end of the reporting period 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. The currencies giving rise to this risk are primarily United States Dollars ("USD") and Hong Kong Dollars ("HK$"). 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	
	2010		2009		**2010**	2009
	USD'000	**HK$'000**	USD'000	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalents	**6**	**3,018**	7	1,436	**1,707**	84
Trade and other payables	**–**	**(612)**	–	(989)	**(13)**	(13)
Obligations under a finance lease	**–**	**(5)**	–	(10)	**–**	–
Net exposure arising from recognised assets and liabilities	**6**	**2,401**	7	437	**1,694**	71

B) 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/HK$ 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 to which the Group has significant exposure at the end of the reporting period. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusted at the end of each reporting period for a 5% change in foreign currency rates.

A positive number below indicates an increase in profit for the year where RMB weakens by 5% against the relevant currency. For a 5% strengthening of RMB against the relevant currency, there would be an equal and opposite impact on the profit. The analysis is performed on the same basis for 2009.

The Group

	2010	2009
	RMB'000	RMB'000
Profit after tax for the year	**120**	22

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during the year.

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 obligations under a finance lease carried at fixed rates. The Group's cash flow interest rate risk relates primarily from 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 end of the reporting period.

At 31 December 2010, 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 RMB9,624,000 (2009: RMB9,527,000). Other components of consolidated equity would not change (2009: 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 end of the reporting period 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 end of the next reporting period. The analysis is performed on the same basis for 2009.

iii) Credit risk

At 31 December 2010, the Group's and the Company'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 other receivables, and cash and cash equivalents as carried in the consolidated 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 the end of the reporting period 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 to low 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 its 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 RMB1,098,894,000 at 31 December 2010 (2009: RMB1,054,467,000).

The following table details the Group's and the Company's remaining contractual maturities at the end of the reporting period for its financial liabilities. The table has been drawn up based on contractual undiscounted cash flows of financial liabilities and 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 end of the reporting period
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2010						
Trade payables	Nil	**74,991**	**–**	**–**	**74,991**	**74,991**
Other payables	Nil	**21,173**	**–**	**–**	**21,173**	**21,173**
Obligations under a finance lease	5.6	**3**	**2**	**–**	**5**	**5**
		96,167	**2**	**–**	**96,169**	**96,169**
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

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 end of the reporting period
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2010						
Other payables	Nil	**13**	**–**	**–**	**13**	**13**
2009						
Other payables	Nil	13	–	–	13	13

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 2010 and 2009 respectively 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, being the chief operating decision maker, 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. In addition, 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. Accordingly, no segment analysis by product and geographical perspectives is provided.

During 2010 and 2009, no revenue from transactions with a single external customer amounted to 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.

	2010 **RMB'000**	2009 RMB'000
Sales of pharmaceutical products	**564,539**	641,361

8. Other Revenue and Net Income

	2010 **RMB'000**	2009 RMB'000
Other revenue		
Bank interest income	**3,941**	3,877
Total interest income on financial assets not at fair value through profit or loss	**3,941**	3,877
Other net income		
Sundry income	**816**	–
	4,757	3,877

9. Finance Costs

	2010 RMB'000	2009 RMB'000
Interest on bank borrowings wholly repayable within five years	–	1,233
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	1,234

10. Profit Before Tax

	2010 RMB'000	2009 RMB'000
Profit before tax is arrived at after charging:		
Directors' emoluments (note 11)	3,378	3,342
Other staff costs		
– Contributions to defined contribution retirement benefits scheme	3,459	3,600
– Salaries, wages and other benefits	31,880	36,496
Total staff costs *#	38,717	43,438
Depreciation of property, plant and equipment *#		
– owned by the Group	30,616	23,719
– held for use under a finance lease	5	5
	30,621	23,724
Amortisation of intangible assets	2,386	2,386
Amortisation of land use rights	1,138	266
Auditors' remuneration	595	652
Exchange loss included in administrative and other expenses	27	2,099
Operating lease payments in respect of rental premises	887	896
Research and development costs *	2,248	3,428
Cost of inventories # (note 22)	331,030	366,755

* Research and development costs includes RMB1,964,000 (2009: RMB2,081,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

\# Cost of inventories includes RMB36,212,000 (2009: RMB30,227,000) relating to staff costs and depreciation which 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:

	2010				2009			
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to defined contribution retirement benefits scheme RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to defined contribution retirement benefits scheme RMB'000	Total RMB'000
Executive directors								
Lin Ou Wen	**1,019**	**248**	**42**	**1,309**	1,031	248	42	1,321
Lin Qing Ping	**680**	**248**	**40**	**968**	688	248	40	976
Xu Chao Hui	**204**	**185**	**32**	**421**	207	181	32	420
Non-executive directors								
Tang Bin	**136**	**–**	**–**	**136**	137	–	–	137
John Yang Wang	**136**	**–**	**–**	**136**	137	–	–	137
Independent non-executive directors								
Liu Jun	**136**	**–**	**–**	**136**	137	–	–	137
Lam Yat Cheong	**136**	**–**	**–**	**136**	137	–	–	137
Du Jian (appointed on 11 June 2009)	**136**	**–**	**–**	**136**	77	–	–	77
	2,583	**681**	**114**	**3,378**	2,551	677	114	3,342

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 (2009: Nil).

12. Individuals With Highest Emoluments

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

	2010	2009
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:

	2010 RMB'000	2009 RMB'000
Salaries and other benefits	968	945
Contributions to defined contribution retirement benefits scheme	43	43
	1,011	988

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

	Number of individuals 2010	2009
Emoluments bands		
Nil – HK$1,000,000 (approximately equivalent to RMB870,000 (2009: RMB880,000))	2	2

13. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company includes a loss of approximately RMB34,394,000 (2009: a profit of approximately RMB392,846,000) which has been dealt with in the financial statements of the Company.

14. Income Tax in the Consolidated Statement of Comprehensive Income

	2010 RMB'000	2009 RMB'000
Current tax – PRC corporate income tax		
Provision for the year (note 27(a))	**18,577**	20,072
Deferred taxation		
– origination and reversal of temporary differences (note 27(b))	**(2,845)**	(1,671)
– Withholding tax at 5% on the distributable profits of the PRC subsidiaries (note 27(b))	**1,314**	3,923
	(1,531)	2,252
	17,046	22,324

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 New CIT Laws 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 CIT Laws. The New CIT Laws 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 had 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 (2009: 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 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 expired on 31 December 2010.

Fuzhou Sanai, a wholly foreign owned enterprise, was located at specific economic development zones and was entitled to a preferential PRC corporate income tax rate of 15%. Pursuant to the State Council Circular on the Implementation of the Transitional Concession Policies for Corporate Income Tax (Guo Fa [2007] no. 39), enterprises eligible for preferential tax treatment shall gradually be subject to the new tax rate over a five-year transitional period until 31 December 2012. Fuzhou Sanai was subject to corporate income tax rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. Fuzhou Sanai 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 1 January 2010, the profit generated from Fuzhou Sanai was subject to an income tax rate of 11%, 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"), a PRC limited liability company, was subject to PRC corporate income tax at a rate of 25% applicable to the company on the assessable profits for the year (2009: 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 2010 (2009: Nil).

c) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2010 RMB'000	2009 RMB'000
Profit before tax	**122,998**	156,537
Notional tax on profit before tax, calculated at the rates applicable to profits in the jurisdictions concerned	**31,109**	39,883
Tax effect of non-deductible expenses	**7,624**	3,676
Tax effect of non-taxable income	**(4,366)**	(126)
Tax effect of concessionary tax rates granted to the PRC subsidiaries	**(18,434)**	(24,878)
Tax effect of unrecognised temporary differences	**(201)**	(154)
Withholding tax at 5% on the distributable profits of the PRC subsidiaries (note 27(b))	**1,314**	3,923
Actual tax expense	**17,046**	22,324

15. Dividends

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

	2010 HK$'000	2009 HK$'000
Final dividend proposed after the end of the reporting period of HK1.6 cents per share (2009: HK2.0 cents per share)	**27,356**	34,195
Special dividend proposed after the end of the reporting period of HK8.8 cents per share (2009: Nil)	**150,460**	–
	177,816	34,195

	RMB'000	RMB'000
Approximately equivalent to:		
– Final dividend	**23,183**	29,996
– Special dividend	**127,508**	–
	150,691	29,996

15. Dividends (Continued)

b) **On 28 March 2011, the Board resolved to propose a final dividend of HK1.6 cents (approximately equivalent to RMB1.4 cents) per share for the year ended 31 December 2010 and a special dividend of HK8.8 cents (approximately equivalent to RMB7.5 cents) per share to the shareholders on the register of members of the Company and is subject to the approval of the shareholders in the forthcoming Annual General Meeting of the Company. The final dividend proposed and the special dividend proposed subsequent to the reporting period have not been recognised as liabilities at the end of the reporting period.**

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

	2010	2009
	HK$'000	HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK2.0 cents per share (2009: HK$3.3 cents)	**34,195**	56,422
	RMB'000	RMB'000
Approximately equivalent to	**29,996**	49,931

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 RMB105,952,000 (2009: approximately RMB134,213,000) and the weighted average number of 1,709,772,500 ordinary shares (2009: 1,709,772,500 ordinary 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 during both years ended 31 December 2010 and 2009.

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 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 and 1 January 2010	66,646	44,389	6,796	242,240	70,000	430,071
Additions	–	52	224	11,891	–	12,167
At 31 December 2010	66,646	44,441	7,020	254,131	70,000	442,238
Accumulated depreciation						
At 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 and 1 January 2010	7,774	5,878	4,698	39,341	–	57,691
Charge for the year	2,138	4,327	899	23,257	–	30,621
At 31 December 2010	9,912	10,205	5,597	62,598	–	88,312
Carrying amount						
At 31 December 2010	56,734	34,236	1,423	191,533	70,000	353,926
At 31 December 2009	58,872	38,511	2,098	202,899	70,000	372,380

All of the Group's buildings are located on land held under medium-term leases in the PRC.

Included in the carrying amount of furniture, fixtures and equipment is an amount of RMB4,000 (2009: RMB9,000) in respect of assets held under a finance lease.

18. Land Use Rights

The Group

	RMB'000
Cost	
At 1 January 2009	12,438
Transfer (note (ii))	38,166
At 31 December 2009 and 1 January 2010	50,604
Transfer (note (ii))	17,109
Additions	2,922
At 31 December 2010	70,635
Accumulated amortisation	
At 1 January 2009	1,258
Amortisation for the year	266
At 31 December 2009 and 1 January 2010	1,524
Amortisation for the year	1,138
At 31 December 2010	2,662
Carrying amount	
At 31 December 2010	67,973
At 31 December 2009	49,080

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

(ii) In relation to the land use rights deposits of RMB38,166,000 and RMB17,109,000, paid by the Group during the years ended 31 December 2007 and 2008, the Group obtained the land use rights title in the years ended 31 December 2009 and 2010 respectively and transferred the deposits to land use rights accordingly.

19. Intangible Assets

The Group

	Patents RMB'000	Product development costs RMB'000	Total RMB'000
Cost			
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	16,230	7,977	24,207
Accumulated amortisation			
At 1 January 2009	1,783	1,200	2,983
Charge for the year	1,426	960	2,386
At 31 December 2009 and 1 January 2010	3,209	2,160	5,369
Charge for the year	1,426	960	2,386
At 31 December 2010	4,635	3,120	7,755
Carrying amount			
At 31 December 2010	11,595	4,857	16,452
At 31 December 2009	13,021	5,817	18,838

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. Deposits for the Acquisition of Non-Current Assets

The Group

	Deposits for the acquisition of			
	Plant and machinery RMB'000	Construction in progress RMB'000	Land use rights RMB'000	Total RMB'000
At 1 January 2009	–	–	55,275	55,275
Transfer (note 18)	–	–	(38,166)	(38,166)
At 31 December 2009 and 1 January 2010	–	–	17,109	17,109
Transfer (note 18)	–	–	(17,109)	(17,109)
Additions	16,000	30,000	–	46,000
At 31 December 2010	16,000	30,000	–	46,000

21. Investments in Subsidiaries

	The Company	
	2010	2009
	RMB'000	RMB'000
Unlisted shares, at cost	**214,786**	214,786

Details of the Company's subsidiaries at 31 December 2010 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	10,000 ordinary shares of US$1 each	100%	–	Investment holding
Indirect subsidiaries:					
Wuyi International Pharmaceutical (Hong Kong) Company Limited	Hong Kong	1 ordinary share of HK$1 each	–	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	
	2010	2009
	RMB'000	RMB'000
Raw materials	**4,609**	8,149
Work in progress	**1,347**	1,262
Finished goods	**11,290**	12,993
Merchandise	**66**	99
	17,312	22,503

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

	The Group	
	2010	2009
	RMB'000	RMB'000
Carrying amount of inventories sold (note 10)	**331,030**	366,755

23. Trade and Other Receivables

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**171,451**	138,961	**–**	–
Amount due from a subsidiary (note (ii))	**–**	–	**943,040**	1,008,857
Loans and receivables	**171,451**	138,961	**943,040**	1,008,857
Deposits and prepayments	**203**	398	**–**	196
	171,654	139,359	**943,040**	1,009,053

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 RMB201,000 (2009: RMB137,000) and nil (2009: 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 2010 and 2009, the amount due from a subsidiary is unsecured, interest-free and repayable on demand.

(iii) The Group normally grants credit terms of 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 end of the reporting period:

	The Group	
	2010	2009
	RMB'000	RMB'000
Age		
0 to 30 days	**87,121**	70,414
31 to 60 days	**84,330**	68,547
	171,451	138,961

(iv) Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

(v) There is no trade and other receivables that are past due or impaired as at 31 December 2010 and 2009.

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 0.01% to 0.36% (2009: 0.1% to 0.36%) per annum.

25. Trade and Other Payables

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables				
– a related company *	**1,152**	1,978	**–**	–
– others	**73,839**	53,272	**–**	–
	74,991	55,250	**–**	–
Payroll and welfare payables	**5,654**	4,047	**–**	–
Payable for acquisition of property, plant and equipment	**3,500**	8,650	**–**	–
Accrued charges	**6,925**	6,784	**13**	13
Other payables	**5,094**	4,110	**–**	–
Obligations under a finance lease (note 26)	**5**	5	**–**	–
Financial liabilities measured at amortised cost	**96,169**	78,846	**13**	13
Other PRC tax payables	**13,388**	10,183	**–**	–
	109,557	89,029	**13**	13

* 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 ageing analysis of trade payables is as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Age		
0 to 30 days	**41,284**	25,604
31 to 60 days	**33,707**	29,646
	74,991	55,250

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

26. Obligations Under a Finance Lease

At 31 December 2010, the Group had obligations under a finance lease repayable as follows:

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under a finance lease:				
Within 1 year	**5**	6	**5**	5
After 1 year but within 2 years	**–**	5	**–**	5
	5	11	**5**	10
Less: Total future finance charges	**–**	(1)		
Present value of lease obligations	**5**	10		
Less: Amount due within one year shown under trade and other payables (note 25)			**(5)**	(5)
Amount due after one year			**–**	5

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% (2009: 5.6%) per annum. The Group has an option to purchase the leased asset at the expiry of the lease period.

27. Income Tax in the Consolidated Statement of Financial Position

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

	The Group	
	2010	2009
	RMB'000	RMB'000
Provision for the PRC corporate income tax for the year	**18,577**	20,072
PRC corporate income tax paid	**(9,110)**	(14,132)
	9,467	5,940

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

b) Deferred tax liabilities/(assets) recognised:

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

	The Group				
	Deferred product development costs and patents	Related depreciation in excess of depreciation allowance	Subtotal	Withholding tax on distributable profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	3,889	–	3,889	–	3,889
(Credited)/debited to the consolidated statement of comprehensive income for the year (note 14)	–	(1,671)	(1,671)	3,923	2,252
At 31 December 2009 and 1 January 2010	3,889	(1,671)	2,218	3,923	6,141
(Credited)/debited to the consolidated statement of comprehensive income for the year (note 14)	(310)	(2,535)	(2,845)	1,314	(1,531)
At 31 December 2010	3,579	(4,206)	(627)	5,237	4,610

Pursuant to the New CIT Laws, a 10% withholding tax is levied on dividends declared and paid to foreign investors from foreign investment enterprises 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 dividends 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 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 end of the reporting period. 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	
	2010	2009
	RMB'000	RMB'000
Deferred tax assets	**(4,206)**	(1,671)
Deferred tax liabilities	**8,816**	7,812
	4,610	6,141

c) The Group and the Company had no significant unrecognised deferred tax assets or liabilities at 31 December 2010 and 2009.

28. 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. Details 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 28(b))	Share premium (note 28(c)(i))	(Accumulated losses)/ retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	17,098	929,533	(65,636)	880,995
Profit for the year and 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 and 1 January 2010	17,098	929,533	277,279	1,223,910
Loss for the year and total comprehensive income for the year	–	–	(34,394)	(34,394)
Dividends approved in respect of the previous year (note 15(c))	–	–	(29,996)	(29,996)
At 31 December 2010	17,098	929,533	212,889	1,159,520

b) Share capital

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	3,200,000,000	32,000
Issued and fully paid:		
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	1,709,772,500	17,098

	2010	2009
	RMB'000	RMB'000
Shown in the consolidated and company statements of financial position at 31 December	**17,098**	17,098

28. 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 appropriate 10% of their profit after tax to the reserve until such reserve reaches 50% of the registered capital and thereafter any further appropriation is optional. 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.

28. 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 2010, the Company's reserves available for distribution to shareholders amounted to approximately RMB1,142,422,000 (2009: RMB1,206,812,000) 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 (2009: RMB929,533,000), and retained profits of RMB212,889,000 (2009: RMB277,279,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off 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 capital structure of the Group consists of debt, which includes trade and other payables and obligations under a finance lease; and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a semi-annual basis. During 2010, the Group's strategy was unchanged from 2009. The directors review the capital structure by considering 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 2010 and 2009 was as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current liabilities				
Trade and other payables	**109,557**	89,029	**13**	13
Non-current liabilities				
Obligations under a finance lease	**–**	5	**–**	–
Total debt	**109,557**	89,034	**13**	13
Total equity	**1,648,577**	1,572,621	**1,159,520**	1,223,910
Debt-to-equity ratio	**6.65%**	5.66%	**0%**	0%

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

29. 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) or 9.6% of issued share capital of the Company, 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 2010, no options were granted under the Scheme.

30. Operating Lease Commitments

The Group as lessee

At the end of the reporting period, 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:

	2010	2009
	RMB'000	RMB'000
Within one year	**901**	765
In the second to fifth year inclusive	**584**	1,146
	1,485	1,911

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.

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

31. Capital Commitments

	The Group	
	2010	2009
	RMB'000	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
– property, plant and equipment	**47,200**	5,600
	55,300	16,622

32. Retirement Benefits Schemes

Defined contribution 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.

33. 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 end of the reporting period.

			Transactions for the year ended 31 December		Balance as at 31 December 2010		Balance as at 31 December 2009	
Name of related party	Relationship with related party	Nature of transaction	2010	2009	Trade payables	Other payables	Trade payables	Other payables
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fuzhou Hongyu	A company controlled by Mr. Lin Ou Wen	Purchase of packaging materials	5,942	6,539	1,152	–	1,978	–
Mr. Lin Qin Xiang	Brother of Mr. Lin Ou Wen and Mr. Lin Qing Ping*	Property rentals paid	204	204	–	204	–	816

* 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.

Five-Year Financial Summary

RESULTS

	Year ended 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	541,320	660,661	630,326	641,361	**564,539**
Cost of sales	(272,827)	(326,453)	(311,381)	(366,755)	**(331,030)**
Gross profit	268,493	334,208	318,945	274,606	**233,509**
Other revenue and net income	2,233	19,850	7,937	3,877	**4,757**
Distribution costs	(11,679)	(12,265)	(50,176)	(82,070)	**(76,079)**
Administrative and other expenses	(38,432)	(66,972)	(37,277)	(38,642)	**(39,188)**
Fair value change on convertible bonds	(63,890)	–	–	–	**–**
Finance costs	(2,704)	(2,535)	(2,377)	(1,234)	**(1)**
Profit before tax	154,021	272,286	237,052	156,537	**122,998**
Income tax	(34,630)	(170)	(28,166)	(22,324)	**(17,046)**
Profit for the year	119,391	272,116	208,886	134,213	**105,952**
Attributable to:					
Owners of the Company	119,774	272,116	208,886	134,213	**105,952**
Non-controlling interests	(383)	–	–	–	**–**
	119,391	272,116	208,886	134,213	**105,952**
Dividends paid	84,120	–	58,010	49,931	**29,996**
Earnings per share					
– Basic and diluted	RMB11.0 cents	RMB16.3 cents	RMB12.2 cents	RMB7.8 cents	**RMB6.2 cents**

ASSETS AND LIABILITIES

	As at 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	527,216	1,460,763	1,566,247	1,675,407	**1,776,417**
Total liabilities	(332,958)	(123,300)	(77,908)	(102,786)	**(127,840)**
Net assets	194,258	1,337,463	1,488,339	1,572,621	**1,648,577**