WUYI INTERNATIONAL PHARMACEUTICAL COMPANY LIMITED
武夷國際藥業有限公司

(Incorporated in the Cayman Islands with limited liability)
(the "Company")
(Stock code: 1889)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

FINANCIAL HIGHLIGHTS

Turnover increased by 29.7% to RMB541.3 million

Gross profit increased by 35.0% to RMB268.5 million

Profit attributable to equity holders increased by 2.1% to RMB119.8 million

Earnings per share was RMB11.2 to RMB11.0 cents

ANNUAL RESULTS

The board (the "Board") of directors (the Directors") of Wuyi International Pharmaceutical Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to the "Group") for the year ended 31 December 2006, together with the comparative figures of the year ended 31 December 2005 as follows:

These consolidated financial statements have been audited by the Company's external auditors and reviewed by the Company's audit committee.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2006

	Notes	**2006** *RMB'000*	**2005** *RMB'000*
Turnover		541,320	417,349
Cost of goods sold		(272,827)	(218,479)
Gross profit		268,493	198,870
Other income		2,233	470
Distribution expenses		(11,679)	(13,363)
Administrative expenses		(38,432)	(8,394)
Fair value change on convertible bonds		(63,890)	–
Interest on bank borrowings wholly repayable within five years		(2,704)	(2,917)
Profit before taxation	*4*	154,021	174,666
Taxation	*5*	(34,630)	(57,463)
Profit for the year		119,391	117,203
Attributable to:			
Equity holders of the Company		119,774	117,288
Minority interests		(383)	(85)
		119,391	117,203
Dividends paid	*6*	84,120	59,146
Earnings per share			
– Basic	*7*	RMB11.0 cents	RMB11.2 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment		132,619	92,763
Land use rights		11,664	11,916
Intangible assets		24,207	18,230
		168,490	122,909
Current assets			
Inventories		21,573	17,791
Trade and other receivables	*8*	137,388	104,539
Bank balances and cash		199,765	108,181
		358,726	230,511
Current liabilities			
Trade and other payables	*9*	82,571	59,044
Amount due to a director		62,400	–
Taxation		–	17,953
Short-term bank loans		43,000	43,000
Other financial liability	*10*	140,400	–
		328,371	119,997
Net current assets		30,355	110,514
Total assets less current liabilities		198,845	233,423
Non-current liabilities			
Deferred taxation		4,587	2,079
Net assets		194,258	231,344
Capital and reserves			
Paid-in capital	*11*	12,800	60,863
Reserves		181,458	154,168
Equity attributable to equity holders of the Company		194,258	215,031
Minority interests		–	16,313
Total equity		194,258	231,344

NOTES TO THE FINANCIAL STATEMENTS:

1. Group Reorganisation and Principal Activities

The Company was incorporated and registered as an exempted company with limited liability on 21 March 2006 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.

In the opinion of the directors of the Company, Wuyi International Pharmaceutical Company Limited is the ultimate holding company of the Group. Details of the Group Reorganisation are set out in the paragraph headed "The Reorganization" in Appendix VI to the initial public offering prospectus dated 22 January 2007 issued by the Company.

The principal activities of the Company's subsidiaries are engaged in the development, manufacturing, marketing and sales of pharmaceutical products.

The principal place of business of the Company is Unit 2805, 28/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The consolidated financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Group entities.

2. Basis of Presentation of Consolidated Financial Statements

The Group resulting from reorganization is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger accounting for common control combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as if the group structure under the Group reorganization had been in existence throughout the two year ended 31 December 2006 or since their respective dates of incorporation or establishment whichever is the shorter period.

The consolidated income statements which are prepared in accordance with the principles of merger accounting, for each of two years ended 31 December 2006 include the results of the Company and its subsidiaries as if the group structure upon the completion of the Group Reorganization had been in existence throughout 2005 and 2006 or since their respective date of incorporation or establishment where this is a shorter period. The consolidated balance sheet of the Group as at 31 December 2005 has been prepared in accordance with the principles of merger accounting to present the assets and liabilities of the companies comprising the Group as if the group structure upon the completion of the Group Reorganization had been in existence as at that date.

3. Turnover and Segment Information

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year. The Group's operation is regarded as a single segment, being an enterprise engaged in research and development, manufacturing and trading of pharmaceutical products. During the year, all of the Group's sales are made in Mainland China (the "PRC"). Accordingly, no segmental analysis of business and geographical segments is presented for the year.

4. Profit before Taxation

	2006	2005
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	1,550	18
Directors' remuneration	527	357
Other staff's retirement benefits scheme contributions	1,679	1,400
Other staff costs	13,814	8,675
	16,020	10,432
Less: Staff costs included in research and development costs	(454)	(630)
	15,566	9,802
Depreciation	4,178	3,792
Less: Depreciation included in research and development costs	(266)	(258)
	3,912	3,534
Loss on disposal of property, plant and equipment	15	–
Operating lease rentals in respect of		
– land use rights	252	244
– rented premises	358	204
Research and development costs	1,179	1,272
Write-down of inventories included in cost of goods sold	388	–
and after crediting:		
Interest income	587	470
Exchange gain	1,646	–

5. Taxation

	2006	2005
	RMB'000	*RMB'000*
PRC income tax	(32,122)	(55,384)
Deferred taxation	(2,508)	(2,079)
	(34,630)	(57,463)

PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

Pursuant to the Income Tax Law for the Foreign Investment Enterprises and Foreign Enterprises in the PRC, certain Group's PRC subsidiaries, which were qualified as Production Enterprises during the year 2006, shall be entitled to exemption from PRC income tax for two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years.

The charge for the year is reconciled to profit before taxation as follows:

	2006		2005	
	RMB'000	*%*	*RMB'000*	*%*
Profit before taxation	154,021		174,666	
Tax at the applicable income tax rate	(50,827)	(33.0)	(57,640)	(33.0)
Tax effect of expenses not deductible for tax purposes	(28,116)	(18.3)	–	–
Effect of tax exemption granted to a subsidiary	44,145	28.7	–	–
Tax effect of deemed taxable income in the PRC	(117)	(0.1)	(137)	(0.1)
Others	285	0.2	314	0.2
Tax charge and effective tax rate for the year	(34,630)	(22.5)	(57,463)	(32.9)

6. Dividends

No dividends have been paid or declared by the Company since its incorporation. The dividends paid represented dividends distributed by 福建三愛藥業有限公司 Fujian Sanai Pharmaceutical Co. Ltd. ("Fujian Sanai") to its then shareholders before the completion of the Group Reorganization.

7. Earnings per Share

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the Company of RMB119,774,000 (2005: RMB117,288,000) and on the weighted average number of 1,091,261,370 (2005: 1,049,600,000) shares in issue throughout the year on the assumption that the Group Reorganization has been effective on 1 January 2005.

No diluted earnings per share is presented as the assumed conversion of the Group's convertible bonds since their issuance would result in an increase in profit per share.

8. Trade and Other Receivables

	2006	2005
	RMB'000	*RMB'000*
Trade receivables	135,012	104,178
Other receivables	2,376	361
	137,388	104,539

The Group normally grants credit terms of 30 days to 60 days to its customers. The following is an aged analysis of trade receivables at the balance sheet date:

	2006	2005
	RMB'000	*RMB'000*
Age		
0 to 30 days	69,294	53,380
31 to 60 days	65,718	50,798
	135,012	104,178

9. Trade and Other Payables

	2006	2005
	RMB'000	*RMB'000*
Trade payables		
– a related company *(note a)*	1,205	4,818
– others	56,642	40,562
	57,847	45,380
Other tax payables	10,056	8,697
Accrued charges	9,894	2,988
Payroll and welfare payables	415	1,060
Payable for acquisition of property, plant and equipment	2,704	–
Others	1,655	919
	82,571	59,044

(a) 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 of the Company and has beneficial interest in the Company.

The following is an aged analysis of trade payables at the balance sheet date:

	2006	2005
	RMB'000	*RMB'000*
Age		
0 to 30 days	32,668	24,613
31 to 60 days	25,179	20,767
	57,847	45,380

10. Other Financial Liability

The other financial liability at 31 December 2006 represents the financial liability from the Put Option 2 (as defined below). This Put Option 2 lapsed upon completion of the initial offer for subscription of the shares of the Company to the public on 1 February 2007.

Several investors (the "Investors"), a number of original owners of Fujian Sanai (the "11 Founding Shareholders"), Mr. Lin Ou Wen, a director of the Company, and the then shareholders of Wuyi International Pharmaceutical Investment Company Limited ("Wuyi BVI") (the "Original Shareholders") entered into a subscription agreement on 22 May 2006 (the "Subscription Agreement"), supplemental agreement on 20 June 2006 and an investment agreement on 11 July 2006 ("Investment Agreement") with Wuyi BVI, pursuant to which Wuyi BVI issued convertible bonds due on 12 July 2008 (the "Convertible Bonds") to the Investors in an aggregate principal amount of US$18 million convertible into the ordinary shares of Wuyi BVI at an initial conversion price of US$8,200.456 per share subject to certain adjustments set forth in the Investment Agreement.

Pursuant to the Investment Agreement, the Investors have an option ("Put Option 1"), which gives the Investors the right to require Wuyi BVI to purchase all of the shares of Wuyi BVI held by the Investors in the event that the Company fails to complete the initial offer for subscription of the shares of the Company to the public within six months from the date of conversion of the Convertible Bonds into the shares of Wuyi BVI. The aggregate purchase price at which the Investors may require Wuyi BVI to repurchase Wuyi BVI's shares under Put Option 1 will be equal to the price at which the Investors acquired Wuyi BVI's shares pursuant to the Subscription Agreement plus a premium equivalent to a compound return of 6% per annum for the period from the date of issue of the Convertible Bonds to the date of the exercise of Put Option 1.

Put Option 1 will lapse upon completion of the initial offer for subscription of the shares of the Company to the public within six months from the date of conversion of the Convertible Bonds into the shares of Wuyi BVI.

On 27 October 2006, Wuyi BVI, the Investors, the 11 Founding Shareholders, Mr. Lin Ou Wen and the Original Shareholders entered into a supplemental deed to the Subscription Agreement pursuant to which the Investors exercised their conversion rights under the Convertible Bonds, which caused the Company instead of Wuyi BVI to issue 230,400,000 shares of the Company to the Investors at a conversion price of US$0.078125 each on 27 October 2006.

On 27 October 2006, Wuyi BVI, the Investors, the 11 Founding Shareholders, Mr. Lin Ou Wen, the Original Shareholders and New Asia Partners Investment Holdings Limited ("NAP"), a company owned by the spouse of a director of the Company, entered into a termination agreement terminating the Investment Agreement. On 27 October 2006, the Company, the Original Shareholders, the 11 Founding Shareholders, Mr. Lin Ou Wen, NAP and the Investors entered into the New Investment Agreement pursuant to which the Company granted to the Investors an option (the "Put Option 2") which gives the Investors the right to require the Company to repurchase all the Shares held by the Investors in the event that the Company fails to complete the Hong Kong public offer within six months from 27 October 2006. The aggregate purchase price at which the Investors may require the Company to repurchase all the Shares under Put Option 2 will be equal to the price at which the Investors acquired all the Shares pursuant to the supplemental deed to the Subscription Agreement, as amended, plus a premium equivalent to a compound return of 6% per annum for the period from the date of the New Investment Agreement to the date of the exercise of the Put Option 2.

The Convertible Bonds issued in July 2006 carry interest at a rate of the greater of (i) 6% per annum or (ii) an amount corresponding with dividends or asset distributions by Wuyi BVI on or after 1 January 2006. The fair value of the convertible bonds at 27 October 2006 has been arrived at on the basis of a valuation carried out on that date by Savills Valuation and Professional Services Limited, an independent business valuer.

The movements of the Convertible Bonds were as follows:

	RMB'000
6% convertible bonds issued during the year	142,200
Currency realignment	(1,800)
Change in fair value during the year	63,890
Conversion into shares of the Company during the year	(204,290)
At 31 December 2006	–

The fair value of the Convertible Bonds were calculated using the Binomial Model. The inputs into the model by reference to the valuation of Wuyi BVI were as follows:

Average share price	US$10,840
Exercise price	US$8,200
Expected volatility	30%
Expected life	Nine months
Risk-free rate	3.7%
Expected dividend yield	0.0%

Put option 2 was lapsed when the shares of the Company was listed on the main board of the Stock Exchange on 1 February 2007.

11. Paid-in Capital

	Number of shares	Amount *HK$'000*
Ordinary shares of HK$0.01 each		
Authorised:		
On incorporation	38,000,000	380
Increase in authorised share capital	3,162,000,000	31,620
At 31 December 2006	3,200,000,000	32,000
Issued and fully paid:		
Issue of shares	6	–
Issue of shares pursuant to the Group Reorganisation	1,049,599,994	10,496
Issue of shares on conversion of Convertible Bonds	230,400,000	2,304
At 31 December 2006	1,280,000,000	12,800
Shown in the consolidated balance sheet at 31 December 2006 as		RMB12,800,000

The movements in the Company's authorised and issued share capital during the period from 21 March 2006 (date of incorporation) to 31 December 2006 are as follows:

(a) Upon incorporation, the authorised share capital of the Company was HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each of which one subscriber share was allotted and issued in cash at par on 21 March 2006. On 8 August 2006, 5 shares were allotted and issued fully paid.

(b) On 27 October 2006, the authorised share capital of the Company was increased from HK$380,000 to HK$32,000,000 by the creation of an additional 3,162,000,000 ordinary shares of HK$0.01 each.

(c) On 27 October 2006, as part of the Group Reorganisation, all the shareholders of Wuyi BVI transferred the entire issued share capital in Wuyi BVI to the Company in consideration and in exchange for which the Company allotted and issued an aggregate of 1,049,599,994 shares, credited as fully paid at par in proportion to their then respective shareholding in Wuyi BVI.

(d) On 27 October 2006, pursuant to a supplemental deed to the Subscription Agreement dated 27 October 2006, the Investors converted the then entire outstanding Convertible Bonds into 230,400,000 shares.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

The paid-in capital at 31 December 2005 represented the aggregate paid-in capital of Cyberstop Profits Limited ("Cyberstop") and Fujian Sanai.

12. Capital Commitments

	2006 *RMB'000*	2005 *RMB'000*
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of		
– property, plant and equipment	–	15,783
– intangible assets	8,100	12,150
	8,100	27,933

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Business Review

During the financial year 2006, the Company achieved satisfactory performance in business and recorded a turnover of RMB541.3 million, representing an increase of 29.7% as compared to RMB417.3 million of the financial year 2005. We believe that the Company's diversified product structure is one of the essential factors contributing to its business growth.

Western pharmaceuticals remained the Company's major source of revenue, accounting for approximately 61.2% of the overall turnover, while the remaining 38.8% was generated from Chinese traditional medicine products. Among the numerous pharmaceutical products of the Company, the Xiangdan Injectible and Alginic Sodium Diester, which are used for the treatment of cerebrovascular and cardiovascular diseases, have achieved relative higher growth in sales. Their sales amount increased 46.3% and 59.5% respectively as compared to the financial year 2005. In addition, the sales amount of Pediatric Cough Syrup also recorded satisfactory growth.

According to the present classification system, a hospital will have departments specializing in cerebrovascular and cardiovascular, respiratory, gastrointestinal, antibacterial diseases and nutrition issues. Benefited from its wide-ranging pharmaceutical products which can be used for the treatment of five major types of diseases, as well as the broad application of its chemical medicine and the modern Chinese medicine, the Company managed to increase its turnover.

During the year under review, the Company continued to market its pharmaceuticals under the "3A" brand name, which is widely recognized for quality and reliability, and produce and market a diversified product mix comprising 19 western prescription drugs and five modern Chinese medicine products. The production line of Perilla Oil Capsule, our novel modern Chinese medicine product developed for hyperlipidemia-management, was ready for production during the year. It is expected that the product will be launched in the market after receiving sales approval from SFDA in the first half of 2007.

In the second half of 2006, the Company added five pharmaceutical products, including drugs used for the gastrointestinal system, flu and antibacterial treatment and pain management, and two of which were added subsequently in the fourth quarter. Therefore, these pharmaceutical products have not yet contributed any substantial profit to the Company. The aggregate turnover of these pharmaceutical products amounted to approximately RMB37.1 million, accounting for 6.9% of the overall turnover. The aggregate sales income of these five pharmaceutical products basically compensated the loss resulted from the suspension of production of Yuxingcao Injectibles.

The net profit recorded in 2006 amounted to RMB119.4 million. The non-cash and extraordinary impairment expenditure of RMB63.9 million made for adjusting the difference between the fair value of convertible bonds upon issuance and the fair value of the bonds upon conversion on 27 October 2006 was taken into account when calculating the profit for the year. The management considers that such expenditure arose only due to calculation under the requirement of the accounting standard. However, the Company's business fundamentals remain strong as far as growth and profitability is concerned.

The Company's products are capable of generating satisfactory gross profit margins. Among its numerous pharmaceutical products, the gross profit margins of Alginic Sodium Diester, Xiangdan Injectible and Netilmicin Sulfate and Glucose Injectible were relatively higher, exceeding approximately 50%, a level comparable to that of last year. Moreover, the gross profit margin of N(2)-L-Alanyl-L-Glutamine Injectible, which accounted for approximately 17.9% of the Company's overall turnover, also exceeded 50%, reflecting the sound profitability of the Company's pharmaceutical products.

(B) Outlooks and Future Development

(1) Corporate Development Objectives

Wuyi International Pharmaceutical Company Limited is a vertically-integrated company specialized in the production and sales of pharmaceuticals. Under its existing foundation, the Company plans to maintain the rapid growth of its sales income by increasing the resources allocated for the research and development of new pharmaceuticals, optimizing product structure, expanding sales network, promoting its brands, raising production capacity and expanding production scale, so as to ensure simultaneous surge in both its sales income and profits, and provide impetus for the Company's development into one of the leaders in the pharmaceutical industry of the PRC.

(2) Stepping up both Brand Promotion and Expansion of Marketing Network

The Group plans to increase its investment in sales network expansion and team building, adjust, optimize and increase its distributors, selectively expands into the Mid-western region and step up efforts in advertising and promoting its brands, so as to further enhance and increase public recognition of the Company's brands, and strengthen the influence of the Company's products by synergistic sales. The Company endeavours to maintain the rapid growth of its sales income and profits in 2007 and lay a solid foundation for the exponential growth of its sales in 2008 and beyond.

(3) Research and Development

Increasing investment in the research and development of new products is one of the crucial factors for the Group to maintain its rapid growth in the future. The Group planned to invest approximately RMB40 million in the research and development of new pharmaceuticals. Since the second half of 2006, 4 types of products with higher efficacy were selected among numerous new pharmaceutical projects. The four selected types of new pharmaceuticals comprise small-volume injectible, large-volume injectible, lyophilized powder of injection and drops pills. The Company is now negotiating for opportunities to engage in new research cooperations and will be introducing石家莊三普瑞醫藥科技開發公司as its new cooperation partner for research and development . The institute, is one of the cooperation partners of the renowned universities in the PRC. The successful commencement of cooperation will initiate the research and development of the new major pharmaceuticals in 2007. These pharmaceuticals will secure a large market share, will be well recognized by patients and will have high profit margins. The Company may have the exclusive rights to the production and sales of the products. We will continue to make effort in selecting new products which have huge market potential, high technology content and high profit margin in the second half of the year and 2008. We plan to have 3 to 5 new products put under research and development every year.

(4) Plans on Expanding Production Capacity

In order to cater to increasing sales, approximately RMB130 million will be invested as planned to expand the production capacity and increase the production lines of the Group's major profitable products and expand the production lines which operate in nearly full capacity at (Jianyang) Fujian Sanai. The investment includes the establishment of facilities such as workshop for the production of large-volume injectibles in PVC soft packaging, workshop for the production of tablets, capsules, granules and oral solid medicine dosage form, workshop for extraction from Chinese traditional medicines and ancillary warehouses, all of which are expected to be completed by 2008. Upon completion of the construction of such facilities, the production scale of the relevant dosage form will be about 2 to 3 times of the current scale, guaranteeing the satisfaction of the increasing demand resulting from the sales growth of the above products in dosage form in the coming years and further enhancing the economies of scale of the Company. Furthermore, approximately RMB65 million will be invested as planned to establish the production line (second phase) of Perilla Oil Capsule at (Fuzhou) Fuzhou Sanai, the construction of which is expected to be completed between 2008 and 2009. By then, the annual production capacity will be increased to 1 billion capsules and the annual production scale will be increased by approximately RMB400 million, This will ensure that the Group have adequate production capacity to cope with the market demand of Perilla Oil Capsule and will provide effective support to the generation of tremendous profit by Perilla Oil Capsule, the new pharmaceutical with high profit margin (in 2009 to 2010, RMB135 million will be invested as planned in the establishment of facilities at Fuzhou for the extraction of α\-Linolenic of high purity from Perilla Oil. The facilities will have an annual production capacity of 1,000 tons).

(5) Merger and Acquisition Plan

The Company plans to identify from the chemical pharmaceutical, plant-made pharmaceutical and bio-pharmaceutical industries suitable enterprises with sound product structures that complements the product structure of the Company, extensive sales network, large production and sales scale, sufficient technical and management staff and good asset structure. After conducting due diligence investigation and analysis, the Company will acquire one pr two of such manufacturing enterprises. The Company will use part of its proceeds to fund such mergers and acquisitions, which will strengthen the sales and profitability of the Company at steady pace.

6) Future Prospects

The pharmaceutical industry of the PRC is an emerging industry. According to the information of National Bureau of Statistics of the PRC, the cumulative gross industrial output value of the PRC pharmaceutical industry amounted to RMB532.37 million in 2006, representing an year-on-year increase of 17.9%, and demonstrating a relatively steady growth trend. Due to the continuous and rapid growth of the PRC economy, the population's disposable income and individual medical expenditure, continue to rise, which in turn lead to the increase in the number of medical insurance policy holders. Under the support of government policies, bountiful resources will be allocated to the medical and hygienic area. The Company anticipates that it will maintain its rapid growth in the coming years.

The Company is also optimistic about its development prospect in the next few years. Upon the approval for the production of its new Chinese traditional medicine Perilla Oil Capsule, the proportion of Chinese traditional medicine will surely outweigh the western pharmaceuticals. The Chinese traditional medicine sector will be one of the key sectors within the pharmaceutical industry that will be promoted during the Eleventh Five-Year Plan period. In 2006, the income generated by the modern Chinese medicine manufacturing industry reached RMB114.01 million, representing an year-on-year increase of 13.8%. On 21 March 2007, 16 ministries and committees, including Ministry of Science and Technology, the Ministry of Health, State Administration of Traditional Chinese Medicine and SFDA, jointly issued the "中醫藥創新發展規劃綱要 (2006-2020)", which is another programmatic document in respect of the overall innovative development of the Chinese traditional medicines after the re-issuance of "中藥現代化發展綱要" by the General Office of the State Council in 2002. The development of the Chinese traditional medicine industry will be placed in higher priority by the state.

With the PRC government's implementing more in-depth reforms in the pharmaceutical market and increasing its effort in regulating the pharmaceutical industry, pharmaceutical manufacturing enterprise will have to comply with more stringent requirements and restrictions. This will create excellent opportunities for pharmaceutical manufacturing enterprises with capital, technology ,brand and scale advantages. Evidenced from our remarkable performance in the past, Wuyi International Pharmaceutical Company Limited possesses the fundamental conditions for rapid development. With optimistic development prospects, we believe that Wuyi will develop into one of the leading enterprises in the PRC pharmaceutical industry.

(C) Financial Review

1. *Turnover*

Turnover increased by 29.7% to RMB541.3 for the year ended 2006 from RMB417.3 million for the year ended 2005. The increase was primarily attributable to increased sales volumes resulting from the introduction of five new products starting in the second half of 2006, which contributed RMB37.1 million, and increased sales volumes of our best selling products, including N(2)-L-Alanyl-L-Glutamine, Xiangdan Injectible, Lincomycin Hydrochloride, and Alginic Sodium Diester and Sodium Chloride, as a result of increased market demand and expansion of our rural sales network, particularly in Henan, Hebei, Hubei and Jiangxi Provinces in the year ended 2006.

Increased turnover during the year ended 2006 was also due to increases in the sales prices of our major western pharmaceutical products, including Famotidine and Glucose Injectible, and Fluconazole and Glucose Injectible, and of our modern Chinese medicine products, including Manshan White Syrup and Manshan White Granule, as a result of increased demand for and brand awareness of these products. However, SFDA's suspension of Yuxingcao Injectible on 1 June 2006 also impacted our sales volume of modern Chinese medicine for the second half of the year.

2. *Cost of Goods Sold*

Cost of goods sold increased by 24.9% to RMB272.8 million for the year ended 2006 from RMB218.5 million for the year ended 2005. This increase was mainly due to an increase in production and sales volume of products, thereby increasing raw material costs, packaging material costs, energy and fuel costs, manufacturing overhead costs and direct labor costs.

Raw material costs as a percentage of cost of goods sold increased to 54.3% for the year ended 2006 from 53.1% for the year ended 2005. The amount of raw material costs increased to RMB148.3 million for the year ended 2006 from RMB116.0 million for the year ended 2005 as a result of increased raw material requirements to satisfy our increased production needs. The suspension of Yuxingcao Injectible changed the cost of sale scale component in which shifted from modern Chinese medicine to western pharmaceuticals.

Packaging raw material costs as a percentage of cost of goods sold slightly decreased to 34.7% for the year ended 2006 from 34.8% for the year ended 2005, reflecting that the Group has maintained the packaging raw material costs at substantially the same level and the production and sales volume has increased in line with the packaging raw material costs.

While energy and fuel costs as a percentage of cost of goods sold decreased to 8.5% for the year ended 2006 from 9.4% for the year ended 2005, the amount of energy and fuel costs increased to RMB23.2 million for the year ended 2006 from RMB20.0 million for the year ended 2005.

While manufacturing overhead costs as a percentage of cost of goods sold slightly decreased to 1.3% for the year ended 2006 from 1.4% for the year ended 2005, the amount of manufacturing overhead costs increased to RMB3.5 million for the year ended 2006 from RMB3.1 million for the year ended 2005, as a result of increased depreciation expense arising from the addition of an in-house raw material production line for our western pharmaceutical, N(2)-L-Alanyl-L-Glutamine.

Direct labor costs as a percentage of cost of goods sold slightly decreased to 1.2% for the year ended 2006 from 1.3% for the year ended 2005.

Cost of goods sold as a percentage of turnover decreased to 50.4% for the year ended 2006 from 52.3% for the year ended 2005 primarily due to increased economies of scale arising from the increase in production volume. In addition, raw material costs as a percentage of cost of goods sold declined because the raw material costs required for the production of N(2)-L-Alanyl-L-Glutamine decreased as a result of volume discounts the Group received for bulk purchases from suppliers and the quality of raw materials required for the production of Fluconazole and Glucose Injectible stabilized during the year ended 2006.

3. *Gross Profit*

Gross profit increased by 35.0% to RMB268.5 million for the year ended 2006 from RMB198.9 million in the year ended 2005. Gross margin was 49.6% in the year ended 2006 compared to 47.7% for the year ended 2005. This increase in gross margin was principally due to the introduction of five new products in the second half of 2006, the increased economies of scale arising from the increase in sales and production volume of the products and the turnover contributed from the increased sales prices of major western pharmaceutical products and of our modern Chinese medicine products.

4. *Distribution Expenses*
Distribution expenses decreased by 12.7% to RMB11.7 million for the year ended 2006 from RMB13.4 million for the year ended 2005. The decrease was attributable to the exemption from Urban Construction tax and the reduction of the rate of Education Surtax from 4% for the year ended 2005 to 1% for the year ended 2006 we received upon conversion of 福建三愛藥業有限公司 Fujian Sanai Pharmaceutical Co., Ltd ("Fujian Sanai") to a wholly foreign owned enterprise on 15 June 2006. The decrease was partially offset by the increase in transportation costs due to increased sales of our products for the year ended 2006 compared to the year ended 2005. Our distribution expenses as a percentage of our turnover in the year ended 2006 was 2.2%, compared to 3.2% for the year ended 2005.

5. *Administrative Expenses*
Administrative expenses increased by 357.1% to RMB38.4 million for the year ended 2006 from RMB8.4 million for the year ended 2005. The increase was primarily attributable to expenses incurred for the Hong Kong and International offer shares (collectively "Global Offering") amounting to approximately RMB11.2 million. In addition, payment of insurance increased to RMB4.6 million for the year ended 2006 from RMB1.6 million for the year ended 2005 as a result of our enrollment in work injury, medical and maternity insurance programs in June 2006, together with retroactive payment of premium for this insurance since our inception. Moreover, the Group accounted for a housing allowance in staff welfare of RMB1.2 million for the year ended 2006.

6. *Fair Value on Convertible Bonds*
The change of fair value on Convertible Bonds amounting to RMB63.9 million represents a non-recurring charge to adjust for the difference between the fair value of the Convertible Bonds at the time of issue and the fair value of the Convertible Bonds at conversion date on 27 October 2006.

7. *Taxation*
Income tax decreased by 39.8% to RMB34.6 million for the year ended 2006 from RMB57.5 million for the year ended 2005. The decrease was primarily attributable to a decrease in profit before tax by 11.8% to RMB154.0 million for the year 2006 from RMB174.7 million for the year ended 2005. Our effective tax rate was 22.5% for the year ended 2006, compared with 32.9% for the year ended 2005. The decrease in effective tax rate was attributable to the non-deductible tax expenses of fair value change of Convertible Bonds and tax exemption resulting from conversion of Fujian Sanai to a wholly foreign owned enterprise on 15 June 2006.

8. *Profit for the Year*
Profit for the year increased slightly by 1.9% to RMB119.4 million for the year ended 2006 from RMB117.2 million for the year ended 2005. Net profit margin was 22.1% for the year ended 2006 compared to 28.1% in the year ended 2005. The slightly increase in profit was preliminary attributable to a non-recurring charge to adjust for the difference between the fair value of the Convertible Bonds at the time of issue and the fair value of the Convertible Bonds at the conversion date on 27 October 2006.

9. *Liquidity and Financial Resources*
As at 31 December 2006, the Group had net current assets and total assets less current liabilities of approximately RMB30.4 million (2005: RMB110.5 million) and RMB198.8 million (2005: RMB233.4 million), respectively. The decrease was primarily represented Put Option 2 exercisable by the Investors to require the Company to repurchase the Share in the event that the Global Offering does occur within six months from the conversion of the Convertible Bonds on 27 October 2006, and liabilities from the shareholders' loan from our Chairman, Chief Executive Officer and Executive Director, Lin Ou Wen, for funds required for acquisition of 40% interest in Fuzhou Sanai.

The Group has bank balances and cash of approximately RMB199.8 million (2005: RMB108.2 million) with a short-term bank loans of approximately RMB43.0 million (2005: RMB43.0 million).

Taking into account the net proceeds from Global offering on 1 February 2007, available banking facilities and cash flow from the operations, the management believe that the financial position of the Group is healthy, with a sufficient financial resources to meet the requirements for future development.

10. *Materials Acquisitions and Disposals of Investments*
On 8 August 2006, the Group entered into an equity agreement with our Chairman, Chief Executive Officer and Executive Director, Lin Ou Wen, in relation to the acquisition of 40% equity interest in Fuzhou Sanai for the consideration of USD8 million (equivalent to approximately RMB62.4 million) on an arm's length based on a valuation report as at 30 June 2006 prepared by an Independent Third Party. Upon approval of such acquisition on 14 November 2006, the Group's equity interest in Fuzhou Sanai increased from 60% to 100% and Fuzhou Sanai became an indirect wholly-owned subsidiary of the Group.

For the year ended 31 December 2006, the Group had no disposal of investment.

Besides, details of future plans for materials investments and capital expenditures have been disclosed in the prospectus of the Company dated 22 January 2007.

11. *The Number and Remuneration of Employees*
The Group determines staff remuneration in accordance with prevailing market salary scales, individual qualifications and performance. Staff recruitment and promotion is based on individual merit and their development potential for the positions offered. Remuneration packages including performance bonuses and entitlements to share options are reviewed on regular basis. As at 31 December 2006, the Group employed approximately 311 employees.

Subsequent to the year ended 31 December 2006, the Company has established Share Option Scheme conditionally approved by resolutions of shareholders of the Company dated 8 January 2007. The purpose of this Scheme is to enable the Company to grant Options to selected candidates as incentives or rewards for their contribution to the Group. Since establishment of Scheme to the report date, no Share Option was granted to the employees.

12. *Charges on Group Assets*
As at 31 December 2006, the Group had no charges on Group assets.

13. *Foreign Exchange and Interest Rate Exposure*
Foreign currency risk refers to risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flow.

For the year ended 31 December 2006, the Group had convertible bonds denominated in United States Dollars and exposed to foreign currency risk. Apart from this, the management considers the Group does not expose to significant foreign currency risk as majority of its transactions of the Group were denominated in RMB.

All bank borrowings of the Group were denominated in RMB and at the prevailing market interest. The management is of the opinion that the Group is not subject to any significant interest rate risk.

14. *Contingent Liabilities*
As at 31 December 2006, the Group did not have any significant contingent liabilities.

15. *Capital Expenditure*
For the year ended 31 December 2006, capital expenditures of the Group for property, plant and equipment and intangible assets amounted to approximately RMB50.0 million.

16. *Capital Commitments*
As at 31 December 2006, the Group had capital expenditure contracted for but not provided amounted to approximately RMB8.1 million.

DIVIDEND
The Board did not recommend the payment of any final dividend for the year ended 31 December 2006.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES
Since the Company was only listed on the Stock Exchange of Hong Kong Limited ("Stock Exchange") on 1 February 2007, the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") was not applicable to the Company for the period under review.

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. To this end, the Company has established the Board of Directors (the "Board"), audit committee ("Audit Committee"), remuneration committee ("Remuneration Committee") and nomination committee ("Nomination Committee") ensuring that are up to the requirements as being diligent, accountable and professional.

The Company has adopted the Code of the Stock Exchange. In the opinion of the Board, the Company had complied with the code provision of the Code set out in Appendix 14 to the Listing Rules since the Company's listing 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 CEO in the same person facilities 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 Board of the Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the Company's own code for securities transactions by its Directors. Following specific enquiry made with all Directors, the Company has confirmed that all Directors had been in compliance with the required standard mentioned above since the Company's listing on 1 February 2007.

ANNUAL GENERAL MEETING
The 2007 Annual General Meeting of the Company will be held on 22 June 2007, Friday and the Notice of Annual General Meeting will be published and dispatched in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS
The register of members of the Company will be closed from 14 June 2007, Thursday to 22 June 2007, Friday (both days inclusive), during which period no transfer of shares will be registered.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES
During the year ended 31 December 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities. The Company did not have any listed securities before the Company's listing on 1 February 2007.

DIRECTORS' COMPLIANCE WITH THE MODEL CODE
The Board of the Company had adopted the Model Code as set out in Appendix 10 to the Listing Rules as the Company's own code for securities transactions by its Directors. Following specific enquiry made with all Directors, the Company has confirmed that all Directors had been in compliance with the required standard mentioned above since the Company's listing on 1 February 2007.

AUDIT COMMITTEE
An Audit Committee was established by the Company on 8 January 2007 with specific written terms of reference which set out clearly its authority and duties. The Audit Committee currently comprises three Independent Non-executive Directors of the Company, namely, Mr. Lam Yat Cheong (Chairman of the committee), Mr. Goh Jin Hian and Mr. Liu Jun, is responsible for reviewing and providing supervision on the Group's financial reporting process and internal control systems. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the auditing, internal control and financial reporting aspects of the Company including the review of the annual results of the Company for the year ended 31 December 2006.

REMUNERATION COMMITTEE
A Remuneration Committee was established by the Company on 8 January 2007 with specific written terms of reference which set out clearly its authority and duties. The Remuneration Committee currently comprises two Executive Directors, namely, Mr. Dennis Luan Thuc Nguyen (Chairman of the Committee), Mr. Lin Ou Wen, three Independent Non-executive Directors, namely, Mr. Goh Jin Hian, Mr. Liu Jun and Mr. Lam Yat Cheong, is responsible for advising the Board on the remuneration policy and framework and determining the remuneration packages of Directors and senior management with reference to the Company's objectives from time to time.

NOMINATION COMMITTEE
A Nomination Committee was established by the Company on 8 January 2007 with specific written terms of reference which set out clearly its authority and duties. The Nomination Committee currently comprises two Executive Directors, namely, Mr. Lin Ou Wen (Chairman of the Committee), Mr. Lin Qing Ping, three Independent Non-executive Directors, namely, Mr. Goh Jin Hian, Mr. Liu Jun and Mr. Lam Yat Cheong, is responsible for making recommendations to the Board on appointment of Directors and management of the succession of the Board.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE
The Annual Report of the Company for the year ended 31 December 2006 containing all information required by Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange and dispatched to shareholders in due course.

ACKNOWLEGMENT
On behalf of the Board, I would like to take this opportunity to express our gratitude to the Board, management, our staff and relevant professional parties for their contribution and dedication.

By Order of the Board
Wuyi International Pharmaceutical Company Limited
Lin Ou Wen
Chairman and Chief Executive Officer

Hong Kong, 19 April 2007

As at the date of this announcement, (a) the executive Directors are Mr. Lin Ou Wen, Mr. Lin Qing Ping, Mr. Dennis Luan Thuc Nguyen and Mr. Xu Chao Hui; (b) the non-executive Directors are Mr. Tang Bin and Mr. John Yang Wang; (c) the independent non-executive Directors are Mr. Goh Jin Hian, Mr. Liu Jun and Mr. Lam Yat Cheong.

"Please also refer to the published version of this announcement in International Herald Tribune."