

# Chairman's Statement

On behalf of the Board of Directors (the "Board"), I am pleased to present to the shareholders the annual report of Wuyi International Pharmaceutical Company Limited ("Wuyi Pharmaceutical" or the "Company") for the financial year ended 31 December 2006.

## Business Review

During the year under review, Wuyi Pharmaceutical has recorded a turnover of RMB541.3 million, representing an increase of 29.7% over the last financial year. Profit attributable to equity holders amounted to RMB119.8 million, representing an increase of 2.1% over the last financial year. Earnings per share was RMB11.0 cents. During the period, western pharmaceutical remained the Company's major sources of revenue and accounted for 61.2% of the overall turnover, while the traditional Chinese medicine business accounted for 38.8%. In view of the need to reserve sufficient fund for the future development of new products and business

development of the Company, the Board does not recommend the payment of any final dividends for the year ended 31 December 2006.

The satisfactory increase in turnover achieved by Wuyi Pharmaceutical was principally attributable to the following factors:

### (A) Commencement of Production and Sales of New Products

The Company places much emphasises on the optimization, adjustment and supplementation of product mix. It produces and sells pharmaceuticals of higher gross profit margins in response to market changes. Wuyi Pharmaceutical has commenced the production and sales of the five additional pharmaceuticals in the second half of last year, including five types of products such as Ranitidine Hydrochloride Capsule and Amikacin Sulfate Injectable. With these five additional products, the types of products

produced and sold by the Company increases from 19 to 24, this not only enriches the product mix, but also better caters to the market demand for new pharmaceuticals. It is expected that the new products will generate further profit contribution to the Company in the financial year 2007.

### (B) Expansion of Business Regions and Distribution Network

The Company's products are sold in numerous provinces of China, and provinces in southern China, eastern China and the wealthy costal provinces are our key sales locations. Last year, the Company has stepped up its sales effort in four provinces, namely Fujian, Guangdong, Jiangsu and Zhejiang, and actively expanded its sales coverage to areas such as Xinjiang, Hebei, Hunan and Henan to further boost the sales volume of the Company's products.

### (C) Strengthening of Ultimate Sales in Local Areas

In response to the strong effort by the Central Government on the development of rural areas and the implementation of medical reforms in the community and the rural areas, the Company also started to extend its operation areas from the town centres to the medical end market of the local municipalities and rural communities, in order to expand sales coverage and increase the Company's sales income. Due to the continuous growth of the rural medical market, the Company places heavy emphasises on the business development in such areas.



**Lin Ou Wen**  
Chairman

### Future Prospect

The pharmaceutical industry of the PRC is an emerging industry. In line with the continuous improvement of people's living standard, individual medical expenditure keeps on rising. Under the support of government policies, bountiful resources are also allocated to the medical and hygienic areas. According to the data released by National Bureau of Statistics of the PRC, the cumulative gross industrial output value of the PRC pharmaceutical industry amounted to RMB532.37 billion in 2006, representing an year-on-year increase of 17.9%, and demonstrating a relatively steady growth trend. It is expected that such rapid growth will be maintained in the coming years and the market demand for high quality medical pharmaceuticals will therefore increase.

The Company's key business development strategy in future will still focus on the development of new products and strengthening of its research and development capability. Based on the market condition, the Company anticipates that approval for production of about 3 new products, including Perilla Oil Capsule, the Company's key product which is used for controlling hyperlipidemia, will be obtained from the State Food and Drug Administration in the first half of this year. It is believed that the product will bring substantial profit to the Company after its launch to the market.

Furthermore, the Company plans to further invest in the construction of the second phase of the manufacturing factory and purchases of additional equipments, including setting up an additional production line dedicated to the extraction of high  $\alpha$ -Linolenic, the raw material for Perilla Oil Capsule. The Company has currently formed an expert group which has commenced preliminary planning, in order to lay a solid foundation for the future construction.

Regarding the development of end markets, the Company will further expand its market coverage. The Company currently distributes its products in 15 major provinces, municipalities, autonomous regions and directly-administered municipalities in the country. For this year the Company plans to expand into 7 to 8 additional provinces and municipalities at full speed, so as to increase its sales volume and the Company's profit.

In view of the PRC government's efforts in pushing ahead the medical reforms, the Company foresees huge growth potential in the pharmaceutical industry in future. Leveraging on the extensive experience of its management and its continuous emphasis on product quality, the Company will definitely capture such business opportunities in the market and create excellent investment return for the shareholders.

Year of 2007 will be an important milestone for Wuyi Pharmaceutical in its participation in the international capital market. Wuyi Pharmaceutical was listed on the Main Board of the Stock Exchange of Hong Kong Limited on 1 February of this year, raising net proceeds of approximately HK\$600 million, which provides the Company with a solid financial foundation for future business development.

I would like to express my heart-felt gratitude on behalf of the Board to the fellow Directors and all the staff for their important contributions in the past, and thank all the shareholders for their trust and support for the Company.

By the Order of the Board

**Lin Ou Wen**

*Chairman*

19 April 2007

