東北虎藥業股份有限公司
NORTHEAST TIGER PHARMACEUTICAL CO., LTD.

(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code : 8197)

Annual Report 2009

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This report, for which the directors ("Directors") of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

EXECUTIVE DIRECTORS
Liu Yang *(Chairman)*
Guo Feng
Wang Xue Hua
Jin Xin

INDEPENDENT NON-EXECUTIVE DIRECTORS
Lam Kai Yeung
Niu Shu Min
Zhao Zhen Xing

SUPERVISORS
Zhang Ya Bin
Chen Lin Bo
Yin Hong

COMPANY SECRETARY
Ng Chen Huei

AUDIT COMMITTEE
Lam Kai Yeung
Niu Shu Min
Zhao Zhen Xing

COMPLIANCE OFFICER
Guo Feng

AUTHORIZED REPRESENTATIVES
Jin Xin
Wang Xue Hua

GEM STOCK CODE
8197

AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE
Jin Xin
Wang Xue Hua

AUDITORS
PAN-CHINA (H.K.) CPA LIMITED

LEGAL ADVISORS
Li & Partners

PRINCIPAL BANKER
China Construction Bank
Jilin Railway Branch

HONG KONG BRANCH SHARE REGISTRATION AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE
No.3, No. 2 Road,
Jilin Hi-Tech Development Zone
Jilin City
Jilin Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 2201-03, 22/F, World Wide House, 19 Des Voeux Road Central,
Central, Hong Kong

Chairman's Statement

On behalf of Board of Directors (the "Board") of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company"), I hereby present to our shareholders the annual report of the Company for the year ended 31 December 2009.

The Company was established in Jilin High-Technology Development Zone, the People's Republic of China ("PRC"). It is principally engaged in the manufacture and sale of Chinese medicines under the brand name of "Northeast Tiger" in the PRC as well as conducting pharmaceutical research and development. The Company owns several production lines which were granted GMP and GSP certifications by the State Food And Drug Administration, namely large volume injection, small volume injection, granules, tablets, capsules, liquid pills and raw material (Yong Chong Cao Jun Powder) etc. Currently, the Company's main products include Lu Lu Tong Injection, Ling Yang Jiao Injection, Yong Chong Cao Jun Powder Capsule, Shi Long Blood Clean Granules, Antelope's Horn Drop and Lu Lu Tong Xie Sha Tong Infusion Fluid etc. Lu Lu Tong Injection mainly used in treating sequela of cardiovascular and cerebrovasular diseases, central retinal vein occlusion and anterior retinal hemorrhage; Shi Long Blood Clean Granules (new Chinese medicine under State category 3) mainly used in treating slight and moderate hemorrhage stroke, disruption of the brain by the heat of the liver, acute increase of liver warmth, disruption of the brain by the bodily hot wind; Yong Chong Cao Jun Powder and Yong Chong Cao Jun Powder Capsule (new Chinese medicine under State category 1) are proved to be nutrition supplement to kidney and lungs, can relieve cough and reduce phlegm and mainly used for prolonged pneumonary weakness and renal failure; and Antelope's Horn Drop used for treating cold and influenza.

The Company's sales was still affected by the global financial crises in 2009. The Company recorded a turnover of approximately RMB37,025,000 for the year ended 31 December 2009, which is 42.6% lower than that of the corresponding period in last year, and gross profit dropped 39.2% from RMB21,818,000 to RMB13,265,000. The price of water, electricity and gas were persistently high and there was constant pressure for environmental protection. Further, prices of certain pharmaceutical products in the domestic pharmaceutical market fell. These factors were all unfavorable to the Company's production and operations. The Company has modified its production technologies to control production cost, and increase the gross profit margin of the products. The gross profit margin for the year ended 31 December 2009 reached 35.8%, which was approximately 2% higher than that of 33.8% recorded in the corresponding period in last year; net profit was approximately RMB442,000, in contrast to net profit of RMB5,667,000 in the corresponding period in last year.

Faced with the difficulty brought by the financial crises in the third quarter, the management and all the staff are still confident on the Company's future development and will turn the pressure to motive and seek for new ways for development. On one hand, the Company will continue to increase the efficiency of the production lines, increase the production volume and reduce the wastage rate. It will also optimize its production technology to reduce raw material consumption and effectively control its costs and increase its gross profit margin; on the other hand the Company actively search for business opportunities in the market. On May 2009, the Company signed an agreement with Taiyangsheng for acquisition of 51% issued share capital. By acquisition of a controlling interest in Taiyansheng, the Company aimed to use it as a platform for the Company to diversify the business and extend the business scope to agricultural products and beverage industries, thereby extending the income stream of the Company. However, due to the fact that the Company was unable to obtain necessary approval from local relevant authority, the transaction ceased and the Company lost a good business opportunity. Regarding the Board of Directors, the Company has changed its certain directors to reflect the changes in its share capital.

Although it is expected that prices of Chinese medicine raw materials are going to remain at a low level in 2010, we also expect the pharmaceutical raw materials prices to go down further. In light of the global financial crisis, outlook for medical products sales is not optimistic. For 2010, we will focus on the following:

A. **Product upgrading through product structure adjustment**

Innovation in technology is a key element to improve competitiveness and for continuing development. The Company therefore will make a lot of effort in technology innovation. It will consolidate its existing research resources and manpower to create a reasonable product structure by way of launching competitive new product Company in an organized way through technological advancement. The Company will improve its products to create new growth point.

- To develop from low value-added products to high value-added ones and natural food additives

  Benefiting from steady and sustained growth of the food industry, the food additive industry is also in the process of steady and rapid development, leading to an increasingly prominent position boasted by food additives. Safe and poison-free natural food additives are becoming increasingly favoured by consumers who are more health conscious with higher living standard. With its innovation on technology, the Company will strive to develop new products to cope with people's increasing admiration on natural, nutrition, health and environmental protection. These products are safe and environmental friendly and can satisfy people's need for natural and healthy food and will help protecting peoples' health. The Company will focus on the developing high value-added natural food additives, with an aim to gain a leading position in the domain, which is full of vigor and vitality and bring economic contribution to the Company.

- Actively exploring the nutraceutical product market

  To cope with the trend on nutritional and multi-functional food, the Company will actively explore the nutraceutical product market. As the major entity in exploring the nutraceutical product market, the Company will adopt new selling mode by facing the ultimate customers directly and promote its business to grow fast and explore a new area for human health.

- Focus on core products and make use of advantage on scale production

  The core products of the Company, Lu Lu Tong Injection, Ling Yang Jiao Injection, Yong Chong Cao Jun Powder Capsule, Shi Long Blood Clean Granules, Ling Yang Jiao Drop and Lu Lu Tong Xie Sha Tong Infusion Fluid, continues to make contributions to the turnover. With the advanced production technologies and good production environment, the advantage on scale production will contribute more to the Company's business. In addition, people are more concern on healthy products. In 2009, the development of Jiang Zhi Ning granule (降脂寧顆粒) is impressive. As such, the Company planned to expand the Jiang Zhi Ning granule (降脂寧顆粒) production line to cope with the market demand. It will focus on the improvement in production equipment, environmental protection facilities and be well prepared for the future growth. Make use of its advantage on research and development to launch new products and extend its production line Through the Company's research centres, "the Life Gold Yong Chong Cao Jun Powder research center" and, "Lu Lu Tong Blood Clean research center", the Company will integrate its existing resources and research team, insist in innovation on technology with an aim to actively develop new products which are of high future potential and productivity. The Company will increase in the pace in launching new products, promote its business to new area with more potential and productivity.

B. Research of market and policies, establishment of sales channel and expansion of sales network

To keep a close eye on the market and policies, pay attention to "Four Changes", they are, changes in the pharmaceutical raw material market, changes in customers buying pharmaceutical raw materials, changes in competitors supplying pharmaceutical raw materials, and changes in healthcare reform policies and basic national medicine systems. We will take initiatives to respond to these changes so as to ensure that our annual sales target can be attained. Meanwhile, we will strictly control operating risks. Under the financial crisis, in the light of the decreasing sales, the senior management of the Company took initiatives to visit customers, enhance understanding and communication, and consolidating strategic partnerships, which effectively curbed a further downturn in export. The Company will continuously upgrade all-round quality of its sales personnel and enhance the overall standard of the sales team. With its outstanding sales team and its strategy on collaboration with international enterprise, the Company will endeavour to expand its sales network and apply effective sales strategy and actively explore new markets and new application for food additives products and strengthen customer service. In addition, the Company will actively bring in new mode of sales and try to explore new customers through electronic commercial platform with an aim to enlarge sales network and increase sales.

C. Upgrading of personnel quality and enhancement of corporate management standard

The pace of corporate development is determined by personnel quality under the exceptional economic environment. The Company will reinforce professional skill training to enhance personnel quality. It will also optimize personnel structure to strengthen team building, actively building an operational standard system and improve its management system standard. The Company will enhance its management level and coordinate the Company's continuing development. Base on the above directions, the Company will continue the production of food additives as its core business and will increase the competitiveness of its existing products by exploring new markets and new application area. At the same time, the Company will capitalize on its production and research strength to develop natural food additives, new functional food additives and nutraceutical products based on the existing technologies. The Company will continue to extend its production chain and create new growth area. Meanwhile, we will continue to implement the policy of "enhancing management, expanding market, restructuring business, and promoting development", to focus on solving outstanding problems in operations and management, technology renovation, energy saving and emission reduction, safety and environmental protection, and upgrade our internal and onsite management, and pursue best interests for its shareholders. The Company is confidence in its future.

By Order of the Board
Liu Yang
Chairman

Jilin, the PRC
19 March 2010

For the year ended 31 December 2009, turnover of the Company decreased by approximately 42.6% to approximately RMB 37,025,000, and gross profit dropped 39.2% from RMB21,818,000 to RMB13,265,000. However overall gross profit margin increased by approximately 2% from approximately 33.8% to approximately 35.8%. Other revenue increased from RMB601,000 to RMB5,341,000 due to the over-provision of other taxes payable and the over-provision of staff welfare fund in previous years. Profit attributable to owners of the Company amounted to RMB 442,000 (2008: RMB 5,667,000).

As compared with last year, distribution and selling expenses on sales increased 48.3% from RMB4,445,000 to RMB6,590,000 due to the increase promotion cost. Based on current overriding treasure policies and for prudent reason, impairment losses on trade receivables increase from RMB 2,532,000 to RMB4,421,000. Depreciation of property, plant and equipment increased 3.4% from RMB2,375,000 to RMB2,455,000, however, due to the stringent expenses cutting, the general, administrative and operating expenses decreased 15.9% from RMB8,502,000 to RMB7,153,000.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December, 2009, the Company had total assets of approximately RMB102,640,000 which were financed by current liabilities of approximately RMB17,408,000, owners' equity of approximately RMB85,232,000.

The Company generally services its debts primarily through cash generated from its operations. As at 31 December, 2009, the Company had cash and bank balances of approximately RMB19,551,000. Taking into consideration the Company's current financial resources, the Directors believe that the Company shall have adequate fund for its continual operation and development, but would not exclude the possibility of raising working capitals once required by way of additional bank loans or equity financing in future.

As at 31 December, 2009, the liquidity ratio, represented by a ratio between current assets over current liabilities, was 3.06 : 1, so the Director believed that the Company does not have liquidity problem. The gearing ratio of the Company, defined as a ratio between total liabilities and total assets, was 17%, is quite healthy.

TREASURY POLICIES

The Company adopts a conservative approach towards treasury policies. In selling its products, the Company may require new customers to make advance payment of approximately 45% of their purchases. The general credit terms in relation to the accounts receivable of the Company is 90 days. In certain circumstance, the credit period may be extended to appropriate level after relevant due diligence investigation. In determining the length of the credit term extended to any specific customer, the Company will consider the reputation of the customer, the length of business relationship with the customer and its past payment record. The Company's management also puts endeavors on credit control on its customers by closely monitoring the outstanding balance owed by them. The actions taken by the Company include conducting monthly reviews on accounts receivable, following up each debtor overdue more than 90 days and enforcing the collection of outstanding balance of accounts receivable. The Company strives to reduce exposure to credit risk by performing ongoing credit evaluations of financial condition of its customers.

To manage liquidity risk, management closely monitors the liquidity position to ensure that the liquidity restructure of the Company can meet its funding requirements.

EMPLOYEE INFORMATION

Remuneration of the Company's employees was determined by reference to the performance, qualification and experience of the relevant staff. Based on operating result, a discretionary incentive bonus based on individual performance may be distributed to reward their contributions to the Company. The management is of the opinion that employees are the most treasured assets of the Company. Accordingly, the Company has actively created a corporate environment to nurture them to their full potentials. Payroll costs of the Company remained at a similar level as before during the year. Other employee benefits include retirement benefits, medical insurance and housing fund contributions, remained at appropriate levels. Various training and development courses were also offered to enable employees to upgrade their skills.

DIRECTORS

Executive Directors

Xu Zhe (resigned on 4 December 2009), aged 40, is the chairman of the Company. Mr. Xu is responsible for the formulation and implementation of overall policy and strategy of the Company, as well as overseeing business development and sales and marketing activities of the Company. Mr. Xu was named twice as the "Excellent Sales Manager of the City of Jilin", "Excellent Citizen of the City of Jilin" and "Model Worker of the City of Jilin". He was a director of FE Holdings from 11 January 1999 to 10 April 2001. Mr. Xu also serves as a director of Hailaer City Yidaitianqiao Pharmaceutical Company Limited ("Hailaer") and Yakeshi Northeast Tiger Pharmaceutical Company Limited ("Yakeshi") respectively since 1998. Mr. Xu graduated from Jilin College of Fine Arts in the PRC. He went to the United States in 1996 to study business administration and he returned to the PRC in 1998 and founded NT Research. With the focus on the research and development of advanced and new technologies, Mr. Xu has developed the Company into a leading player in its field with substantial competitive edge. Mr. Xu is the son of Mr. Xu Dao Tian and Ms. Du Li Hua.

Liu Yang, aged 39, graduated from Central Party Political School (中央黨校) in Economic Management (經濟管理專業). He is currently serves as the managing director of Jilin Zhuo Yi Kang Na Pharmaceutical Co., Ltd. (吉林市卓怡康納制藥有限公司). He has been engaged in pharmaceutical industry in the PRC for about twenty years. Mr. Liu is a substantial shareholder of the Company.

Du Li Hua (resigned on 11 December 2009), aged 59, is the deputy chairman of the Company. Ms. Du graduated from Yanbian University majoring in economics and has been engaged in the pharmaceutical business since 1989. Ms. Du was once recognised as an "Young/Mid-aged Expert with Outstanding Contribution", was granted "Special Sponsorship" by the State Council, awarded a "May 1 Labour Medal of the Country" by the National Trade Union, and recognised as the "Outstanding Business Manager of the Country". In addition, she was also recognised as the "Outstanding Woman Entrepreneur of the Country", "Model Worker of the Province of Jilin", "Outstanding Woman of Jilin", "Great Woman Red Flag Pioneer of the Province", "Outstanding Entrepreneur in the Pharmaceutical Industry under the Eighth Five-year Plan" and "Premier Model Worker of the City of Jilin". The State Council of the PRC has granted Ms. Du a special stipend based on her capacity as an expert in her field. Ms. Du has also been a director of FE Holdings since 1992 and a director of Hailaer and Yakeshi respectively since 1998. She spent most of her time in FE Holdings and does not take active managerial role in the Company. She normally attends directors' meetings and supervisors' meeting of the Company. Ms. Du is the wife of Mr. Xu Dao Tian and is the mother of Mr. Xu Zhe.

Guo Feng, aged 34, is currently a director of 吉林省高科食用菌產業開發有限責任公司 (Jilin Gao Ke Mushroom Industry Development Co., Ltd). She has been engaged in pharmaceutical industry in the PRC for over ten years. Ms. Guo has been appointed as an executive Director and compliance officer on 11 December 2009.

Xu Dao Tian (resigned on 11 December 2009), aged 62, is the deputy chairman and general manager of the Company. Mr. Xu is responsible for the Company's overall operational activities, production management and product research and development. Mr. Xu graduated from Jilin Teachers College majoring in Chemistry and is a senior economist. He successively won the titles of, among others, "Outstanding Sales Manager of the City of Jilin" and "Advanced Developer of the Production Systems for the City's Pharmaceutical Industry". He was also awarded first honour in the "Business Starter of the Year" contest in 1999 held by Jilin Municipal Chamber of Industry. Mr. Xu has substantial experience in production management and product development. He was a director of FE Holdings from 11 January 1999 to 10 April 2001. Mr. Xu has also been a supervisor of FE Water since October 1996, an executive director of You Lian since April 1999 and a director of Hailaer since April 1998. Mr. Xu is the husband of Ms. Du Li Hua and is the father of Mr. Xu Zhe.

Wang Xue Hua, aged 43, is currently a director of 九台市藍寶石科技開發有限公司 (Jiu Tai City Sapphire Technology Development Co., Ltd.). He has been engaged in pharmaceutical industry in the PRC for more than fifteen years. Mr. Wang has been appointed as an executive Director and general manager on 11 December 2009.

Leng Zhan Ren (resigned on 11 December 2009), aged 46, is a Director of the Company. Mr. Leng is responsible for the overall financial planning of the Company. Mr. Leng has also served as a supervisor of Hailaer and Yakeshi respectively since 1998. He graduated from Jilin College of Finance and Trade, majoring in accounting, and is a qualified accountant in the PRC. Mr. Leng has written a financial software "Accounting and Financial Statement System" which has been recognised by the provincial authority in Jilin and was launched in the market as a commercial software in 1999. The software has been awarded a second-class award by the Electronic Industry Department and a first-class award by the provincial authority.

Jin Xin, aged 39, is currently the chief financial officer of the Company. He graduated from 吉林財貿學院 (Jilin Finance Institute). Mr. Jin has been appointed as an executive Director and authorized representative on 11 December 2009.

Independent non-executive Directors

Lam Kai Yeung, aged 40. Mr. Lam has been appointed as the independent non-executive Director, member of audit committee and member of remuneration committee of the Board with effect from 7 August 2008. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. He possesses accounting and auditing experience in excess of 18 years.

Niu Shu Min, aged 70, was appointed an independent non-executive director of the Company on 11 July 2001. After graduating from the chemistry faculty of Shenyang Medical Institute, she has worked as the deputy manager of Jilin Pharmaceutical Company, and the deputy director and thereafter director of the JDA until she retired in June 1999. She has over 4 years of experience in financing. Currently she is the vice president and general secretary of the Association of Pharmaceutical Quality Control of the PRC and a standing committee member of Jilin People's Political Consultative Conference.

Zhao Zhen Xing, aged 67, was appointed an independent non-executive director of the Company on 30 September 2004. He graduated from College of Jilin provincial Finance and banking. He became a registered Auditor of PRC in 1994, and in July 1997 he was recognized as a senior accountant of PRC. He was manager of internal audit department of Jilin Tansu Group, Jilin Tansu Company Limited during 1991 to 2001. He served as Supervisor of Jilin Tansu Group, Jilin Tansu Company Limited during 1997 to 2001.

SUPERVISORS

Zhang Ya Bin, aged 47, is the chairman of the supervisory committee of the Company. Mr. Zhang joined the Company on 28 June 2000. He does not take any active role in the Company. He graduated from Northeast Normal University majoring in political studies and is currently a director of FE Holdings, Hailaer and Yakeshi respectively. Mr. Zhang was the assistant to the chairman of FE Holdings and a deputy secretary of the communist party committee of that company.

Chen Lin Bo, aged 54, is a supervisor of the Company who joined the Company on 28 June 2000. He is responsible for infrastructure project of the Company. He graduated from Changchun Traditional Chinese Medical College, majoring in medical studies. He had been the deputy manager of NT Drugs for years. He was also in charge of the infrastructure project of NT Pharmaceutical.

Yin Hong, aged 40, is a supervisor of the Company who joined the Company on 28 June 2000. He graduated from Changchun College of Taxation Studies majoring in accounting and is an accountant. Ms. Yin has served as the deputy financial controller of FE Holdings since 1992.

SENIOR MANAGEMENT

Gao Yue Ying, aged 39, is the secretary of the board of directors of the Company and the supervisor of the general manager's office. Ms. Gao graduated from Jilin College of Finance and Trade and is an assistant accountant.

Report of the Supervisory Committee

To the Shareholders:

The supervisory committee ("we") of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company"), in compliance with the provisions of the Company Law of the People's Republic of China (the "PRC Company Law"), the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, under their fiduciary duty, took up an active role to work reasonably and cautiously with diligence to protect the interests of the Company and its shareholders.

During the year, Supervisory Committee had reviewed cautiously the operation and development plans of the Company and provided reasonable suggestions and opinions to the Board of Directors. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the Articles of Association of the Company, and in the interests of its shareholders.

We have reviewed and agreed to the report of the Directors, audited financial statements and the dividend to be proposed by the Board of Directors for presentation at the forthcoming annual general meeting. We are of the opinion that the Directors, the general manager and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. The transactions between the Company and connected parties are in the interests of the shareholders as a whole and under fair and reasonable price. Up till now, none of the Directors, general manager and senior management staff had been found abusing their authority, damaging the interests of the Company and infringing upon the interests of its shareholders and employees. And none of them were found to be in breach of any laws and regulations or the Articles of Association of the Company.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2009 and has great confidence in the future of the Company.

By Order of the Supervisory Committee
Zhang Ya Bin
Chairman

Jilin, the PRC
19 March, 2010

INTRODUCTION

Subject to the deviation as disclosed on this report, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing a formal and transparent procedure to protect and maximize the interests of shareholders during the period under review.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2009.

BOARD OF DIRECTORS AND BOARD MEETING

The Board currently consists of 4 executive Directors and 3 independent non-executive Directors.

Executive Directors:

Mr. Xu Zhe *(Chairman, resigned on 4 December 2009 and replaced by Liu Yang)*
Madam Du Li Hua *(Resigned on 11 December 2009 and replaced by Guo Feng)*
Mr. Xu Dao Tian
(Chief Executive Officer, resigned on 11 December 2009 and replaced by Wang Xuehua)
Mr. Leng Zhan Ren *(Resigned on 11 December 2009 and replaced by Jin Xin)*

Independent non-executive Directors:

Mr. Lam Kai Yeung
Miss Niu Shu Min
Mr Zhao Zhen Xing

The board of Directors is responsible for the Company's corporate policy formulation, business strategies planning, business development, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out on pages 8 to 10 of this Annual Report. All Directors have given sufficient time and attention to the affairs of the Company. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Except that Mr. Xu Zhe, Xu Dao Tian and Madam Du Li Hua are member of a family, there is no relationship among the members of the board of Directors.

The Company appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Mr. Lam Kai Yeung, Miss Niu Shu Min and Mr. Zhao Zhen Xing are the independent non-executive Directors. Mr. Lam Kai Yeung has been appointed on 7 August 2008 and Miss Niu Shu Min Li has been appointed for a term of three years commencing on 20 May 2005. Mr. Zhao Zhen Xing has been appointed for a term of three years commencing on 30 September 2004. All of them are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association.

Under the code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. The existing articles of association of the Company provide that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation.

Accordingly, as at the date of this report, Mr. Xu Zhe (Resigned on 4 December 2009 and replaced by Liu Yang), being the chairman of the Company, is not subject to retirement by rotation. In order to comply with the code provision A.4.2, others directors, once served their directorship for over three years will retire at the forthcoming annual general meeting of the company, and being eligible, will offer themselves for re-election.

Pursuant to the requirements of the GEM Listing Rules, the Company has received written confirmation from each independent non-executive Director of his independence to the Company. Based on such confirmations of independence, the Company considers all of the independent non-executive Directors to be independent.

During the year under review, Mr. Xu Zhe (Resigned on 4 December 2009 and replaced by Liu Yang) was the chairman and Mr. Xu Dao Tian (Resigned on 11 December 2009 and replaced by Wang Xuehua) was the chief executive officer.

The roles of the chairman and chief executive officer are segregated and are not exercised by the same individual during the year under review, the chairman's responsibility is to manage the Board while the chief executive officer's is to manage the business of the Company.

The board of Directors held a full board meeting for each quarter.

Details of the attendance of the meetings of the board of Directors are as follows:

Directors Attendance

Mr. Xu Zhe *(Resigned on 4 December 2009 and replaced by Liu Yang)*	5/5
Mr. Liu Yang *(Appointed on 4 December 2009)*	2/2
Mr. Xu Dao Tian *(Resigned on 11 December 2009 and replaced by Wang Xuehua)*	6/6
Mr. Wang Xuehua *(Appointed on 11 December 2009)*	2/2
Madam Du Li Hua *(Resigned on 4 December 2009 and replaced by Guo Feng)*	6/6
Ms. Guo Feng *(Appointed on 11 December 2009)*	2/2
Mr. Leng Zhan Ren *((Resigned on 4 December 2009 and replaced by Jin Xin)*	6/6
Mr. Jin Xin *(Appointed on 11 December 2009)*	2/2
Mr. Lam Kai Yeung	7/7
Ms. Niu Shu Min	7/7
Mr. Zhao Zhen Xing	7/7

Apart from the above regular board meetings of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision in advance of each board meeting.

REMUNERATION COMMITTEE

The remuneration committee was established in August 2005. The current chairman of the committee is Mr. Lam Kai Yeung, a non-executive Director, and other members are Miss Niu Shu Min and Mr. Zhao Zhen Xin, both of them are independent non-executive Directors, thus the all being independent non-executive Directors.

Under the code provision B.1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. It was not until August, 2005 that the Company established a remuneration committee as required under the code provision B.1.1.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive

Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Company and desirability of performance-based remuneration.

During the period under review, a meeting of the remuneration committee was held in December 2009. Details of the attendance of the meeting of the remuneration committee meeting are as follows:

Members	Attendance
Mr. Lam Kai Yeung	1/1
Ms. Niu Shu Min	1/1
Mr. Zhao Zhen Xing	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

NOMINATION OF DIRECTORS

No nomination committee was established by the Company during the year.

The Board of directors considers the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship during the year.

During the period, the board of Directors considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Further, in accordance with the Company's articles of association (subject to the proposed amendments at the forthcoming annual general meeting), except Mr. Xu Zhe, those who have served the Company for more than three year will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Under code provision A.4.2 of the Corporate Governance Practices, every Director should be subject to retirement by rotation at least once every three years. The existing articles of association of the Company provide that no Director holding office as chairman shall be subject to retirement by rotation. Accordingly, as at the date of this report, Mr. Liu Yang, being the chairman of the Company, is not subject to retirement by rotation.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process, financial controls, internal control and risk management systems; of the Company and provide advice and comments on the Company's draft annual reports and accounts, half year reports and quarterly reports to Directors. The audit committee comprises three members, Mr. Lam Kai Yeung, Miss Niu Shu Min and Mr. Zhao Zhen Xing. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Lam Kai Yeung.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	Attendance
Mr. Lam Kai Yeung	4/4
Ms. Niu Shu Min	4/4
Mr. Zhao Zhen Xing	4/4

The Company's unaudited quarterly and interim results and annual audited results for the year ended 31 December 2009 have been reviewed by the audit committee during the year, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made. The audited results of the Company for the year have been reviewed by the audit committee.

Directors' Responsibility for the Financial Statements

The Directors knowledge their responsibilities for the preparation of the financial statements of the Company and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Company. The statements of the external auditors of the Company, PAN-CHINA (H.K.) CPA Limited, about their reporting responsibilities on the financial statements of the Company is set out in the Report of Auditors on pages 24 to 25 of this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control.

AUDITORS

During the year under review, the performance of the external auditors of the Company has been reviewed and it is proposed to reappoint external auditors.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company has disclosed all necessary information to the shareholders and investors in compliance with GEM Listing Rules and uses a number of formal communications channels to account to shareholders and investors for the Company. These include (i) the publication of quarterly and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) the Company replying to the enquires from shareholders timely; (iv) updated and key information of the Company available on website of the Company; (v) the Company's website offering communication channel between the Company and its shareholders and investors; and (vi) the Company's share registrar in Hong Kong serves the shareholders regarding all share registration matters.

LOOKING FORWARD

The Company will keep on reviewing its corporate governance standards on a timely basis and the Board endeavour to take the necessary actions to ensure compliance with the required practices and standards including the provisions of the Code on Corporate Governance Practices introduced by the Stock Exchange.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting ("AGM") of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") will be held at No.3, No.2 Road, Jilin Hi-Tech Development Zone, Jilin City, Jilin Province, the PRC on 18 May 2010 at 9:00 a.m. for the following purposes:

To consider and, if thought fit, pass the following matters as ordinary resolutions:

1. To receive and consider the audited financial statements of the Company and the Report of the Directors and the Auditors respectively for the year ended 31 December 2009;

2. To appoint auditors and to authorize the board of directors of the Company to fix their remuneration;

3. To empower the executive directors of the Company to exercise the authority for the determination of incentive bonus to the relevant person of the Company as a motivation for the contribution of efforts to the development of the Company, if any.

4. To consider and approve the remuneration proposals for Directors and supervisors of the Company for the year ending 31 December 2009;

5. To consider and elect the appointment of the following candidates as directors of the new Session Board of Directors (their biographical details are set out in Appendix 1 herein) due to expiry of their terms of office and each of them shall be eligible for re-election by shareholders upon the end of the term according to the articles of association of the Company.

    (a) Liu Yang (executive director);

    (b) Guo Feng (executive director);

    (c) Wang Xuehua (executive director);

    (d) Jin Xin (executive director);

    (e) Lam Kai Yeung (independent non-executive director);

    (f) Niu Shu Min (independent non-executive director);

    (g) Zhao Zhen Xing (independent non-executive director);

6. To consider and elect the appointment of the following candidates as the supervisors not assumed by representatives of the employees of the new Session Supervisory Committee (their biographical details are set out in Appendix 2 herein) due to expiry of their terms of office and each of them shall be eligible for re-election by shareholders upon the end of the term according to the articles of association of the Company.

    (a) Zhang Ya Bin;

    (b) Chen Lin Bo;

    (c) Yin Hong

7. To transact any other business, if any.

By Order of the Board
Liu Yang
Chairman

Jilin, the PRC
19 March 2010

As at the date of this notice, the Company's executive directors are Liu Yang, Guo Feng, Wang Xue Hua and Jin Xin and the Company's independent non-executive directors are Lam Kai Yeung, Niu Shu Min and Zhao Zhen Xing.

Notes:

1. Any shareholder entitled to attend and vote at the meeting mentioned above is entitled to appoint one or more proxies to attend and vote at the meeting on his or her behalf in accordance with the articles of association of the Company. A proxy needs not be a shareholder of the Company.

2. In order to be valid, the proxy form of holder of H shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the Company's registered office not less than 24 hours before the time for holding the meeting or 24 hours before the time appointed for taking the poll.

3. Shareholders or their proxies shall produce their identity documents when attending the meeting.

4. The H share register of shareholders of the Company will be closed from 16 April 2010 to 18 May 2010 (both days inclusive), during which no transfer of shares will be registered. In order to ascertain the entitlement to attend at the above meeting, all properly completed transfer forms accompanied by the relevant share certificate must be lodged with the Company's share registrar not later than 4:00 p.m. on 15 April 2010, for registration.

5. Shareholders who intend to attend the AGM should complete the enclosed reply slip for the AGM and return it to the Company's registered office not later than 28 April 2010.

APPENDIX 1 OF NOTICE OF ANNUAL GENERAL MEETING

Biographical details of the candidates proposed to be elected as directors are set out as follows:

Executive Directors

Liu Yang, aged 39, graduated from Central Party Political School (中央黨校) in Economic Management (經濟管理專業). He is currently serves as the managing director of Jilin Zhuo Yi Kang Na Pharmaceutical Co., Ltd. (吉林市卓怡康納制藥有限公司). He has been engaged in pharmaceutical industry in the PRC for about twenty years. Mr. Liu is a substantial shareholder of the Company.

Guo Feng, aged 34, is currently a director of 吉林省高科食用菌產業開發有限責任公司 (Jilin Gao Ke Mushroom Industry Development Co., Ltd). She has been engaged in pharmaceutical industry in the PRC for over ten years. Ms. Guo has been appointed as an executive Director and compliance officer on 11 December 2009.

Wang Xue Hua, aged 43, is currently a director of 九台市藍寶石科技開發有限公司 (Jiu Tai City Sapphire Technology Development Co., Ltd.). He has been engaged in pharmaceutical industry in the PRC for more than fifteen years. Mr. Wang has been appointed as an executive Director and general manager on 11 December 2009.

Jin Xin, aged 39, is currently the chief financial officer of the Company. He graduated from 吉林財貿學院 (Jilin Finance Institute). Mr. Jin has been appointed as an executive Director and authorized representative on 11 December 2009.

Independent non-executive Directors

Lam Kai Yeung, aged 40. Mr. Lam has been appointed as the independent non-executive Director, member of audit committee and member of remuneration committee of the Board with effect from 7 August 2008. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. He possesses accounting and auditing experience in excess of 18 years.

Niu Shu Min, aged 70, was appointed an independent non-executive director of the Company on 11 July 2001. After graduating from the chemistry faculty of Shenyang Medical Institute, she has worked as the deputy manager of Jilin Pharmaceutical Company, and the deputy director and thereafter director of the JDA until she retired in June 1999. She has over 4 years of experience in financing. Currently she is the vice president and general secretary of the Association of Pharmaceutical Quality Control of the PRC and a standing committee member of Jilin People's Political Consultative Conference.

Zhao Zhen Xing, aged 67, was appointed an independent non-executive director of the Company on 30 September 2004. He graduated from College of Jilin provincial Finance and banking. He became a registered Auditor of PRC in 1994, and in July 1997 he was recognized as a senior accountant of PRC. He was manager of internal audit department of Jilin Tansu Group, Jilin Tansu Company Limited during 1991 to 2001. He served as Supervisor of Jilin Tansu Group, Jilin Tansu Company Limited during 1997 to 2001.

APPENDIX 2 OF NOTICE OF ANNUAL GENERAL MEETING

Biographical details of the candidates proposed to be elected as the supervisors not assumed by representatives of the employees are set out as follows:

Zhang Ya Bin, aged 47, is the chairman of the supervisory committee of the Company. Mr. Zhang joined the Company on 28 June 2000. He does not take any active role in the Company. He graduated from Northeast Normal University majoring in political studies and is currently a director of FE Holdings, Hailaer and Yakeshi respectively. Mr. Zhang was the assistant to the chairman of FE Holdings and a deputy secretary of the communist party committee of that company.

Chen Lin Bo, aged 54, is a supervisor of the Company who joined the Company on 28 June 2000. He is responsible for infrastructure project of the Company. He graduated from Changchun Traditional Chinese Medical College, majoring in medical studies. He had been the deputy manager of NT Drugs for years. He was also in charge of the infrastructure project of NT Pharmaceutical.

Yin Hong, aged 40, is a supervisor of the Company who joined the Company on 28 June 2000. He graduated from Changchun College of Taxation Studies majoring in accounting and is an accountant. Mr. Yin has served as the deputy financial controller of FE Holdings since 1992.

Report of the Directors

The Directors are pleased to present their report together with the audited financial statements of Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") for the year ended 31 December 2009.

COMPANY ORGANISATION

The Company was incorporated in the People's Republic of China (the "PRC") on 20 November 1998 as a privately owned company with limited liability. On 30 June 2000, the Company was converted into a joint stock company with limited liability in the PRC.

The Company's H shares have been listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 28 February 2002.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the manufacturing and sale of Chinese medicine products in the PRC as well as conducting pharmaceutical research and development.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Company's major suppliers and customers are as follows:

Purchases

–	the largest supplier	18.9%
–	five largest suppliers combined	71%

Sales

–	the largest customer	16.9%
–	five largest customers combined	51.6%

None of the Directors, Supervisors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

RESULTS AND APPROPRIATIONS

The results of the Company for the year are set out in the statement of comprehensive income on page 26

The Directors do not recommend the payment of a dividend.

RESERVES

Movement of the reserves of the Company during the year is set out in Note 23 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements of property, plant and equipment of the Company are set out in Note 15 to the financial statements.

FOREIGN EXCHANGE RISK

Since all of the income and most of expenses of the Company are denominated in Renminbi, as at 31 December 2009 the Directors consider the impact on foreign exchange exposure of the Company is minimal.

CONTINGENT LIABILITIES
Up to the date of this report, the Company did not have any material contingent liabilities.

SIGNIFICANT INVESTMENT
During the year, the Company did not have no any significant investment which needed to disclose.

MERGERS AND ACQUISITIONS
During the year, the Company has not engaged in any mergers and acquisitions which need to disclose.

DISPOSAL OF MAJOR ASSETS AND INVESTMENTS
During the year, the Company has not disposed of any major assets and investments.

SHARE CAPITAL
Details of movement of share capital of the Company are set out in Note 22 to the financial statements.

DIRECTORS
The Directors during the year and up to the date of this report are:

Executive Directors
Mr. Xu Zhe *(Chairman, resigned on 4 December 2009 and replaced by Liu Yang)*
Madam Du Li Hua *(Resigned on 11 December 2009 and replaced by Guo Feng)*
Mr. Xu Dao Tian
(Chief Executive Officer, resigned on 11 December 2009 and replaced by Wang Xuehua)
Mr. Leng Zhan Ren *(Resigned on 11 December 2009 and replaced by Jin Xin)*

Independent Non-executive Directors
Lam Kai Yeung
Niu Shu Min
Zhao Zhen Xing

In accordance with the Articles of Association of the Company, all Directors will retire every three years and, being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS
None of the Directors and Supervisors has a service contract with the Company which is not terminable within one year without payment of compensation, other than statutory compensation.

RETIREMENTS SCHEME, PERSONNEL AND PAYROLL
Particulars of the retirement scheme of the Company are set out in Note 10 to the accompanying financial statements.

CHARGES ON ASSETS
As at 31 December 2009, no assets were pledged to secure any loans or borrowings granted to the Company by any parties.

BORROWINGS

Particulars of borrowings of the Company as at 31 December 2009 are set out in Note 19 to the accompanying financial statements.

CONNECTED PARTY TRANSACTIONS

The related party transactions disclosed in Note 24 to the accompanying financial statements constitute the connected transactions under Chapter 20 of the GEM Listing Rules.

The non-executive directors of the Company had reviewed the connected transactions of the year ended 31 December 2009 and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of business of the Company;

(ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties;

(iii) in accordance with the relevant agreements governing the transactions; and on terms that are fair and reasonable and in the interests of the owners of the Company as a whole; and

(iv) the aggregate amount of each of these transactions has not exceeded the annual total cap amount as approved by the Stock Exchange.

DIRECTORS' AND SUPERVISORS' INTEREST IN SHARES, WARRANTS AND SHARE OPTIONS

As at 31 December, 2009, the interests and short positions of the Directors and supervisors of the Company ("Supervisor") in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors and Supervisors to be notified to the Company and the Stock Exchange, were as follows:

- **Long positions in Shares**

Name of Directors or Supervisors	Number of Domestic Shares personally interested	Approximate percentage of Shareholding (%)
Liu Yang	194,194,580	26.01
Xu Zhe	183,482,440	24.57
Xu Dao Tian	150,644,480	20.18
Zhang Ya Bin	1,618,960	0.22
	529,940,460	70.98

Save as disclosed above, none of the Directors, Supervisors and the chairman or their respective associates had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors and Supervisors to be notified to the Company and the Stock Exchange.

DIRECTORS' AND SUPERVISORS' RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

As at 31 December, 2009, the Company was not a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors and Supervisors or their spouses or children under the age of 18 had any right to subscribe the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or Supervisor, as at 31 December, 2009, the persons or companies (not being a Director or Supervisor of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follow:

- **Long positions in Shares**

Name	Number of H shares held	Approximate percentage of H shareholding (%)
Pang Siu Chung	12,740,000(L)*	6.15(L)*

*Notes: (L) – Long Position, (S) - Short Position

Save as disclosed above, as at 31 December, 2009, the Directors were not aware of any other person who had an interest or short position in the Shares of the underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

COMPETING INTERESTS

None of the Directors and Supervisors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has an interest in any business that competes or may compete with the business of the Company.

AUDIT COMMITTEE

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company has set up an audit committee. In compliance with Rule 5.29 of the GEM Listing Rules, the authority and responsibility of the audit committee has been properly written out. The primary duties of the audit committee are to review and supervise the financial reporting and internal control systems of the Company. The audit committee comprises Mr. Lam Kai Yeung, Ms. Niu Shu Min and Mr. Zhao Zhen Xing, all of who are independent non-executive Directors.

The audit committee had conducted a meeting and reviewed the Company's unaudited results for the period ended 31 December, 2009 and was of the opinion that the preparation of unaudited results complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made.

CORPORATE GOVERNANCE

During the period under review, the Company complied with the provisions set out in Appendix 15 of the Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on the GEM.

STANDARD OF DEALINGS AND MODEL CODE OF PRACTICE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a model code of practice with standards not lower than those required for securities transactions by directors. The Company has confirmed after making due enquiries with the Directors in accordance with the code of practice, that all the Directors have complied with the standard of dealings and model code of practice in relation to securities transaction by directors.

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

Since the H shares of the Company commenced trading on GEM on 28 February, 2002, the Company has not purchased, sold or redeemed any of the Company's listed securities.

DIVIDEND AND CLOSURE OF H SHARE REGISTER

The Directors do not recommend the payment of a dividend for the year end 31 December 2009. The H share register of shareholders of the Company will be closed from 16 April 2010 to 18 May 2010 (both days inclusive).

AUDITORS

The financial statements have been audited by PAN-CHINA (H.K.) CPA Limited (formerly practiced under the name of NCN CPA Limited), who retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all shareholders for their full support.

By Order of the Board
Liu Yang
Chairman

Jilin, the PRC
19 March, 2010

Independent Auditors' Report

TO THE MEMBERS OF
NORTHEAST TIGER PHARMACEUTICAL CO., LTD.
(A joint stock limited company incorporated in the People's Republic of China)

We have audited the financial statements of Northeast Tiger Pharmaceutical Co., Ltd. set out on pages 26 to 59, which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2009 and of it's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PAN-CHINA (H.K.) CPA LIMITED
Certified Public Accountants

Choi Man Chau, Michael
Practising Certificate Number P01188

20/F., Hong Kong Trade Centre,
161-167 Des Voeux Road,
Central, Hong Kong,
Hong Kong S.A.R., China

19 March 2010

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2009

(Expressed in Renminbi)

	Note	**2009 RMB'000**	2008 RMB'000
Turnover	5	**37,025**	64,522
Cost of sales		**(23,760)**	(42,704)
Gross profit		**13,265**	21,818
Other revenue	5	**5,341**	601
Gain on disposal of property, plant and equipment		**–**	19
Impairment losses on buildings		**–**	(1,292)
Impairment losses on trade receivables		**(4,421)**	(2,532)
Distribution and selling expenses		**(6,590)**	(4,445)
General, administrative and operating expenses		**(7,153)**	(8,502)
Profit before income tax expense	6	**442**	5,667
Income tax expense	7	**–**	–
Profit for the year		**442**	5,667
Other comprehensive income		**–**	–
Total comprehensive income for the year		**442**	5,667
Profit attributable to owners of the Company		**442**	5,667
Total comprehensive income attributable to owners of the Company		**442**	5,667
Dividends	9	**–**	–
Earnings per share	8		
Basic		**0.06cents**	0.76cents
Diluted		**N/A**	N/A

All of the Company's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.

Statement of Financial Position

AS AT 31 DECEMBER 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Intangible assets	13	**–**	–
Land use rights	14	**10,597**	10,844
Property, plant and equipment	15	**38,652**	40,934
		49,249	51,778
Current assets			
Inventories	16	**2,957**	14,789
Trade and other receivables	17	**30,883**	32,481
Cash and bank balances	18	**19,551**	11,610
		53,391	58,880
Total assets		**102,640**	110,658
Less: Current liabilities			
Short-term borrowings	19	**20**	20
Trade and other payables	20	**17,388**	25,848
		17,408	25,868
Net current assets		**35,983**	33,012
Net assets		**85,232**	84,790
Capital and reserves attributable to the owners of Company			
Share capital	22	**74,665**	74,665
Reserves	23	**10,567**	10,125
Total equity		**85,232**	84,790

The financial statements were approved by the Board of Directors on 19 March 2010 and signed on behalf of the Board by:

Liu Yang
Director

Jin Xin
Director

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2009
(Expressed in Renminbi)

		Capital reserve					
	Share capital RMB'000	**Share premium** RMB'000	**Others** RMB'000	**Statutory public welfare fund** RMB'000	**Statutory revenue reserve** RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
As at 1 January 2008	74,665	19,027	11,326	3,928	5,757	(35,580)	79,123
Profit for the year	–	–	–	–	–	5,667	5,667
Total comprehensive income for the year	–	–	–	–	–	5,667	5,667
As at 31 December 2008 and at 1 January 2009	74,665	19,027	11,326	3,928	5,757	(29,913)	84,790
Profit for the year	–	–	–	–	–	442	442
Total comprehensive income for the year	–	–	–	–	–	442	442
As at 31 December 2009	74,665	19,027	11,326	3,928	5,757	(29,471)	85,232

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2009

(Expressed in Renminbi)

	2009 **RMB'000**	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax expense	**442**	5,667
Impairment losses on buildings	**–**	1,292
Depreciation of property, plant and equipment	**2,455**	2,375
Amortisation of land use right	**247**	247
Gain on disposal of property, plant and equipment	**–**	(19)
Over-provision of other taxes payable	**(3,425)**	–
Over-provision of staff welfare fund	**(1,888)**	–
Provision for impairment of trade receivables	**4,421**	2,532
Provision for impairment of advances to staff	**45**	116
Provision for impairment of other receivables	**–**	(141)
Interest income	**(28)**	(14)
Operating profit before movements in working capital	**2,269**	12,055
Decrease/(Increase) in inventories	**11,832**	(3,745)
Increase in trade and other receivables	**(2,868)**	(3,241)
Decrease in trade and other payables	**(3,147)**	(2,828)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**8,086**	2,241
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	**28**	14
Proceeds from sale of property, plant and equipment	**–**	130
Purchase of property, plant and equipment	**(173)**	(1,276)
NET CASH USED IN INVESTING ACTIVITIES	**(145)**	(1,132)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of short-term borrowings	**–**	(10,000)
NET CASH USED IN FINANCING ACTIVITIES	**–**	(10,000)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**7,941**	(8,891)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**11,610**	20,501
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**19,551**	11,610
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**19,551**	11,610

All of the Company's cash and bank balances are denominated in Renminbi which is not freely convertible to other currencies.

1. CORPORATE INFORMATION

Northeast Tiger Pharmaceutical Co., Ltd. (the "Company") is a joint stock limited company incorporated in the People's Republic of China (the "PRC") and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The addresses of its registered office and principal place of business are disclosed in the corporate information section of the annual report.

The financial statements are presented in Renminbi, which is the same as the functional currency of the Company.

Its principal activities are the development, manufacture and sale of medicines in the PRC. There were no significant changes in the nature of its principal activities during the year.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention except that the intangible assets, land use rights and buildings are measured at their revalued amount or fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(Expressed in Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) The adoption of new and revised HKFRSs

In the current year, the Company has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRS (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRS (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has no material effect on the financial statements of the Company for the current and prior accounting periods.

(a) HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

(b) HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Company's reportable segments (see note 4) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

(c) Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk.

(Expressed in Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) The adoption of new and revised HKFRSs (continued)

The Company has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendments)	Classification of Rights Issues[4]
HKAS 39 (Amendments)	Eligible Hedged Items[1]
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of Minimum Funding Requirement[5]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity[6]

(1) Effective for annual periods beginning on or after 1 July 2009.

(2) Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

(3) Effective for annual periods beginning on or after 1 January 2010.

(4) Effective for annual periods beginning on or after 1 February 2010.

(5) Effective for annual periods beginning on or after 1 January 2011.

(6) Effective for annual periods beginning on or after 1 July 2010.

(7) Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of financial assets.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) The adoption of new and revised HKFRSs (continued)

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might not affect the classification and measurement of the leasehold land.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on financial statements.

(d) Foreign currency translation

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are dealt with in profit or loss for the period in which they arise.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost or fair value less subsequent depreciation and impairment losses.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated at the end of the reporting period at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses.

Any revaluation increase arising on revaluation of buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained earnings.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate costs or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	: 25-35 years
Machinery	: 5-11 years
Motor vehicles	: 8 years
Office equipment and others	: 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is dealt with in profit or loss in the year in which the item is derecognised.

(f) Intangible assets

(i) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical and commercial feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(ii) Technical know-how

Costs on acquired technical know-how are recognised and amortised using the straight-line method over the estimated useful lives of between 5 to 10 years, from the date when the technical know-how is available for use.

Both the period and method of amortisation are reviewed annually.

(g) Impairment of tangible and intangible assets

At the end of the reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is indication that they may be impaired.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(g) Impairment of tangible and intangible assets (continued)

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as a revaluation decrease under that Standard.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that Standard.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognised as an expense in the period the write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Financial instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income for financial assets and interest expense for financial liabilities are recognised on an effective interest basis.

i) Financial assets

The financial assets of the Company include loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see the accounting policy in impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the debtors have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the debtor will enter bankruptcy or financial re-organisation.

For financial assets are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Financial instruments (continued)

ii) Financial liabilities and equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

iii) Derecognition

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when a financial asset is transferred, the Company has transferred substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(k) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) Income tax (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(l) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts. Revenue is recognised as follows:

(i) Sales of goods are recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

(ii) Subsidy income is recognised upon granting of subsidy by the relevant authorities.

(iii) Interest income from bank deposits is recognised on a time-apportioned basis that takes into account the effective yield on the assets.

(m) Related party transactions

A party is related to the Company if:

a. directly, or indirectly through one or more intermediaries, the party:

   (i) controls, is controlled by, or is under common control with the Company;

   (ii) has an interest in the Company that gives it significant influence over the Company; or

   (iii) has joint control over the Company;

b. the party is a jointly controlled entity in which the entity is a venturer;

c. the party is an associate;

d. the party is a member of the key management personnel of the Company;

e. the party is a close member of the family of any individual referred to in (a) or (d);

f. the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(m) Related party transactions (continued)

g. the party is a post-employment benefit plan for the benefit of employees of the Company, or of any entity that is a related party of the Company.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(n) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are charged as an expense when employees have rendered service entitling them to the contributions. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values. Details of employee benefits are set out in note 10.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(p) Leases (continued)

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Interest in leasehold land is accounted for as operating leases and amortised over the lease term on a straight-line basis.

(q) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations as discussed below, which have the most significant effect on the amounts recognised in the financial statements.

(i) Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Company has to exercise judgment in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Judgements (continued)

(ii) Income taxes

Deferred tax is provided using the liability method, on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all or the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at the end of each reporting period and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilization periods to allow utilisation of the carry forward tax losses, the asset balance will be reduced and charged to the profit or loss.

(b) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of the Company's assets and liabilities within the next financial year are discussed below.

(i) Impairment test of assets

The Company determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(ii) Income taxes

The Company reviews the carrying amount of deferred tax assets at the ended of each reporting period and reduces the amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. This requires an estimation of the future taxable profits. Estimating the future taxable profits requires the Company to make an estimate of the expected future earnings from the Company and also to choose a suitable discount rate in order to calculate the present value of the earnings.

(iii) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Company assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year when the estimate is changed and the future period.

4. SEGMENT INFORMATION

The development, manufacture and sale of medicine products is the only reportable segment information reported internally to the Company's most senior executive management for the purposes of resource allocation and performance assessment.

All Company's revenues, results, assets and liabilities are attributable to this reportable segment. The Company operates in the PRC. All company's turnover is generated in the PRC.

The Company's customer base is diversified and includes only 3 customers (2008: 1) with whom transactions have exceeded 10% of the Company's revenues. In 2009 revenue from sales of medicine products to these customers amounted to approximately RMB17,486,000 (2008: RMB7,699,000). Details of concentration of credit risk arising from these customers are set out in note 27.

5. TURNOVER AND OTHER REVENUE

	2009 RMB'000	2008 RMB'000
Turnover:		
Sales of medicines in the PRC	**37,025**	64,522
Other revenue:		
Interest income from bank deposits	**28**	14
Over-provision of other taxes payables	**3,425**	–
Over-provision of staff welfare fund	**1,888**	–
Provision for impairment loss on other receivables written back	**–**	511
Sundry income	**–**	76
	5,341	601
Total revenues	**42,366**	65,123

Turnover represents the net amounts received and receivable for goods sold by the Company to outside customers. All of the Company's sales made in the PRC are subject to value added tax ("VAT") at a rate of 17% ("output VAT"). Such output VAT is payable after offsetting VAT paid by the Company on purchases ("input VAT").

6. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is stated after charging:

	2009 RMB'000	2008 RMB'000
Cost of inventories sold	**23,760**	42,704
Staff costs excluding directors' emoluments		
– Staff salaries and wages	**2,626**	3,273
– Provision for staff and workers' bonus and welfare fund	**306**	345
– Contributions to defined contribution retirement scheme	**640**	591
Provision for impairment of advances to staff	**45**	116
Provision for impairment of other receivables	**–**	370
Amortisation of land use rights	**247**	247
Depreciation of property, plant and equipment	**2,455**	2,375
Research and development costs	**49**	12
Auditors' remuneration	**430**	379

7. INCOME TAX EXPENSE

The income tax expense represents:

	2009 RMB'000	2008 RMB'000
PRC enterprise income tax ("EIT")		
– EIT overprovision	**–**	–
– Deferred tax provision for EIT written back	**–**	–
	–	–

The Company was established in Jilin High-Technology Development Zone, the PRC. The applicable enterprise income tax rate was 25% (2008: 15%).

No provision for EIT has been made as the Company has no estimated assessable profits after setting off against the unrelieved tax losses brought forward from pervious year (2008: Nil).

The following is a reconciliation of the expected income tax calculated at the applicable income tax rate of 25% (2008: 15%) on the profit before income tax expense:

	2009 RMB'000	2008 RMB'000
Profit before income tax expense	**442**	5,667
Expected income tax thereon at applicable income tax rate	**111**	850
Utilisation of tax losses brought forward	**(111)**	(850)
Income tax expense for the year	**–**	–

No deferred tax asset has been recognised in respect of the unused tax losses carried forward due to the unpredictability of future profit streams.

8. EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Company's profit attributable to owners of the Company of approximately RMB442,000 (2008: RMB5,667,000) and the weighted average number of 746,654,240 shares (2008: 746,654,240 shares) in issue during the year.

(b) No diluted earnings per share is presented as there are no dilutive potential ordinary shares in issue for each of the years ended 31 December 2008 and 2009.

9. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2009 (2008: Nil).

10. EMPLOYEE BENEFITS

(a) Retirement scheme

The Company participates in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. Each employee covered by these schemes is entitled, after retirement from the Company, to a pension as of their retirement dates. The local government authorities are responsible for the pension liabilities to these retired employees. The Company is required to make monthly contributions to the retirement scheme at a rate of 21% (2008: 21%) based on the eligible employees' salaries.

The Company has arranged for its Hong Kong employees to join a mandatory provident fund scheme (the "MPF Scheme") in accordance with the Hong Kong Mandatory Provident Fund Schemes Ordinance, which is a defined contribution scheme managed by an independent trustee. Both the Company (the employer) and its employees make monthly contributions to the MPF Scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Schemes Ordinance. The contributions of employer and employees are subject to a cap of monthly earnings of HK$20,000 and thereafter contributions are voluntary. The assets of the fund are held separately from those of the Company and are managed by independent professional fund managers.

(b) Housing fund

The Company has opened housing fund accounts for all its employees in January 2001. The housing fund scheme comprised of two parts, the Company and individual employees are required to contribute to the housing fund. The amount payable by each employee will be deducted from the employee's monthly salary by the Company. The ratio of housing fund to be deposited by individual employee and the Company is 5% of the average monthly salary of such employee for the previous year. Withdrawals from the fund are subject to qualifications and procedures specified under local regulations.

11. DIRECTORS' EMOLUMENTS

Details of directors' emoluments disclosed pursuant to the requirements of the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	2009 RMB'000	2008 RMB'000
Fees	**–**	–
Other emoluments:		
Salaries, allowances and other benefits	**780**	600
Pension scheme contributions	**12**	5
Bonuses paid and payable	**–**	–
	792	605

11. DIRECTORS' EMOLUMENTS (CONTINUED)

The emoluments of every director for the year ended 31 December 2009 are set out below:

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Pension scheme contributions RMB'000	Bonuses paid and payable RMB'000	Total emoluments RMB'000
2009					
Executive directors:					
Liu Yang (note (a))	-	-	-	-	-
Guo Feng (note (b))	-	-	-	-	-
Wang Xue Hua (note (b))	-	-	-	-	-
Jin Xin (note (b))	-	60	6	-	66
Xu Zhe (note (c))	-	600	6	-	606
Du Li Hua (note (d))	-	-	-	-	-
Xu Dao Tian (note (d))	-	120	-	-	120
Leng Zhan Ren (note (d))	-	-	-	-	-
Independent non-executive directors:					
Niu Shu Min	-	-	-	-	-
Zhao Zhen Xing	-	-	-	-	-
Lam Kai Yeung	-	-	-	-	-
	-	780	12	-	792

Note: a. Liu Yang appointed on 4 December 2009.

b. Guo Feng, Wang Xue Hua and Jin Xin appointed on 11 December 2009.

c. Xu Zhe resigned on 4 December 2009.

d. Du Li Hua, Xu Dao Tian and Leng Zhan Ren resigned on 11 December 2009.

11. DIRECTORS' EMOLUMENTS (CONTINUED)

The emoluments of every director for the year ended 31 December 2008 are set out below:

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Pension scheme contributions RMB'000	Bonuses paid and payable RMB'000	Total emoluments RMB'000
2008					
Executive directors:					
Xu Zhe	–	600	5	–	605
Du Li Hua	–	–	–	–	–
Xu Dao Tian	–	–	–	–	–
Leng Zhan Ren	–	–	–	–	–
Independent non-executive directors:					
Liu Jin (note (a))	–	–	–	–	–
Niu Shu Min	–	–	–	–	–
Zhao Zhen Xing	–	–	–	–	–
Lam Kai Yeung (note (b))	–	–	–	–	–
	–	600	5	–	605

Note: a. Liu Jin resigned on 25 January 2008.
b. Lam Kai Yeung appointed on 7 August 2008.

The three (2008: four) independent non-executive directors did not receive any emoluments for the year ended 31 December 2009 (2008: Nil). The emoluments of each of the directors were within the band of nil to RMB880,000 (equivalent to HK$1,000,000) for the years ended 31 December 2008 and 2009.

None of the directors waived or agreed to waive any emoluments during the year ended 31 December 2009 (2008: Nil). No emoluments were paid by the Company to the directors as an inducement to join or upon joining the Company or as compensation for loss of office during the year ended 31 December 2009 (2008: Nil).

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments, three (2008: one) are directors whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the other two (2008: four) individuals are as follows:

	2009 RMB'000	2008 RMB'000
Basic salaries, housing benefits and other benefits	**898**	814
Pension scheme contributions	**18**	27
Bonuses paid and payable	**–**	–
	916	841

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS (CONTINUED)

The emoluments of each of the five highest paid individuals, including three directors, were within the band of nil to RMB880,000 (equivalent to HK$1,000,000).

No emoluments were paid by the Company to the respective five highest paid individuals, including directors, as an inducement to join or upon joining the Company or as compensation for loss of office during the year ended 31 December 2009 (2008: Nil).

13. INTANGIBLE ASSETS

	Technical know-how RMB'000	**Computer software** RMB'000	**Total** RMB'000
At cost:			
As at 1 January 2008	16,096	223	16,319
Additions	–	–	–
As at 31 December 2008 and at 1 January 2009	16,096	223	16,319
Additions	–	–	–
As at 31 December 2009	16,096	223	16,319
Accumulated depreciation and impairment losses:			
As at 1 January 2008	16,096	223	16,319
Charge for the year	–	–	–
As at 31 December 2008 and at 1 January 2009	16,096	223	16,319
Charge for the year	–	–	–
As at 31 December 2009	16,096	223	16,319
Net carrying amount:			
As at 31 December 2009	–	–	–
As at 31 December 2008	–	–	–

14. LAND USE RIGHTS

The Company's interests in land use rights represented prepaid operating lease payments and their net carrying value are analysed as follows:

	RMB'000
At Cost:	
As at 1 January 2008	12,323
Additions	–
As at 31 December 2008 and at 1 January 2009	12,323
Additions	–
As at 31 December 2009	12,323
Accumulated amortisation:	
As at 1 January 2008	1,232
Amortisation for the year	247
As at 31 December 2008 and at 1 January 2009	1,479
Amortisation for the year	247
As at 31 December 2009	1,726
Net carrying value:	
As at 31 December 2009	10,597
As at 31 December 2008	10,844

Note:

(a) The land use rights of the Company as at 31 December 2009 are held on medium term leases and situated in the PRC.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Total RMB'000
At cost/valuation:					
As at 1 January 2008	53,955	9,675	2,534	7,416	73,580
Additions	8	770	444	54	1,276
Disposals	–	–	(1,443)	(3,669)	(5,112)
As at 31 December 2008 and at 1 January 2009	53,963	10,445	1,535	3,801	69,744
Additions	–	159	14	–	173
As at 31 December 2009	53,963	10,604	1,549	3,801	69,917
Accumulated depreciation and impairment losses					
As at 1 January 2008	17,415	4,206	1,978	6,545	30,144
Charge for the year	1,142	746	277	210	2,375
Written back on disposal	–	–	(1,332)	(3,669)	(5,001)
Impairment loss	1,292	–	–	–	1,292
As at 31 December 2008 and at 1 January 2009	19,849	4,952	923	3,086	28,810
Charge for the year	1,156	1,007	158	134	2,455
As at 31 December 2009	21,005	5,959	1,081	3,220	31,265
Net carrying amount:					
As at 31 December 2009	32,958	4,645	468	581	38,652
As at 31 December 2008	34,114	5,493	612	715	40,934

Note:

(a) As at 31 December 2009, the Company's buildings were appraised by an independent Hong Kong professional valuer, Asset Appraisal Limited. These properties were appraised on the basis of depreciated replacement cost and were carried in the balance sheet at fair market value of approximately RMB33,380,000 as at 31 December 2009. No impairment loss is charged to the profit or loss during the year (2008: RMB1,292,000).

16. INVENTORIES

	2009 RMB'000	2008 RMB'000
Raw materials	**1,389**	3,701
Work-in-progress	**704**	3,211
Finished goods	**1,007**	8,020
Total inventories	**3,100**	14,932
Less: Provision for impairment of inventories	**(143)**	(143)
Total inventories, net of provision	**2,957**	14,789

All of the inventories are expected to be recovered within one year.

17. TRADE AND OTHER RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade receivables	**20,420**	19,872
Advances to staff	**359**	261
Prepayment and other receivables	**10,104**	12,348
	30,883	32,481

The Company's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The average credit period on sale of goods is 90 days. In certain circumstance, the credit period may be extended to appropriate level after relevant due diligence investigation. In determining the length of the credit term extended to any specific customer, the Company will consider the reputation of the customer, the length of business relationship with the customer and its past payment record. The Company has made provision for impairment for receivables which considered unlikely to be fully recoverable.

As at 31 December 2009, the ageing analysis of trade receivables presented based on the invoice date is as follows:

	2009 RMB'000	2008 RMB'000
0 – 30 days	**6,105**	10,326
31 – 60 days	**1,249**	1,831
61 – 90 days	**1,309**	1,991
91 – 180 days	**6,864**	2,386
181 – 365 days	**6,893**	3,338
Over 365 days	**42,503**	40,082
Total trade receivables	**64,923**	59,954
Less: Provision for impairment	**(44,503)**	(40,082)
Total trade receivables, net of provision	**20,420**	19,872

17. TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade receivables at the end of the reporting period mainly comprise amounts receivable from sales of Chinese medicine products. No interest is charged on the trade receivables. The Company does not hold any collateral over these balances.

The Company's trade receivables are denominated in functional currency.

Included in trade receivables are debtors with carrying amounts of approximately RMB11,757,000 (2008: RMB5,724,000) which are past due at the end of the reporting period for which the Company had not provided for impairment loss as there is no significant change in credit quality and the amounts are still considered recoverable. The management of the Company monitors the recoverable amount of each individual trade debt and considers adequate impairment loss is made for irrecoverable amount, if necessary. In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

Ageing of trade receivables which are past due but not impaired:

	2009 RMB'000	2008 RMB'000
91 – 180 days	**6,864**	2,386
181 – 365 days	**4,893**	3,338
	11,757	5,724

Movement in provision for impairment:

	2009 RMB'000	2008 RMB'000
Balance at beginning of the year	**40,082**	37,550
Provision made	**4,421**	2,532
Balance at end of the year	**44,503**	40,082

18. CASH AND CASH EQUIVALENTS

	2009 RMB'000	2008 RMB'000
Cash and bank balances	**19,551**	11,610

Bank balances and cash comprise cash held by the Company with an original maturity of three months or less.

Bank balances are interest bearing at respective saving deposits rate in the PRC, and the effective interest rates of the Company's balances ranged from 0.30% to 0.36% (2008: 0.36% to 0.72%) per annum.

19. SHORT-TERM BORROWINGS

	2009 RMB'000	2008 RMB'000
Other borrowings (Note (a))	**20**	20
	20	20

Note:

(a) The balance of unsecured loan amounted to RMB20,000 from an independent third party was non-interest bearing and repayable on demand.

20. TRADE AND OTHER PAYABLES

	2009 RMB'000	2008 RMB'000
Trade payables	**11,007**	9,322
Payable for PRC statutory contribution	**1,970**	3,846
Other taxes payable	**3,008**	9,157
Other payables and accruals	**1,403**	3,523
	17,388	25,848

As at 31 December 2009, the ageing analysis of trade payables presented based on the invoice date is as follows:

	2009 RMB'000	2008 RMB'000
0 – 1 month	**982**	3,926
1 – 6 months	**1,384**	1,702
6 – 12 months	**4,279**	660
Over 1 year	**4,362**	3,034
	11,007	9,322

The average credit period on purchases of certain goods is 120 days.

21. DEFERRED TAX LIABILITIES

	2009 RMB'000	2008 RMB'000
As at 1 January	**–**	–
Credited to the profit or loss	**–**	–
As at 31 December	**–**	–

22. SHARE CAPITAL

	2009 RMB'000	2008 RMB'000
Authorised, issued and fully paid:		
539,654,240 domestic shares of RMB0.1 each	**53,965**	53,965
207,000,000 H shares of RMB0.1 each	**20,700**	20,700
Total ordinary shares as at 31 December	**74,665**	74,665

Domestic shares and H shares are ordinary shares in the registered share capital of the Company. However, H shares may only be subscribed for by or traded in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan and any country other than the PRC. Domestic shares, on the other hand, may only be subscribed for or purchased in Renminbi. Any dividends in respect of H shares are to be paid by the Company in Hong Kong dollars whereas any dividends in respect of domestic shares are to be paid by the Company in Renminbi.

23. RESERVES

	Capital reserve					
	Share premium RMB'000	**Others** RMB'000	**Statutory public welfare fund** RMB'000	**Statutory revenue reserve** RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
As at 1 January 2008	19,027	11,326	3,928	5,757	(35,580)	4,458
Profit for the year	–	–	–	–	5,667	5,667
Total comprehensive income for the year	–	–	–	–	5,667	5,667
As at 31 December 2008 and at 1 January 2009	19,027	11,326	3,928	5,757	(29,913)	10,125
Profit for the year	–	–	–	–	442	442
Total comprehensive income for the year	–	–	–	–	442	442
As at 31 December 2009	19,027	11,326	3,928	5,757	(29,471)	10,567

Notes:

(a) According to the relevant regulations in the PRC and the Articles of Association of the Company, when distributing net profit each year, the Company shall set aside 10% of its profit after tax based on the statutory financial statements for the statutory revenue reserve (except where the reserve balance has reached 50% of the Company's paid-up share capital), and 5% to 10% at the discretion of the Board of Directors for the statutory public welfare fund, and for the discretionary revenue reserve at a percentage determined by the Board of Directors. These reserves cannot be used for purposes other than those for which they are created and are not distributable as dividends without the prior approval by shareholders under certain conditions.

(b) When the statutory revenue reserve is not sufficient to cover prior years' losses, current year's net profit will first be used to compensate the previous losses before appropriations to the statutory revenue reserve and statutory public welfare fund.

23. RESERVES (CONTINUED)

Notes: (continued)

(c) The statutory revenue reserve as approved by the shareholders may be converted into share capital when the level of the reserve reaches 25% of the registered share capital provided that the balance of the statutory revenue reserve should not fall below 25% of the registered share capital after the conversion. As at 31 December 2009, no statutory revenue reserve was transferred into share capital subsequent to the Company's reorganisation to a joint stock limited Company.

(d) The discretionary revenue reserve as approved by the shareholders may be converted into share capital.

(e) The capital reserve of the Company includes certain non-distributable reserves created in accordance with the relevant accounting and financial regulations in the PRC. Certain components of the capital reserve could be capitalised into share capital upon approval.

(f) Profit appropriation is subject to the approval of the Board of Directors and the shareholders' meeting. In accordance with the prevailing rules and regulations in the PRC, the reserve available for distribution is the lower of the amount determined under accounting principles generally accepted in the PRC and the amount determined under accounting principles generally accepted in Hong Kong.

24. RELATED PARTY TRANSACTIONS

(a) The following is a summary of significant related party transactions which, in the opinion of the Directors, were carried out in the ordinary course of the Company's business:

Related party	**Nature of transaction**	**2009 RMB'000**	2008 RMB'000
Jilin You Lian Wei Shi Industrial Company Limited, a company owned by a former director, Xu Dao Tian	Purchases	–	156

(b) Compensation of key management personnel of the Company
Details of remuneration and related benefits of the key personnel are disclosed in note 11.

25. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for owners of the Company and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to owners, return capital to owners, issue new shares or sell assets to reduce debt.

25. CAPITAL RISK MANAGEMENT (CONTINUED)

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities over total assets. Total liabilities represent current and non-current liabilities as shown in the statement of financial position. Total assets represent current assets and non-current assets as shown in the statement of financial position. The gearing ratios at 31 December 2009 and 2008 are as follows:

	2009 RMB'000	2008 RMB'000
Total liabilities	**17,408**	25,868
Total assets	**102,640**	110,658
Gearing ratio	**17%**	23%

26. COMMITMENTS

	2009 RMB'000	2008 RMB'000
Capital expenditure contracted for the acquisition of property, plant and equipment at the end of the reporting period but not provided in the financial statements	**1,038**	–

27. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2009 RMB'000	2008 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)		
Trade and other receivables	**30,883**	32,481
Cash and bank balances	**19,551**	11,610
	50,434	44,091
Financial liabilities		
Financial liabilities at amortised cost		
Short-term borrowings	**20**	20
Trade and other payables	**17,388**	25,848
	17,408	25,868

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management and policies

The Company's major financial instruments include trade and other receivables, cash and bank balances, short-term borrowings and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Market risk

Foreign currency risk

The Company's main trading operations are in the PRC and have no significant exposure to any specific foreign currency other than Renminbi.

All the Company's cash and cash equivalents are denominated in Renminbi and deposited in banks located in the PRC. All trade and other receivables and borrowings of the Company are denominated in Renminbi. The management continuously monitors the foreign exchange exposure and will consider hedging foreign currency risk should the need arise.

The carrying amount of the Company's significant foreign currency denominated in monetary liabilities at the reporting date is as follows:

	Liabilities	
	2009	2008
	RMB'000	RMB'000
Hong Kong Dollars	**–**	379

Sensitivity analysis

The Company is mainly exposed to the effect of fluctuation in Hong Kong Dollars. The following table details the Company's sensitivity to a 5% increase and decrease in the functional currency exchange rates of the company against the Hong Kong Dollars. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency exchange rates. A positive number below indicates an increase in profit attributable to owners for the year where the functional currency of the Company strengthens 5% against Hong Kong Dollars. For a 5% weakening of the functional currency of the Company against the Hong Kong Dollars, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2009	2008
	RMB'000	RMB'000
Hong Kong Dollars	**–**	19

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management and policies (continued)

(i) Market risk (continued)

Interest rate risk

The Company's cash flow interest rate risk relates primarily to bank balances (see note 18). The management considers the Company's exposure of the bank balances to interest rate risk is not significant as they have a short maturity period.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the amount of variable-rate bank balances at the end of the reporting period was the amount outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's profit attributable to owners for the year ended 31 December 2009 would increase/decrease by RMB98,000 (2008: RMB121,000). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank balances.

Price risk

The Company is exposed to the increasing price competition and life cycle of the products that have elastic price sensitive on demand. The Company adjusts the product price in response to the change in price risk over time.

(ii) Credit risk management

As at 31 December 2009, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to perform an obligation by the counterparties, is the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

In order to minimise the credit risk in relation to trade receivables, the management of the Company has strengthened the credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the majority of the counterparties are reputable banks or banks with high credit-ratings assigned by international credit-rating agencies.

Credit risk is concentrated as 16% (2008: 15%) and 37% (2008: 38%) of the total trade receivables are due from the Company's largest customer and the five largest customers. However, the management considers, based on the strong financial background and good creditability of those debtors, there are no significant credit risks.

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management and policies (continued)

(iii) Liquidity risk management

In the management of the liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows. The Company relies on funds generated from sale of goods as a significant source of liquidity.

The following tables detail the Company's expected maturity for its non-derivative financial assets and the Company's remaining contractual maturity for its non-derivative financial liabilities. For non-derivative financial assets, the tables reflect the undiscounted contractual cash flows of the financial assets including interest that will be earned on those assets. For non-derivative financial liabilities, the tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows.

2009

Non-derivative financial assets	Effective interest rate	On demand RMB'000	Total undiscounted cash flow RMB'000	Total carrying amount at 31.12.2009 RMB'000
Trade and other receivables	-	30,883	30,883	30,883
Cash and bank balances	0.30% – 0.36%	19,557	19,557	19,551
		50,440	50,440	50,434

Non-derivative financial liabilities	Effective interest rate	On demand RMB'000	Total undiscounted cash flow RMB'000	Total carrying amount at 31.12.2009 RMB'000
Short-term borrowings				
– Non-interest bearing	-	20	20	20
Trade and other payables	-	17,388	17,388	17,388
		17,408	17,408	17,408

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management and policies (continued)

(iii) Liquidity risk management (continued)

2008

Non-derivative financial assets	Effective interest rate	On demand RMB'000	Total undiscounted cash flow RMB'000	Total carrying amount at 31.12.2008 RMB'000
Trade and other receivables	–	32,481	32,481	32,481
Cash and bank balances	0.36% to 0.72%	11,652	11,652	11,610
		44,133	44,133	44,091

Non-derivative financial liabilities	Effective interest rate	On demand RMB'000	Total undiscounted cash flow RMB'000	Total carrying amount at 31.12.2008 RMB'000
Short-term borrowings	–	20	20	20
Trade and other payables	–	25,848	25,848	25,848
		25,868	25,868	25,868

(c) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

28. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform to the current year's accounts presentation.

Financial Summary

FOR THE YEAR ENDED 31 DECEMBER 2009

(Expressed in Renminbi)

A summary of the results and of the assets and liabilities of the Company for the past five financial years is set out below:

	Year ended 31 December				
	2009	2008	2007	2006	2005
Results	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
Profit/(Loss) attributable to owners of the Company	**442**	5,667	4,087	(23,573)	(24,237)

	2009	2008	2007	2006	2005
Assets and liabilities	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**102,640**	110,658	117,819	137,035	163,097
Total liabilities	**(17,408)**	(25,868)	(38,696)	(61,999)	(64,488)
Owners' equity	**85,232**	84,790	79,123	75,036	98,609