武夷药业
Wuyi Pharmaceutical

Wuyi International Pharmaceutical Company Limited

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

INTERIM REPORT 2011

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
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Wanchai, Hong Kong

STOCK CODE

1889

WEBSITE

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

INTRODUCTION

We have reviewed the interim financial statements set out on pages 3 to 14, which comprises the condensed consolidated statement of financial position of Wuyi International Pharmaceutical Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2011 and the related condensed consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six-month period then ended and certain explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements as at 30 June 2011 are not prepared, in all material respects, in accordance with HKAS 34.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 26 August 2011

Kwok Cheuk Yuen
Practising Certificate Number P02412

Condensed Consolidated Statement of Comprehensive Income

For the six-month period ended 30 June 2011

	Notes	Six months ended 30 June 2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Turnover		**268,709**	227,000
Cost of sales		**(168,351)**	(136,503)
Gross profit		**100,358**	90,497
Other revenue and net income		**2,822**	2,005
Distribution costs		**(32,211)**	(36,225)
Administrative and other expenses		**(21,591)**	(16,217)
Profit before tax	5	**49,378**	40,060
Income tax	6	**(12,644)**	(4,734)
Profit for the period attributable to owners of the Company		**36,734**	35,326
Other comprehensive income for the period		**–**	–
Total comprehensive income for the period		**36,734**	35,326
Total comprehensive income for the period attributable to owners of the Company		**36,734**	35,326
Earnings per share – Basic and diluted	8	**RMB2.1 cents**	RMB2.1 cents

Condensed Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	**30 June 2011 RMB'000 (Unaudited)**	31 December 2010 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**338,058**	353,926
Land use rights		**67,270**	67,973
Intangible assets		**15,259**	16,452
Deposit for the acquisition of non-current assets		**51,000**	46,000
Deferred tax assets		**5,516**	4,206
		477,103	488,557
Current assets			
Inventories		**17,981**	17,312
Trade and other receivables	10	**111,261**	171,654
Cash and cash equivalents		**1,145,543**	1,098,894
		1,274,785	1,287,860
Current liabilities			
Trade and other payables	11	**202,705**	109,557
Tax payable		**5,332**	9,467
		208,037	119,024
Net current assets		**1,066,748**	1,168,836
Total assets less current liabilities		**1,543,851**	1,657,393
Non-current liabilities			
Deferred tax liabilities		**9,231**	8,816
Net assets		**1,534,620**	1,648,577
Capital and reserves			
Share capital	12	**17,098**	17,098
Reserves		**1,517,522**	1,631,479
Total equity		**1,534,620**	1,648,577

The financial statements on pages 3 to 14 were approved and authorised for issue by the board of directors on 26 August 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

Condensed Consolidated Statement of Changes in Equity

For the six-month period ended 30 June 2011

	Attributable to owners of the Company							
	Share capital RMB'000	**Share premium** RMB'000	**Special reserve** RMB'000	**Capital reserve** RMB'000	**Statutory surplus reserve** RMB'000	**Non-distributable reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2010 (audited)	17,098	929,533	(124,106)	53,000	180,944	23,752	492,400	1,572,621
Profit and total comprehensive income for the period	–	–	–	–	–	–	35,326	35,326
Dividends approved in respect of the previous year (note 7)	–	–	–	–		–	(29,996)	(29,996)
At 30 June 2010 (unaudited)	17,098	929,533	(124,106)	53,000	180,944	23,752	497,730	1,577,951
At 1 January 2011 (audited)	**17,098**	**929,533**	**(124,106)**	**53,000**	**207,233**	**23,752**	**542,067**	**1,648,577**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**36,734**	**36,734**
Dividends approved in respect of the previous year (note 7)	**–**	**–**	**–**	**–**		**–**	**(150,691)**	**(150,691)**
At 30 June 2011 (unaudited)	**17,098**	**929,533**	**(124,106)**	**53,000**	**207,233**	**23,752**	**428,110**	**1,534,620**

Condensed Consolidated Statement of Cash Flows

For the six-month period ended 30 June 2011

	Six months ended 30 June	
	2011 **RMB'000** **(Unaudited)**	2010 RMB'000 (Unaudited)
Cash generated from operations	**90,040**	73,180
PRC enterprise income tax paid	**(17,674)**	(9,604)
Net cash generated from operating activities	**72,366**	63,576
Net cash used in investing activities	**(2,540)**	(1,264)
Net cash used in financing activities	**(23,177)**	(29,998)
Net increase in cash and cash equivalents	**46,649**	32,314
Cash and cash equivalents at 1 January	**1,098,894**	1,054,467
Cash and cash equivalents at 30 June	**1,145,543**	1,086,781
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,145,543**	1,086,781

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 place of business of the Company are disclosed in the "Corporate Information" section of the interim report. The principal activities of its principal subsidiaries are the development, manufacturing, marketing and sales of pharmaceutical products.

The unaudited interim financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Company, rounded up to the nearest thousand.

2. BASIS OF PREPARATION

The unaudited interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). It was authorised for issue on 26 August 2011.

The unaudited interim financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010 except for those as described in note 3 below.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

The HKICPA has issued certain new and revised standards, amendments and interpretation 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:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (Revised)	Related party disclosures
HKAS 32 (Amendments)	Classification of right issues
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a minimum funding requirement
HK(IFRIC)-Int 19	Extinguishing financial liabilities with equity instruments

The adoption of the above new and revised HKFRSs has had no significant financial effect on the Group's financial statements.

3. 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.

HKAS 1 (Amendments)	Presentation of items of other comprehensive income [4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets [2]
HKAS 19 (Revised)	Employee benefits [3]
HKAS 27 (Revised)	Separate financial statements [3]
HKAS 28 (Revised)	Investments in associates and joint ventures [3]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters [1]
HKFRS 7 (Amendments)	Disclosures: Transfer of financial assets [1]
HKFRS 9	Financial instruments [3]
HKFRS 10	Consolidated financial statements [3]
HKFRS 11	Joint arrangements [3]
HKFRS 12	Disclosure of interests in other entities [3]
HKFRS 13	Fair value measurement [3]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 January 2013
[4] Effective for annual periods beginning on or after 1 July 2012

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.

4. 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 the six-month period ended 2011 and 2010, no revenue from transactions with a single external customer accounted for 10% or more of the Group's total revenue.

5. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):

	Six months ended June 30	
	2011 **RMB'000** **(Unaudited)**	2010 RMB'000 (Unaudited)
a) Staff costs *#		
Directors' emoluments	**1,542**	1,604
Other staff retirement benefits scheme contributions	**1,753**	2,192
Other staff costs	**14,255**	12,903
	17,550	16,699
b) Other items		
Depreciation of property, plant and equipment *#		
– owned by the Group	**15,884**	14,956
– held for use under a finance lease	**2**	2
	15,886	14,958
Amortisation of intangible assets	**1,193**	1,193
Amortisation of land use rights	**703**	133
Exchange gain included in other revenue	**(344)**	(45)
Operating lease payments in respect of rented premises	**448**	419
Research and development cost*	**891**	874
Cost of inventories#	**168,351**	136,503
Bank interest income	**(2,478)**	(1,960)

Cost of inventories includes RMB17,554,000 (six-month period ended 30 June 2010: RMB16,954,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

* Research and development costs includes RMB871,000 (six-month period ended 30 June 2010: RMB822,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

6. INCOME TAX

	Six months ended June 30	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Current tax-PRC corporate income tax – Provision for the period	**13,539**	5,994
Deferred tax – Current period	**(895)**	(1,260)
	12,644	4,734

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 Corporate Income Tax Laws of the PRC (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 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 has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

Pursuant to the Income Tax Law for the Foreign Investment Enterprises and Foreign Enterprises in the PRC, Fujian Sanai Pharmaceutical Co., Ltd. ("Fujian Sanai") and Fuzhou Sanai Pharmaceutical Co., Ltd. ("Fuzhou Sanai"), which qualified as Production Enterprises during the year 2006 and 2008 respectively, shall be entitled to exemption from PRC corporate income tax for two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC corporate income tax for the following three years.

Fujian Sanai, a wholly foreign owned enterprise, was subject to PRC corporate income tax at a rate of 25% applicable to the company on the assessable profits for the period (six-month period ended 30 June 2010: 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 the 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% in 2010 and 12% in 2011, being half of the corporate income tax rate applicable. Such tax exemption will expire on 31 December 2012.

Fujian Sanai Pharmaceutical Trading Co., Limited, 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 period (six-month period ended 30 June 2010: 25%).

6. INCOME TAX (continued)

b) No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong for the six-month period ended 30 June 2011 (six-month period ended 30 June 2010: Nil).

c) The Group had no significant unprovided deferred tax assets or liabilities at 30 June 2011 and 2010.

7. DIVIDENDS

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

	Six months ended June 30	
	2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Final dividend in respect of the previous financial year, approved and paid during the interim period of HK1.6 cents per share (six-month period ended 30 June 2010: HK2.0 cents per share)	**27,356**	34,195
	RMB'000	RMB'000
Approximately equivalent to	**23,183**	29,996
	HK$'000 (Unaudited)	HK$'000 (Unaudited)
Special dividend approved during the interim period of HK$8.8 cents per share (six-month period ended 30 June 2010: NIL)	**150,460**	–
	RMB'000	RMB'000
Approximately equivalent to	**127,508**	–

The directors do not recommend payment of interim dividend for the six-month period ended 30 June 2011 (six-month period ended 30 June 2010: HK$Nil).

8. EARNINGS PER SHARE

a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period attributable to owners of the Company of approximately RMB36,734,000 (six-month period ended 30 June 2010: RMB35,326,000) and the weighted average number of 1,709,772,500 ordinary shares (six-month period ended 30 June 2010: 1,709,772,500 ordinary shares) in issue during the period.

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 periods ended 30 June 2011 and 2010.

9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2011, the Group acquired property, plant and equipment with a cost of approximately RMB18,000 (six-month period ended 30 June 2010: RMB302,000).

10. TRADE AND OTHER RECEIVABLES

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Trade receivables	**111,013**	171,451
Loan and receivables	**111,013**	171,451
Deposits and prepayments	**248**	203
	111,261	171,654

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

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Age		
0 to 30 days	**56,397**	87,121
31 to 60 days	**54,616**	84,330
	111,013	171,451

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.

There is no trade and other receivables that are past due or impaired as at 30 June 2011 and 31 December 2010.

11. TRADE AND OTHER PAYABLES

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Trade payables		
– a related company *	**800**	1,152
– others	**54,307**	73,839
	55,107	74,991
Payroll and welfare payables	**1,168**	5,654
Payable for acquisition of property, plant and equipment	**–**	3,500
Accrued charges	**5,001**	6,925
Dividend payable	**127,519**	–
Other payables	**5,168**	5,094
Obligations under a finance lease	**2**	5
Financial liabilities measured at amortised cost	**193,965**	96,169
Other PRC tax payables	**8,740**	13,388
	202,705	109,557

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

The ageing analysis of trade payables is as follows:

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Age		
0 to 30 days	**27,713**	41,284
31 to 60 days	**27,394**	33,707
	55,107	74,991

12. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2010, 31 December 2010, 1 January 2011 and 30 June 2011	3,200,000,000	32,000
Issued and fully paid:		
At 1 January 2010, 31 December 2010, 1 January 2011 and 30 June 2011	1,709,772,500	17,098

12. SHARE CAPITAL (continued)

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Shown in the condensed consolidated statement of financial position at 30 June 2011 and 31 December 2010	**17,098**	17,098

13. CAPITAL COMMITMENTS

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of		
– intangible assets	**8,100**	8,100
– property, plant and equipment	**59,200**	47,200
	67,300	55,300

14. 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.

			Six months ended 30 June		Balance as at 30 June 2011 (unaudited)		Balance as at 31 December 2010 (audited)	
Name of related party	Relationship with related party	Nature of transaction	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)	Trade payables RMB'000	Other payables RMB'000	Trade payables RMB'000	Other payables RMB'000
Fuzhou Hongyu	A company controlled by Mr. Lin Ou Wen*	Purchase of packaging materials	**2,135**	3,548	**800**	**-**	1,152	–
Mr. Lin Qin Xiang	Brother of Mr. Lin Ou Wen and Mr. Lin Qing Ping*	Property rentals paid	**102**	102	**-**	**306**	–	204

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

BUSINESS REVIEW

Reviewing the first half of 2011, the Chinese government continued its aim at reforming of the domestic pharmaceutical industry for its long term development. A number of related measures, guidelines and quality related requirements have been promulgated and regulations of the industry have been further strengthened. The government's examination and approval process on the manufacturing of medicines have also been tightened. On the other hand, the State has frequently demanded pharmaceutical enterprises to lower medicine prices since 2010, the overall prices of medicines dropped significantly as the primary comprehensive reform has gained certain progress. Meanwhile, the NDRC issued the "Notice of Adjustment on the Maximum Retail Price of Certain Pharmaceuticals Related to Antibiotics and Cardiovascular Drugs" 《關於調整部分抗微生物類和循環系統類藥品最高零售價格的通知》on 28 March 2011, which stipulated that the maximum retail prices of major antibiotics and medicines for long term use be reduced by more than 20% on average. While the tendering procurement of national drugs was being conducted intensively, market competition has also become increasingly intensified. In such an extremely challenging business environment, Wuyi Pharmaceutical continued to focus on consolidating and deepening its existing business during the first half of the year and dedicated to the steady and balanced development of the Group. However, product prices of the Group must undergo adjustments according to market competition so as to maintain certain market share of the Group. The gross profit of the products was also inevitably affected.

In the face of the multiple challenges arisen from the State policies and market pressure, the Group adjusted the price of 5 products in the first half of the year, including N(2)-L-Alanyl-L-Glutamine Injectible, Lincomycin Hydrochloride Injectible, Alginic Sodium Diester and Sodium Chloride Injectible, Xiangdan Injectibles and Lurong Koufuye. In comparison to the average pricing in the previous year, the prices were scaled down by approximately 3.3% to 17.3%. However, such adjustment was still below the average price reduction of the national retail drugs. Therefore, the overall gross profit margin has decreased slightly.

In the first half of the year, the board of directors endeavored to maintain steady development of the Group's business so the operation and financial position of the Group have remained in good shape. For the six months ended 30 June 2011, the Group has achieved turnover of approximately RMB268.7 million, representing an 18.4% increase from the same period of last year (30 June 2010: RMB227.0 million). The overall gross profit was approximately RMB100.4 million, representing a 10.9% increase from the same period of last year. The gross profit margin was approximately 37.4%, representing a 2.5% decrease from the same period of last year. Profits attributable to owners amounted to RMB36.7 million approximately, representing a slight increase of 4.0% from the same period of last year (30 June 2010: RMB35.3 million). The board of directors does not recommend payment of interim dividend for 2011.

1. Development of Major Products

i. Perilla Oil Capsule

Perilla Oil Capsule is a key product of the Group and can effectively control hyperlipidemia. Because of its excellent efficacy, the product has been very popular in the market since its launch 3 years ago. Perilla Oil Capsule was listed in the medical insurance directory of Fujian Province of the PRC in 2009. It has obtained approval from the authorities in Shanxi Province, Inner Mongolia and Xinjiang for listing in their medical insurance directory in 2010. Subsidiaries of the Group are now actively applying for the approval from the authorities in Ningxia province and Yunnan province for listing in their medical insurance directory. Same as always, the Group has continued to place advertisements in televisions and journals so as to promote the popularity of the Group and the quality of products. On the other hand, the Group has actively organized academic promotional seminars, new medicine promotional seminars and dosage instruction in hospitals for introducing the outstanding efficacy of the medicine. As a result, sales of the product have become increasingly steady during the period. For the six months ended 30 June 2011, the product has realized turnover of approximately RMB22.8 million, or 8.5% of the total turnover of the Group during the period. The gross profit margin has slightly decreased from the average annual rate of 62.5% last year to 61.7% this year. The slight decrease of the gross profit margin of the product was mainly because the packaging has changed from 60 capsules to 32 capsules since the second half of last year, which drove up packaging cost.

ii. Omeprazole Enteric-Coated Capsules

The Group's new product, Omeprazole Enteric-Coated Capsules, has passed the production and sales approval by the State Food and Drug Administration of the PRC ("SFDA") and officially entered the market in June this year. The product is specifically for inhibiting gastric acid secretion and helicobacter pylori reflux. The Group mainly utilized its nationwide sales network, including utilizing rural and community markets for product distribution and securing market share. The product has been launched into the market in June, of which sales in the first month was satisfactory with turnover amounted to RMB800,000 approximately, representing 0.3% of the total turnover of the Group during the period. The gross profit margin even reached approximately 60.2%.

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

The sales volume and price of N(2)-L Alanyl-LGlutamine Injectible (a parenteral nutrition supplement specifically for severe patients) were directly affected by generic products produced by some other manufacturers as the monitoring period of the product has expired. Nevertheless, competition from generic drugs in the market has been alleviated significantly. During the period the Group has also performed a series of sales strategies, including developing sales channels for the products and downward adjusting the product price appropriately to cope with market competition. Besides, the product has gained good reputation in the market, which helped in maintaining a stable sales performance. Sales revenue of approximately RMB30.7 million was recorded, representing a slight increase of approximately 17.6% from the same period in last year.

iv. Other Products

Xiangdan Injectible (specifically for cardiovascular and cerebrovascular diseases) is another popular product of the Group. It has won a considerable share in the rural market with the advantages of outstanding efficacy and reasonable price. During the period, the Group continued to vigorously promote it in the rural market and hospitals. Appropriate price adjustments will also be conducted in response to market competition.

Another western medicine product of the Company, Netilmicin Sulfate and Glucose Injectible has ceased production since last year because of unstable product quality. During the period, the Group still conducted inspection on it although production was discontinued.

v. Development of New Medicines

In the first half of 2011, the Group continued to actively engage in the development of new medicines, including conducting new research on Perilla Oil Capsule with Fujian University's Faculty of Medicine. Experts are now carrying out indication research on that project and have found new efficacies of the medicine such as softening of blood vessels and protection of liver function, which are breakthrough discoveries.

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 which was still under process during the period. The new anti-hepatitis Compound Drug Liver & Gall Bladder Tablets co-developed has completed toxicity test and entered into the stage of efficacy testing.

Another new product of the Company, Pazufloxacin Mesilate Injectible, is specifically for bronchitis, emphysema, bronchial asthma, tuberculosis, pneumonia, pulmonaryc cyst and renal infection. Due to stricter approval requirement from the mainland government authorities in the past two years, our new product Pazufloxacin Mesilate Injectible was still undergoing approval procedures in the first half of the year.

vi. 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 period. As there was a decrease in sales staff and products sold through the agent were limited, turnover of more than RMB6.5 million was generated, representing approximately 2.4% of the total turnover for the period.

2. Sales Network and Marketing

The Group's sales network covers 20 key provinces, cities, autonomous regions and municipalities around the country, mainly covering the more affluent coastal cities and provinces of the eastern region and the northeastern region of China. The number of distributors for the Group has reached to 62 during the year. In comparison with the same period of last year, Sinopharm Holding Taizhou Co., Ltd. and Nanjing Pharmaceutical Holding Co., Ltd. were newly added distributors. The Group also continued to aggressively exploit the market in rural areas, generating sale revenue of RMB25.5 million from that market during the first half of 2011, which represented approximately 9.5% of the total sales revenue. While the Group is dedicated to maintain the existing sales network, it will further explore the rural market and expand the overall sales channels of the Group.

To boost the brand awareness of the product, the Group promoted its brand image and product quality through television advertisements. On the other hand, the Group also introduced the unique curativeness of the products via academic and new product promotion activities as well as medicine fairs.

OUTLOOK AND FUTURE DEVELOPMENT

In the first half of 2011, in order to establish a new primary medical mechanism to solve the problem of inadequate and overly expensive medical services for the public, the Chinese government continued to implement a series of policies for the medical reform so as to foster the establishment and improvement of primary medical facilities and basic medication system of medical insurance. Looking forward to the second half year, although the Group expects that the intensity of the medical reform policies will be slowed down, the whole industry will still face a number of challenges.

Since 28 March 2011, the SFDA has officially implemented the Administrative Measures Governing the Production Quality of Pharmaceutical Products (2010 Revision) (the "New GMP"), which imposed more specific stipulations on pharmaceutical enterprises in relation to the indicators of medicine R&D and production facilities. The implementation of the New GMP will urge the pharmaceutical enterprises to stop using the backward production capacity. In the long run, those small size pharmaceutical enterprises will be gradually phased out, which is favorable for the integration of the entire pharmaceutical industry and the enhancement of the centralization of the pharmaceutical products market. But in the short term, the production cost of pharmaceutical enterprises will be under pressure.

On 5 May 2011, the Ministry of Commerce published "The Outline for the Development of Pharmaceutical Distribution Industry in 2011-2015", encouraging pharmaceutical enterprises to reinforce themselves through acquisitions and mergers, custodies, equity participation and stake controlling so as to achieve formalization, intensification and international operation. It is hoped that in 2015, there will be 1 to 3 large sized nationwide pharmaceutical commercial groups with more than RMB100 billion in turnover, as well as 20 regional pharmaceutical enterprises with over RMB10 billion in annual turnover. The restructuring of the pharmaceutical industry will be beneficial to the complementation of advantages of the entire industry in the long term and raise the threshold of medicine production. As a result, the industry will tend to be more specialized and internationalized. Nevertheless, competitions within the industry will be intensified amid gradual concentration of the industry, which will generate more pressure to the development of small and medium sized pharmaceutical enterprises.

Besides, in the first half of 2011, Fujian, Sichuan and Anhui provinces have adopted a new tendering model for provincial pharmaceutical products, which has driven down medicine price significantly. Along with the fact that more and more provinces have implemented the new tendering model, medicine price of different pharmaceutical enterprises will be further suppressed and the gross profit margin of products will decrease, which will bring even more uncertainties to the prospects of the development of pharmaceutical enterprises.

In view of this, the Group will continue to adopt a steady development strategy in actively expanding sales channels, grasping development opportunities of primary medical services and sustaining the in-depth exploration of markets of rural areas and city communities so as to remedy the impact of the State policies on the Group, increase sales revenues of the Group and strive for more stable annual business results.

1. Establish new factory for capacity expansion

To cope with demand for medicine in the future and match up with the new requirements in respect of medicine production by the New GMP of the State, the Group planned to establish a new factory for capacity expansion in Fujian Haixi Commercial Trading Development Zone（福建海西工貿開發區）. The construction is expected to complete at the end of 2012 or beginning of 2013 and operation will commence henceforth with the expected maximum production capacity increasing more than three times after the capacity expansion. A new office building will also commence construction in the coming year with scheduled completion in 2012 to cope with the increasing need for office arisen from its business expansion.

2. Promote new products and enhance product sales

In the second half of this year, the Group will focus on promoting Omeprazole Enteric-Coated Capsules, which was launched in the market in June this year, according to the tendering progress of pharmaceutical products of different provinces and cities. The Group will also promote the extensive uses of the product in curing diseases such as intestines and stomach ulcers by means of TV commercials and new medicine promotional seminars, etc. so as to acquire more market share of the product in rural areas. It is hoped that new income sources can be generated for the Group as a result.

3. Aggressively expanding its sales network and increase market penetration

The Group will continue to make use of the nationwide distribution network of Jointown Pharmaceutical Group Co., Ltd. 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 network has extensively covered the rural market. We will strive to increase penetration in the community and rural markets in the future, with focus on 2A and 2B grade county hospitals and community hospitals.

The Group will make use of its solid financial strength to cope with the severe challenges calmly and with prudence as well as furthering the promotion of the Company's brand name and product quality, so as to maintain sustainable and optimal development of the enterprise while striving for maximum return for the shareholders.

FINANCIAL REVIEW

1. Turnover

During the period under review, the Group's turnover recorded approximately RMB268.7 million (30 June 2010: approximately RMB227.0 million), representing an increase of approximately 18.4% as compared to the same period last year. Although prices of some products were forced to be adjusted downward because the Chinese government continued to pinpoint at the reform and long term development of the domestic pharmaceutical industry, the overall operating situation of the Group has been improved through the driving force of the sales promotion in rural areas and the development of 2A and 2B grade county hospitals and community hospitals. As a result, sales revenues increased as compared to the same period last year.

Turnover for the first half of the year was still dominated by Western medicines, with a turnover of approximately RMB136.8 million, or approximately 50.9% of the overall turnover, representing a increase of approximately 22.8% over the same period of last year (30 June 2010: approximately RMB111.4 million, representing approximately 49.1% of the overall turnover). Turnover of the Modern Chinese medicines amounted to approximately RMB125.4 million, representing approximately 46.7% of the overall turnover, an increase of approximately 16.5% over the same period of last year (30 June 2010: approximately RMB107.6 million, representing approximately 47.4% of the overall turnover). Nevertheless, as the SFDA has from time to time imposed new restriction and quality related requirements on various aspects of Chinese medicine injection, the gap between the turnover of Western medicines and Modern Chinese medicines has begun to be widened despite the improvement of the overall operating situation of the Group and the fact that the sales revenue of Modern Chinese medicines has again increased as compared with the same period of last year. In addition, the newly added pharmaceutical trading revenue in the second half of 2008 recorded a turnover of approximately RMB6.5 million, representing approximately 2.4% of total turnover (30 June 2010: approximately RMB8.0 million, representing approximately 3.5% of the overall turnover), a decrease of approximately 18.8% over the same period of last year.

Although our key product, Perilla Oil Capsule, has obtained approval from authorities in Fujian, Shanxi, Inner Mongolia and Xinjiang for listing in the medical insurance directory since August 2008 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 period amounted to approximately RMB22.8 million, representing approximately 8.5% of the overall turnover, a slight decrease of approximately 6.2% over last year (30 June 2010: approximately RMB24.3 million, representing approximately 10.7% of the overall turnover). In addition, our new product, Omeprazole Enteric-Coated Capsule, obtained the approval for production and sales from SFDA at the beginning of this year, and was officially launched in the market in June this year. The revenue amounted to approximately RMB0.8 million, representing 0.3% of the overall sales of the Group during the period.

The highest sales volume during the period was again achieved by Western medicines, N(2)-L Alanyl-L Glutamine Injectible, with a turnover of approximately RMB30.7 million, representing approximately 11.4% of the overall turnover (30 June 2010: approximately RMB26.1 million, representing approximately 11.5% of the overall turnover). Sales of the five top selling medicines amounted to approximately RMB107.7 million, representing approximately 40.1% of the overall turnover (30 June 2010: approximately RMB98.9 million, representing approximately 43.6% of the overall turnover).

2. Gross Profit and Gross Profit Margin

During the period under review, gross profit of the Group increased to approximately RMB100.4 million, representing an increase of approximately 10.9% over the same period of last year (30 June 2010: approximately RMB90.5 million). Gross profit margin decreased by approximately 2.5 percentage points to approximately 37.4% over the same period of last year (30 June 2010: approximately 39.9%). The main reasons for the decrease were in two aspects as follows:

1) In the face of multiple challenges from the State policies and market pressure, five products of the Group, including the best selling Western medicine N(2)-L Alanyl-LGlutamine Injectible, has undergone price adjustment of approximately 3.3% to 17.3% as compared with the average selling price in last year, so as to keep more align with the purchasing power of the market. As a result, the overall gross profit margin was affected; and

2) The sustaining slight price increases of raw materials and packaging materials have inflated the production costs as compared to the same period of last year.

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 increased with sales.

3. Profit for the Period

During the period under review, profit amounted to approximately RMB36.7 million, representing a slight increase of approximately 4.0% from the corresponding period in 2010 (30 June 2010: approximately RMB35.3 million). As mentioned above, the Group is actively promoting sales in the rural market and developing 2A and 2B grade county hospitals and community hospitals. As a result, the overall operating situation of the Group improved and turnover has increased as compared with the same period of last year.

In addition, distribution costs of the Group decreased approximately 11.0% to approximately RMB32.2 million (30 June 2010: approximately RMB36.2 million). During the period, advertising and marketing expenses of our three wholly-owned subsidiaries in the PRC totalled approximately RMB21.6 million (30 June 2010: approximately RMB28.3 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 believes 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 public acceptance of the product, our advertising and marketing expenses for the product during the period under review amounted to approximately RMB3.6 million (30 June 2010: approximately RMB4.1 million), which were used in television advertisement and academic promotion. The Group recruited experts and specialists to hold academic promotional seminars nationwide for practitioners in the industry. Through these seminars, doctors and patients had a clearer understanding of the pharmacology, efficacy and benefits of our products.

During the period under review, administrative and other expenses amounted to approximately RMB21.6 million (30 June 2010: approximately RMB16.2 million), representing an increase of approximately 33.3% compared to the same period of last year. The increase was mainly due to the fact that the State policies have undergone uniform revision and some of the local tax treatments originally enjoyed by foreign investment enterprises have been cancelled, leading to an increase in urban construction and maintenance tax and educational surcharge. Other tax expenses were approximately RMB7.1 million (30 June 2010: approximately RMB3.1 million).

Finally, regarding our two wholly-owned subsidiaries in the PRC, of which Fujian Sanai has enjoyed a preferential tax arrangement at half of the Corporate Income Tax rate in the PRC since 2006, which will continue until 2010. Since 1 January 2011, the Corporate Income Tax rate for Fujian Sanai has been 25%. Another wholly-owned foreign investment subsidiary, Fuzhou Sanai, has enjoyed a preferential tax arrangement of exemption from Corporate Income Tax rate for two years and 50% reduction for the following three years in the PRC since 2008, which will expire only until 2012. Fuzhou Sanai still enjoyed a preferential tax arrangement. Tax expenses of the Group were approximately RMB12.6 million (30 June 2010: approximately RMB4.7 million) in total and the effective tax rate was 25.6% (30 June 2010: approximately 11.8%).

4. Liquidity, Financial Resources and Capital Structure

As at 30 June 2011, the Group had cash and cash equivalents of approximately RMB1,145.5 million (31 December 2010: approximately RMB1,098.9 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 RMB72.4 million (for the period ended 30 June 2010: approximately RMB63.6 million). During the period under review, 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 13.2% as at 30 June 2011 (31 December 2010: approximately 6.6%).

5. Exposure to Fluctuation in Exchange Rates

During the period under review, the Group conducted its business transactions principally in Renminbi. The Group has not experienced any material difficulties or negative impacts on its operations as a result of fluctuations in currency exchange rates. Although the Group has certain bank balances denominated in Hong Kong dollars, the Group adopts a conservative financial policy and most of its bank deposits are in Renminbi and Hong Kong dollars. As at 30 June 2011, 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.

6. Significant Acquisitions and Disposal of Investments

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

7. The Number and Remuneration of Employees

As at 30 June 2011, the Group employed approximately 464 employees (31 December 2010: 468 employees). The Group determines staff remuneration in accordance with prevailing market salary scales, individual qualifications and performance. Remuneration packages including performance bonuses and entitlements to share options are reviewed on regular basis.

8. Charge on Group Assets

As at 30 June 2011, the net book value of furniture, fixtures and equipment of approximately RMB32.1 million (31 December 2010: approximately RMB34.2 million) includes an amount of approximately RMB2,300 (31 December 2010: approximately RMB4,000) in respect of asset held under a finance lease.

9. Contingent Liabilities

As at 30 June 2011, the Group did not have any contingent liabilities (31 December 2010: Nil).

10. Capital Expenditure

During the period under review, capital expenditure of the Group for property, plant and equipment amounted to approximately RMB18,000 (31 June 2010: approximately RMB302,000).

11. Capital Commitments

As at 30 June 2011, the Group had capital expenditure contracted for but not provided in the financial statements amounted to approximately RMB67.3 million (31 December 2010: approximately RMB55.3 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 had been utilized in the construction and acquisition of manufacturing equipment in Jiangyang factory.

For the year ended 31 December 2010, the Group has spent approximately RMB1.3 million for the promotion of our brand through advertisement in some major national TV channels in the PRC. In addition, approximately RMB2.2 million had been utilized in the construction and acquisition of manufacturing equipment in Jiangyang factory. In addition, approximately RMB2.2 million has been utilized for research and development.

For the six months ended 30 June 2011, the Group has spent approximately RMB891,000 for research and development.

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

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2011. Accordingly, no closure of the Register of Members of the Company is proposed.

SHARE OPTION SCHEME

The Company's share option scheme was adopted on 8 January 2007 by the way of passing resolutions by all the shareholders of the Company. For the six months ended 30 June 2011, no share option had been granted or exercised under the share option scheme.

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

As at 30 June 2011, the interests or short positions of the Directors and Chief Executives in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules were as follows:

Name of Directors	Company/name of associated corporation	Capacity	Number of Shares (Note 1)	Approximate percentage of interest
Mr. Lin Ou Wen	The Company	Interest of controlled corporation (Note 2)	378,812,000 (L)	22.16%
		Interest of spouse (Note 3)	42,687,267 (L)	2.5%
Mr. Ling 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%

Note:

1. The letter "L" denotes long position in the Shares.
2. These Shares are registered in the name of Thousand Space Holdings Limited, which is wholly owned by Mr. Lin Ou Wen who is deemed to be interested in all the Shares in which Thousand Space Holdings Limited is interested by virtue of the SFO.
3. 136,951,000 Shares are registered in the name of Orient Day Management Limited, which is owned as to 23.38%, 45.45% and 31.17% by Mr. Lin Qing Mei, Mr. Liu Dao Hua and Ms. Xue Mei respectively. Mr. Lin Ou Wen is deemed to be interested in all the Shares in which Ms. Xue Mei, his spouse, is interested by virtue of the SFO.
4. These Shares are registered in the name of Bright Elite Management Limited, which is wholly owned by Mr. Lin Qing Ping, our Executive Director, who is deemed to be interested in all the Shares in which Bright Elite Management Limited is interested by virtue of the SFO.
5. These Shares are registered in the name of Good East Management Limited, which is owned as to 64.52% and 35.48% of its entire share capital by Messrs. Tang Bin, our Non-executive Director, and Mr. Chen Shi Yan respectively. Mr. Tang Bin is deemed or taken to be interested in all the Shares in which Good East Management Limited is interested by virtue of the SFO.

Save as disclosed above, none of the Directors or Chief Executive of the Company aware of any other Director or Chief Executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of the Company or any associated corporation as at 30 June 2011.

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

As at 30 June 2011, 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)	42,687,627 (L)	2.5%
Ms. Xue Mei	The Company	Interest of spouse (Note 4)	378,812,000 (L)	22.16%
		Interest of controlled corporation (Note 4)	42,687,627 (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%
Pope Investments LLC	The Company	Beneficial owner	102,400,000 (L)	5.99%
Pope Asset Management, LLC	The Company	Interest of controlled corporation (Note 8)	155,527,500 (L)	9.10%

Name of Shareholder	Company/name of subsidiary	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
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)	7.81%
			66,772,500 (S)	3.90%
Credit Suisse (International) Holding AG	The Company	Interest of controlled corporation (Note 9 & 10)	133,545,000 (L)	7.81%
			66,772,500 (S)	3.90%
Credit Suisse	The Company	Interest of controlled corporation (Note 9 & 10)	133,545,000 (L)	7.81%
			66,772,500 (S)	3.90%
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 letters "L" and "S" denote long position and short position in the Shares respectively.

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

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

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

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

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

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

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

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

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

(11) Kingston Finance Limited is 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 30 June 2011.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed shares during the six months ended 30 June 2011.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieve a high standard of corporate governance practice, such that the interests of our shareholders, customers, employees as well as the long term development of the Company can be safeguarded.

The Company has complied with the Code Provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2011 ensuring that are up to the requirements as being diligent, accountable and professional.

In the opinion of the Board, the Company has complied with the Code since listing of the shares of the Company on 1 February 2007 except for deviation from provision A.2.1 in respect of the roles of chairman and chief executive officer ("CEO") of the Company. The Board considered that vesting the roles of Chairman and the CEO in the same person facilitates the execution of the Company's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise. There are three independent non-executive Directors in the Board, all of them possess adequate independence and therefore the Board considers the Company has achieved balance of and provided sufficient protection to its interests.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") as the Company's own code for securities transactions by its Directors. In addition, the Company has made specific enquiries of all Directors and each Director confirms that during the six months ended 30 June 2011, they have fully complied with the required standards as set out in the Model Code.

Corporate Governance and Other Information

At no time during the first six months of 2011 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules and appointed three independent non-executive Directors including one with financial management expertise, details of their biographies were set out in the 2010 Annual Report of the Company.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Rule 3.21 of the Listing Rules. The audit committee comprises the three Independent Non-executive Directors, has reviewed the accounting principles and practices adopted by the Company as well as auditing, internal control and financial reporting matters, including the review of the unaudited interim results for the six months ended 30 June 2011 in the AC meeting on 22 August 2011. The financial statements of the Company for the period ended 30 June 2011 have been reviewed and approved by the audit committee, who are of the opinion that such statements comply with the applicable accounting standards, and the Listing Rules and legal requirements, and that adequate disclosures have been made.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The 2011 interim report will be dispatched to Shareholders as well as made available on our Company's website at www.wuyi-pharma.com and the Stock Exchange's website www.hkexnews.hk.

ACKNOWLEDGEMENT

I would like to offer the Board's sincere gratitude to the management team and all other employees for their hard work and dedication. Their excellence and commitment are of vital importance in enhancing the Company's sustainability.

Finally, I would like to take this opportunity to thank our shareholders and all other stakeholders for their continuous support and confidence in us.

On behalf of the Board
LIN OU WEN
Chairman

Hong Kong, 26 August, 2011

As at the date of this report, the Board comprises 3 Executive Directors, namely Mr. Lin Ou Wen (Chairman), Mr. Lin Qing Ping and Mr. Xu Chao Hui, 2 Non-executive Directors, namely Mr. Tang Bin and Mr. John Yang Wang, and 3 Independent Non-executive Directors, namely Mr. Liu Jun, Mr. Lam Yat Cheong and Mr. Du Jian.