The following discussion and analysis should be read in conjunction with our financial statements and the related notes in the Accountants' Report included in Appendix I and Appendix II and the selected historical financial information and operating data included elsewhere in this prospectus. Our financial statements have been prepared in accordance with HKFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions, including the United States. The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as wells as other factors we believe are appropriate under the circumstances. Please see the section entitled "Risk Factors" in this prospectus.

OVERVIEW

We are a provider of health-related products, with a primary focus on amino acid-based nutritional supplements in the rapidly growing Chinese market. According to estimates by CCID, an Independent Third Party consulting firm that was commissioned by us, our amino acid-based nutritional supplements, namely Ruinian-branded amino acid-based tablets and Linger-branded amino acid-based tablets, both of which are manufactured by us, and liquid amino acids that are currently manufactured for us exclusively by an Independent Third Party, had a market share in China of approximately 21.6% in terms of turnover in Renminbi in 2008, which represented the largest market share of any provider in the Chinese market in that period.

We have experienced significant growth in our business in recent years. Our turnover increased from RMB 196.7 million in 2006 to RMB 405.5 million in 2007 and to RMB 632.4 million in 2008, representing a CAGR of 79.3% from 2006 to 2008.

We generated substantially all of our turnover from the sales of nutritional supplements and general health food products and health drinks during the Track Record Period. Our pharmaceutical segment, on the other hand, is still at an early stage of development and contributed less than 1% of our turnover in the nine months ended 30 September 2009. Our turnover in the nine months ended 30 September 2009 reached RMB523.7 million. We generated substantially all of our turnover from the sales of nutritional supplements and general health food products and health drinks during the Track Record Period. Our pharmaceutical segment, on the other hand, is still at an early stage of development and contributed less than 1% of our turnover in the nine months ended 30 September 2009.

As we provide a wide range of health-related products that target different groups of consumers with varied needs, our gross margin is strongly correlated with our product mix. Our gross margin decreased from 2006 to 2007 primarily because we began to sell liquid amino acids in order to attract cost-conscious consumers and grow the market share of our amino acid-based nutritional supplements. Liquid amino acids have a lower margin than our Ruinian-branded amino acid-based tablets since we purchase this product from third parties for resale. Our gross margin further decreased from 2007 to 2008 primarily because we began to sell health drinks in 2008, which is a lower margin product than our other products in order to benefit from the rapid growth of the RTD tea market and diversify our portfolio of health-related products.

BASIS OF PRESENTATION

We were incorporated in the Cayman Islands on 30 August 2006, and as a result of our reorganisation, conduct substantially all of our businesses through our wholly owned subsidiaries in the PRC, Ruinian Industry and Nanjing Ruinian. See "History and Reorganisation." Prior to our incorporation and the completion of the reorganisation, our business was conducted through Ruinian Industry and Ruinian Sales, both of which were controlled by Mr. WANG Fucai, the Controlling Shareholder of our Company. The reorganisation represents business combinations involving entities under common control of Mr. WANG Fucai. The financial information is prepared on a combined basis in a manner similar to merger accounting. See note 1 of the Accountants' Report of the Company included in Appendix I to this prospectus. Our statements of financial position as of 31 December 2006, 2007 and 2008 and 30 September 2009, and our statements of comprehensive income, cash flows and changes in equity in 2006, 2007, 2008 and the nine months ended 30 September 2008 and 2009 include the financial statements of the companies now comprising the Group and Ruinian Sales, as if the current group structure had been in existence throughout the Track Record Period. The financial statements of Ruinian Sales were included from the beginning of the Track Record Period to the date of its dissolution on 16 October 2007.

On 14 November 2008, Ruinian Industry and Jet Bright entered into an agreement with Hong Kong Ruinian and Ruinian Group, both of which are controlled by our chairman, Mr. WANG Fucai, under which Ruinian Industry and Jet Bright agreed to acquire 75% and 25% of the equity interests in Nanjing Ruinian, respectively, from Hong Kong Ruinian and Ruinian Group. Nanjing Ruinian owned certain land use rights, buildings, plant and equipment for pharmaceutical production but had not commenced full commercial operations at the time of the acquisition. As a result, the acquisition was accounted for as an acquisition of assets and liabilities and was completed in July 2009. As of 30 September 2009, Nanjing Ruinian had not commenced large-scale production. During the Track Record Period, Nanjing Ruinian did not have any material impact on our results of operations or financial condition.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The major factors affecting our results of operations and financial condition include the following:

Levels of Disposable Income and Consumer Spending in the PRC

We generate substantially all of our turnover in the PRC. Our financial results have been, and we expect them to continue to be, affected by levels of disposable income and consumer spending in the PRC. The significant growth of the PRC economy has led to increased per capita disposable income. According to the National Bureau of Statistics of China, per capita annual disposable income in urban areas grew from RMB6,860 in 2001 to RMB15,781 in 2008, representing a CAGR of 12.6% from 2001 to 2008, while total retail sales of consumer goods increased from RMB3,760 billion in 2001 to RMB10,849 billion in 2008, representing a CAGR of 16.3% from 2001 to 2008. Furthermore, as per capita disposable income has increased, consumers in the PRC have tended to spend more on nutritional supplements and general health food products. See "Industry Overview — Nutritional Supplement Market in China — Drivers of the Nutritional Supplement Industry in China." According to Euromonitor International, sales of vitamins and dietary supplements in China grew from RMB25.8 billion in 2001 to RMB52.6 billion in 2008, representing a CAGR of 10.7%, and are expected to reach RMB86.1 billion by 2013, representing a CAGR of 10.4% from 2008 to 2013. We expect that our results of operations will continue to be affected by changes in the per capita disposable income and consumer spending in the PRC.

Sales Volume and Pricing of Our Products

Our results of operations are directly affected by our sales volume, which in turn depends on market demand and our ability to widely distribute our products. Our future results of operations will depend significantly upon our ability to increase sales of our products through our marketing and advertising campaigns, such as launching a nation-wide advertisement campaign on major television stations in China, and expansion of our distribution network. We plan to continue engaging in consumer advertising and educational campaigns on major television stations in China, supplemented by advertisements in newspapers, magazines, billboards and other electronic media, to promote our nutritional supplements, general health food products and health drinks. Advertising, particularly on television, has become more costly in China over the past few years, and we expect advertising expenses to continue to rise in the future, which in turn will increase our selling and distribution costs. Our advertising and promotional expenses amounted to RMB67.0 million, RMB107.0 million, RMB156.8 million and RMB100.8 million in 2006, 2007, 2008 and the nine months ended 30 September 2009, respectively. We also plan to expand the distribution of our nutritional supplements and general health food products by entering into agreements with and conducting promotional conferences for distributors in different provinces and regions of China. If we are unable to increase sales of our products through these marketing efforts, our financial condition and results of operations may be materially and adversely affected.

Selling prices of our nutritional supplements and general health food products increased from 2006 to 2008, primarily due to our price adjustments on account of a rise in packaging material and raw material prices. As packaging and raw material costs continue to increase, we may in the future adjust selling prices of our products to maintain our profitability.

The following table sets forth sales volume and price information of our nutritional supplements and general health food products, health drinks and pharmaceutical products during the Track Record Period:

	Year ended 31 December						Nine months ended 30 September	
	2006		2007		2008		2009	
	Sales volume	Weighted Average Price	Sales volume	Weighted Average Price	Sales volume	Weighted Average Price	Sales volume	Weighted Average Price
	(Boxes)	(RMB per box)	(Boxes)	(RMB per box)	(Boxes)	(RMB per box)	(Boxes)	(RMB per box)
Nutritional Supplements and General Health Food Products								
Nutritional Supplements								
Ruinian-branded amino acid-based tablets	2,184,811	61	2,913,604	65	2,275,581	74	2,614,848	74
Linger-branded amino acid-based tablets	1,206,347	31	473,014	49	800,965	49	930,381	46
Liquid amino acids(1)	—	—	4,433,692	26	5,693,096	28	1,460,299	22
Ruinian-branded royal jelly tablets	9,870	48	51,490	63	417,636	70	518,592	68
Ruinian-branded osteoid sachet powder	329,351	65	387,001	75	356,364	80	328,422	80
Ruinian-branded blood lipid capsules	43,153	59	21,585	53	22,989	73	25,477	73
General Health Food Products								
Ruinian-branded protein powder	1,549	73	445,456	66	475,286	73	459,654	74
Ruinian-branded collagen tablets(2)	500	46	524	170	203	167	2,012	168
Ruinian-branded polypeptide tablets	1,467	30	5,386	68	4,298	89	925	79
Sane-branded dietary fibre(3)	100	40	1,777	155	1,058	78	333	156
Health Drink								
Herbal Tea	—	—	—	—	3,994,007	31	4,379,699	26
Pharmaceutical Products								
Topotecan hydrochloride capsules	—	—	—	—	—	—	406	89
Ofloxacin eye drops	—	—	—	—	—	—	178	11

Notes:

(1) Turnover from the sales of liquid amino acids in the nine months ended 30 September 2009 decreased to RMB32.3 million from RMB154.0 million in the nine months ended 30 September 2008 primarily because we planned to gradually replace this third-party-manufactured product with our self-produced Ruinian-branded liquid amino acids after we receive the GMP certification and the food production licence as required by the Implementation Regulations of the PRC Food Safety Law for our production line. The decrease was also attributable to the lowered market demand due to the global financial crisis, which in turn caused us to cut back our marketing expenses for this product.

(2) The weighted average price in 2006 was low primarily because we launched this product in 2005 and sold this product on a trial basis in 2006.

(3) The weighted average price of our Sane-branded dietary fibre experienced significant fluctuation during the Track Record Period because we sold this product in different sizes of boxes, ten packets per box in 2006, 30 packets per box in 2007, 20 packets per box in 2008 and 30 packets per box in the nine months ended 30 September 2009.

Eligible participants in the National Basic Medical Insurance Programme in China are entitled to reimbursement from the social medical insurance fund for up to the entire cost of medicines that are included in the Medical Insurance Catalogues. Two of our three pharmaceutical products are included in the Medical Insurance Catalogues, and we will apply with the relevant governmental authorities to include the remaining pharmaceutical product into the Medical Insurance Catalogues. The inclusion of a pharmaceutical product in the Medical Insurance Catalogues can substantially improve the sales volume of the pharmaceutical product due to the availability of reimbursements from the social medical insurance fund. However, pharmaceutical products included in the national and provincial Medical Insurance Catalogues are subject to price controls in the form of fixed retail prices or retail price ceilings, and are subject to periodic adjustments by the government authorities. Such price controls, especially downward price adjustments, may negatively affect the unit price of our pharmaceutical products. See "Risk Factors — Risks Related to Our Business — Risks Related to Our General Business — The retail prices of certain of our pharmaceutical products are and will be subject to price controls, including periodic downward adjustment, by PRC government authorities."

Our Ability to Introduce New Products in response to Consumer Demands and Preferences and Diversify Our Product Base

Our amino acid-based nutritional supplements accounted for 86.2%, 82.6%, 60.3% and 51.2% of our turnover in 2006, 2007, 2008 and the nine months ended 30 September 2009, respectively. If demand for our amino acid-based nutritional supplements decreases significantly, our business, financial condition and results of operations would be materially and adversely affected. Our future results of operations and financial condition depend to a significant extent on our ability to develop or acquire new products that respond to changes in consumer trends and preferences and to diversify our product base. Our gross margin and financial condition may also be affected by the profitability of our new products and our product mix. We developed one nutritional supplement, namely liquid amino acids during the Track Record Period. See "Business — Our Products." We currently have five nutritional supplement product candidates, which we believe will contribute to our future growth and profitability. In addition, we have four pharmaceutical product candidates that we plan to launch after Nanjing Ruinian has obtained the required governmental approvals and certificates for these product candidates. We will also share market information with research companies so that they can initiate specific research and testing on such products. We believe our annual production capacity and marketing and distribution experience will allow us to develop products that gain widespread recognition quickly and contribute to our turnover growth and profitability.

Cost of Packaging Materials and Raw Materials

Our profitability is significantly affected by the cost of packaging materials and raw materials for our products. All of our packaging materials and raw materials are purchased from suppliers in China. The pricing of packaging materials and raw materials is a result of market forces, and prices have been rising in recent years. As a result, our packaging material costs amounted to RMB17.1 million, RMB20.9 million, RMB23.7 million and RMB25.7 million in 2006, 2007, 2008 and the nine months ended 30 September 2009, respectively, representing 46.7%, 49.9%, 42.5% and 45.6%, respectively, of our cost of production, during the same periods. Our raw material costs amounted to RMB10.5 million, RMB11.6 million, RMB22.7 million and RMB19.0 million in 2006, 2007, 2008 and the nine months ended 30 September 2009, respectively, representing 28.8%, 27.8%, 40.8% and 33.8%, respectively, of our cost of production, during the same periods. In addition, packaging material costs may also increase as a result of our decision to change the design of the packaging of our products from time to time to supplement our overall marketing activities.

The following table sets forth the per unit cost of raw materials and packaging materials for our self-manufactured nutritional supplements and general health food products during the Track Record Period:

	Year ended 31 December			Nine months ended
(RMB in thousands)	**2006**	**2007**	**2008**	**30 September 2009**
Raw materials consumed	10,549	11,627	22,746	19,028
Packaging materials consumed	17,091	20,881	23,686	25,682
(RMB/Box)				
Per unit cost of raw materials[1]	2.8	2.7	5.2	3.9
Per unit cost of packaging materials[1]	4.5	4.9	5.4	5.3

Note:

(1) Per unit cost of raw materials and per unit cost of packaging materials are calculated on a weighted average basis. Since we sell our products in various sizes and we change product packages from time to time, per unit cost of raw materials and per unit cost of packaging materials may fluctuate significantly primarily due to the different sizes of products sold during the period.

Seasonality

Seasonality has a significant effect on our turnover. Demand for our nutritional supplements and general health food products is significantly higher during and around the Chinese New Year, Mid-Autumn Festival and other holidays, when Chinese consumers purchase our nutritional supplements and general health food products as gifts. As a result, our turnover derived from sales in the third quarter and fourth quarter typically represent more than 50% of our turnover for the year. Our turnover derived from sales in the third quarter represented 23.6%, 28.5% and 19.0% of our turnover in 2006, 2007 and 2008, respectively, while our turnover derived from sales in the fourth quarter represented 39.3%, 36.4% and 7.2% of our turnover in 2006, 2007 and 2008, respectively. Sales of our products in the third quarter and fourth quarter of 2008 were adversely affected by the global financial crisis and economic downturn. In addition, although we have not perceived major fluctuations in the RTD tea market or the pharmaceutical market in the PRC, primarily due to, in our view, the diversity of products in these markets, sales of products that we recently introduced, such as heath drinks, and new products to be introduced in the future may fluctuate as a result of seasonality. Therefore, comparison of results of operations and profit over any interim periods may not be meaningful, and such comparison may not be an accurate indicator of our future performance.

Tax Treatment

We derive substantially all of our turnover through our wholly owned subsidiaries in the PRC, Ruinian Industry and Nanjing Ruinian. Ruinian Industry is a foreign-invested enterprise in the PRC and has obtained approvals from the relevant PRC tax authorities to enjoy exemption from enterprise income tax for a period of two years starting from the first profit-making year after offsetting all unexpired tax losses, followed by a reduction of enterprise income tax by 50.0% for a period of three years. The first profitable year for Ruinian Industry was the year ended 31 December 2004.

Effective on 1 January 2008, the new EIT Law imposes a uniform tax rate of 25.0% on all PRC enterprises, including foreign-invested enterprises, unless they qualify under certain limited exceptions. Under the new EIT Law, Ruinian Industry enjoyed a 50.0% reduction in enterprise income tax until such preferential treatment expired on 31 December 2008. Starting from 1 January 2009, the enterprise income tax rate applicable to Ruinian Industry was 25.0%, which is the standard enterprise income tax rate for all PRC enterprises. The state taxation authority has confirmed that Nanjing Ruinian is entitled to an exemption from enterprise income tax for a period of two years starting from 1 January 2008, and an enterprise income tax rate of 12.5% for a period of three years starting from 1 January 2010.

FINANCIAL OVERVIEW

Turnover

We generated substantially all of our turnover from the sales of nutritional supplements, general health food products and health drinks during the Track Record Period. Our turnover represents sales of our products less sales volume rebates paid to our distributors and sales tax. We incurred sales volume rebate of RMB5.2 million in 2007 and sales tax of RMB1.1 million, RMB0.6 million, RMB0.5 million and RMB0.8 million in 2006, 2007, 2008 and the nine months ended 30 September 2009, respectively.

We generate a substantial portion of our turnover from the sales of our amino acid-based nutritional supplements. Our amino acid-based nutritional supplements accounted for 86.2%, 82.6%, 60.3% and 51.2% of our turnover in 2006, 2007, 2008 and the nine months ended 30 September 2009, respectively. We also manufacture and sell a range of other types of nutritional supplements, including royal jelly tablets, osteoid powder and blood lipid capsules, and other general health food products. In addition, we market and sell Shun-branded herbal tea, which is manufactured exclusively for us by Independent Third Parties.

The following table sets forth a breakdown of turnover for our top five products, and each item expressed as a percentage of our turnover, for the periods indicated:

	Nine months ended 30 September 2009	
(RMB in thousands, except for percentages)	**Turnover**	**%**
Ruinian-branded amino acid-based tablets	192,876	36.8%
Herbal tea	113,453	21.7%
Linger-branded amino acid-based tablets	43,144	8.2%
Ruinian-branded royal jelly tablets	35,235	6.7%
Ruinian-branded protein powder	34,103	6.5%
Total	418,811	79.9%

	Year ended 31 December 2008	
	Turnover	**%**
Ruinian-branded amino acid-based tablets	182,922	28.9%
Liquid amino acids	159,637	25.2%
Herbal tea	125,674	19.9%
Linger-branded amino acid-based tablets	39,520	6.2%
Ruinian-branded protein powder	34,615	5.5%
Total	542,368	85.7%

	Year ended 31 December 2007	
	Turnover	%
Ruinian-branded amino acid-based tablets	195,268	48.2%
Liquid amino acids	116,556	28.7%
Ruinian-branded protein powder	29,262	7.2%
Ruinian-branded osteoid sachet powder	28,977	7.1%
Linger-branded amino acid-based tablets	22,946	5.7%
Total	393,009	96.9%

	Year ended 31 December 2006	
	Turnover	%
Ruinian-branded amino acid-based tablets	132,365	67.3%
Linger-branded amino acid-based tablets	37,232	18.9%
Ruinian-branded osteoid sachet powder	21,441	10.9%
Ruinian-branded blood lipid capsules	2,546	1.3%
Ruinian-branded royal jelly tablets	474	0.2%
Total	194,058	98.6%

The following table sets forth a breakdown of turnover derived from sales of our products newly introduced during the Track Record Period and each item expressed as a percentage of our turnover for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2006		2007		2008		2008		2009	
(RMB in thousands, except for percentages)	Turnover	%	Turnover	%	Turnover	%	Turnover	%	Turnover	%
							(Unaudited)			
Herbal tea	—	—	—	—	125,674	19.9%	106,920	18.2%	113,453	21.7%
Ruinian-branded protein powder	113	0.1%	29,262	7.2%	34,615	5.5%	32,953	5.6%	34,103	6.5%
Liquid amino acids	—	—	116,556	28.7%	159,637	25.2%	154,011	26.2%	32,264	6.2%
Topotecan hydrochloride capsules	—	—	—	—	—	—	—	—	36	—
Ofloxacin eye drops	—	—	—	—	—	—	—	—	2	—

Turnover of our products increased from RMB196.7 million in 2006 to RMB405.5 million in 2007 and to RMB632.4 million in 2008, due to the higher penetration of our products in existing geographic markets as well as expansion of sales in new geographic markets. In addition, the introduction of liquid amino acids in September 2007 and the introduction of health drinks in February 2008 also contributed to the strong sales growth. Sales volumes of our products increased significantly from 2006 to 2008, primarily due to our increased marketing efforts, including launching a nation-wide advertising campaign on major television stations in China, and our expanded distribution network. Selling prices of our products increased steadily from 2006 to 2008, primarily due to our price adjustments on account of a rise in packaging material and raw material prices. Turnover of our products decreased from RMB586.7 million in the nine months ended 30 September 2008 to RMB523.7 million in the nine months ended 30 September 2009, primarily due to a decrease in sales of liquid amino acids. Turnover from the sales of liquid amino acids in the nine months ended 30 September 2009 decreased to RMB32.3 million from RMB154.0 million in the nine months ended 30 September 2008 primarily because we planned to gradually replace this third-party-produced product with our self-produced Ruinian-branded liquid amino acids after we receive the GMP certification and the food production licence as required by the Implementation Regulations of the PRC Food Safety Law for our production line. The decreased turnover was also attributable to the lowered market demand affected by the global financial crisis, which caused us to cut back our marketing expenses on this product.

We sell our products exclusively to distributors, with whom we typically enter into written distribution agreements for one-year terms and which are renewable annually. In 2006, 2007, 2008 and the nine months ended 30 September 2009, turnover from our five largest distributors accounted in aggregate for approximately 46.8%, 48.0%, 43.1% and 44.6%, respectively, of our turnover.

We generally bill our distributors upon shipment, with a typical 90-day credit term from the date of billing. A portion of our distributors make payment by bank bills. Historically, we have not experienced any losses on bills receivable.

In the past, we have experienced limited amounts of uncollectible trade receivables. In 2006, 2007, 2008 and the nine months ended 30 September 2009, our bad debt expenses amounted to RMB0.4 million, nil, nil and nil, respectively.

Cost of Goods Sold

Our cost of goods sold represents our cost of production adjusted to take into account changes in inventories of finished goods and work in progress and merchandise for resale. Our cost of production primarily consists of packaging materials consumed, raw materials consumed (including amino acid granules, collagen, delayed release (enteric) coatings and soy protein), amortisation of intangible assets associated with our products, depreciation of property, plant and equipment, labour costs and other direct manufacturing overhead. Our cost of merchandise for resale mainly represents costs of the liquid amino acids, herbal tea and other merchandise for resale we purchase from Independent Third Parties for resale. Our intangible assets, which mainly include technologies we purchased and developed, are amortised over their estimated useful lives of 10 years using the straight-line method. All of our packaging materials and raw materials are purchased from suppliers in China. The following table sets forth a breakdown of our cost of goods sold for the periods indicated:

	Year ended 31 December			Nine months ended 30 September	
(RMB in thousands)	**2006**	**2007**	**2008**	**2008**	**2009**
				(Unaudited)	
Packaging materials consumed	17,091	20,881	23,686	23,691	25,682
Raw materials consumed	10,549	11,627	22,746	20,718	19,028
Amortisation of intangible assets	2,195	2,675	2,675	2,007	2,090
Depreciation of property, plant and equipment	4,286	4,272	4,005	3,584	7,125
Labour costs	1,327	1,516	1,618	1,145	959
Utility charges	473	262	228	150	271
Others	713	600	729	298	1,162
Cost of production	36,634	41,833	55,687	51,593	56,317
Merchandise for resale	—	26,611	200,213	186,225	65,139
Changes in inventories of finished goods and work in progress	(12,381)	18,471	(49,832)	(54,887)	54,417
Total	24,253	86,915	206,068	182,931	175,873

Our packaging material costs amounted to RMB17.1 million, RMB20.9 million, RMB23.7 million and RMB25.7 million in 2006, 2007, 2008 and the nine months ended 30 September 2009, respectively, representing 46.7%, 49.9%, 42.5% and 45.6%, respectively, of our cost of production during the same periods. Our raw material costs amounted to RMB10.5 million, RMB11.6 million, RMB22.7 million and RMB19.0 million in 2006, 2007, 2008 and the nine months ended 30 September 2009, respectively, representing 28.8%, 27.8%, 40.8% and 33.8%, respectively, of our cost of production during the same periods. The fluctuations, particularly the significant increase of the percentage of raw material costs in our cost of production from 2007 to 2008, reflected changes of market prices of raw materials, the prices of which are results of market forces. Merchandise for resale increased from nil in 2006 to RMB26.6 million in 2007 and to RMB200.2 million in 2008, primarily because we commenced the sale of liquid amino acids in 2007 and health drinks in 2008.

Gross Profit and Gross Margin

Gross profit is equal to turnover less cost of goods sold. Gross margin is equal to gross profit divided by turnover. Gross profit and gross margin should be taken into consideration together with net profit and profit margin, with net profit being the remainder of gross profit after deducting selling and distribution costs, administrative expenses, research and development costs, finance costs and taxation; and profit margin equal to net profit divided by turnover. Our gross profit increased from RMB172.5 million in 2006 to RMB318.6 million in 2007 and to RMB426.3 million in 2008. In 2006, 2007 and 2008 and the nine months ended 30 September 2009, our gross margin was 87.7%, 78.6%, 67.4% and 66.4%, respectively. Our gross margin is generally affected by our product mix. Our gross margin decreased from 2006 to 2007 primarily because we began to sell liquid amino acids in order to attract cost-conscious consumers and grow the market share of our amino acid-based nutritional supplements, and we changed the design of the packaging of our products to unify them with the image of our brand name presented in our television campaigns in 2007. Liquid amino acids have a lower margin compared with our Ruinian-branded amino acid-based tablets since we purchase this product from third parties for resale. Our gross margin further decreased from 2007 to 2008 primarily because we began to sell health drinks in 2008, which is a lower margin product compared to our other products in order to benefit from the rapid growth of the RTD tea market and diversify our portfolio of health-related products. Our gross profit decreased from RMB403.8 million in the nine months ended 30 September 2008 to RMB347.8 million in the nine months ended 30 September 2009, while our gross margin in the nine months ended 30 September 2008 and 2009 was 68.8% and 66.4%, respectively.

The following table sets forth the gross margins of our products for the periods indicated:

	Year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
				(Unaudited)	
Nutritional Supplements and General Health Food Products					
Nutritional Supplements					
Ruinian-branded amino acid-based tablets	89.0%	82.7%	83.4%	83.4%	83.7%
Linger-branded amino acid-based tablets	86.8%	69.4%	87.3%	89.0%	89.4%
Liquid amino acids	—	77.4%	79.1%	78.6%	74.8%
Ruinian-branded royal jelly tablets	56.8%	62.3%	78.7%	81.5%	80.5%
Ruinian-branded osteoid sachet powder	81.8%	74.2%	80.4%	83.7%	82.0%
Ruinian-branded blood lipid capsules	80.8%	62.5%	80.1%	81.6%	78.9%
General Health Food Products					
Ruinian-branded protein powder	89.4%	76.9%	73.8%	74.2%	65.4%
Ruinian-branded collagen tablets	82.6%	70.8%	67.6%	67.6%	68.6%
Ruinian-branded polypeptide tablets	88.6%	81.4%	83.8%	83.8%	87.7%
Sane-branded dietary fibre	75.0%	82.9%	85.4%	85.4%	92.3%
Health Drinks					
Herbal tea	—	—	27.4%	28.0%	47.1%

Gross margins of most of our nutritional supplements and general health food products, including our Ruinian-branded amino acid-based tablets, Linger-branded amino acid-based tablets, Ruinian-branded osteoid sachet powder, Ruinian-branded blood lipid capsules, Ruinian-branded protein powder, Ruinian-branded collagen tablets and Ruinian-branded polypeptide tablets, decreased from 2006 to 2007, primarily due to an increase in packaging cost as we changed the design and improved the quality of the packaging of our products in 2007, which resulted in the increase of cost of goods sold. Gross margin of our Ruinian-branded royal jelly tablets increased from 56.8% in 2006 to 62.3% in 2007 and to 78.7% in 2008, primarily because we launched this product in 2005 and were able to achieve higher production efficiency as we expanded the production and sale of this product in the same period. Gross margin of the herbal tea increased from 28.0% in the nine months ended 30 September 2008 to 47.1% in the nine months ended 30 September 2009 primarily due to lower market prices of the packaging materials, which enabled us to purchase the herbal tea from third party manufacturers at lower prices.

Other Income

Our other income primarily consists of interest income on our bank deposits.

Selling and Distribution Costs

Our selling and distribution costs primarily consist of costs associated with our advertising and other marketing activities. We engage third party advertising agencies to advertise our products on both national and regional television networks, including CCTV and more than 10 national satellite television stations, primarily through celebrity spokesperson endorsements. We also engage in consumer advertising and educational campaigns in newspapers, magazines, billboards and electronic media. After analysing the charges and rates of different advertising channels and consulting with respective advertising agents and marketing consultants on the costs and benefits of various advertising plans, our sales and marketing team proposes an optimal advertising plan for our Board of Directors' approval. Our Board of Directors reviews such plans and approves them in the form of our annual advertising budget, which has represented over 70.0% of our selling and distribution costs since 2006. Upon termination of Ruinian Sales, we adjusted our marketing strategy from focusing on promotional campaigns at retail outlets to television advertising campaigns in 2007. Our advertising and promotional expenses amounted to RMB67.0 million, RMB107.0 million, RMB156.8 million and RMB100.8 million in 2006, 2007, 2008 and the nine months ended 30 September 2009, respectively, representing 73.4%, 93.3%, 78.1% and 81.5%, respectively, of our selling and distribution costs in the same periods. Selling and distribution costs increased from 2006 to 2008 primarily as a result of the additional advertising and marketing activities carried out by our sales and marketing personnel, as well as increased television advertising rates. Our advertising and promotional expenses decreased from RMB165.5 million in the nine months ended 30 September 2008 to RMB100.8 million in the nine months ended 30 September 2009, primarily because we decreased our television advertising efforts and cut back our marketing expenses on liquid amino acids. In the near term, we expect our total selling and distribution costs to increase as we continue to conduct our nation-wide advertisement campaign to broaden our market reach. Our transportation charges increased from RMB0.3 million in 2007 to RMB22.9 million in 2008, primarily because we began to bear the costs of delivering our products to our distributors in 2008.

The following table sets forth a breakdown of our selling and distribution costs for the periods indicated:

(RMB in thousands)	Year ended 31 December			Nine months ended 30 September	
	2006	2007	2008	2008	2009
				(Unaudited)	
Selling and distribution costs					
Advertising and promotional expenses(1)	67,014	106,950	156,794	165,530	100,814
Staff costs(2)	11,355	1,920	4,993	3,746	1,425
Transportation charges	1,374	294	22,900	19,790	12,785
Others(3)	11,528	5,511	16,146	8,923	8,726
	91,271	114,675	200,833	197,989	123,750

Notes:

(1) We received a refund of prepayments for media airtime of RMB172.3 million in the fourth quarter of 2008.

(2) Staff costs decreased from RMB11.4 million in 2006 to RMB1.9 million in 2007, primarily because we reduced our reliance on full-time sales and marketing employees when we terminated the operations of Ruinian Sales in December 2006. Staff costs decreased from RMB3.7 million in the nine months ended 30 September 2008 to RMB1.4 million in the nine months ended 30 September 2009 primarily due to our cost-saving measures to reduce salaries of our employees.

(3) Others primarily included sales department expenses which decreased from RMB9.3 million in 2006 to RMB3.8 million in 2007 when we terminated the operation of Ruinian Sales in December 2006, and increased from RMB3.8 million in 2007 to RMB10.3 million in 2008 because we expanded our business into the health drink market in 2008.

Administrative Expenses

Our administrative expenses primarily consist of staff costs for our administrative, finance and human resource personnel, depreciation of equipment and facilities used for administrative purposes and legal and professional fees. In 2006, 2007, 2008 and the nine months ended 30 September 2009, our administrative expenses amounted to RMB19.9 million, RMB22.7 million, RMB42.1 million and RMB21.2 million, respectively. We expect administrative expenses to increase as we recruit additional professionals and incur additional expenses related to the growth of our business. Our legal and professional fees increased from RMB4.7 million in 2007 to RMB14.8 million in 2008 in connection with the Global Offering.

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

(RMB in thousands)	Year ended 31 December			Nine months ended 30 September	
	2006	2007	2008	2008	2009
				(Unaudited)	
Administrative expenses					
Directors' remuneration	187	336	1,887	1,391	502
Staff costs(1)	11,610	10,642	7,603	5,915	4,468
Legal and professional fees	4,416	4,668	14,771	10,291	4,216
Depreciation	1,371	1,459	1,731	1,053	4,100
Others(2)	2,268	5,626	16,067	12,375	7,865
	19,852	22,731	42,059	31,025	21,151

Notes:

(1) The staff costs decreased from RMB11.6 million in 2006 to RMB7.6 million in 2008 primarily because we made contribution in 2006 and 2007 to the staff and worker's bonus welfare fund and made no contribution in 2008 to such fund pursuant to decisions of our Board of Directors.

(2) Primarily included exchange loss and rental expenses. We incurred an exchange loss of RMB3.7 million in 2008 in connection with capital contributions that were denominated in Hong Kong dollars due to the depreciation of the Hong Kong dollar against the Renminbi, and rental expenses of RMB0.8 million for our Hong Kong office which was set up in April 2008. We incurred an exchange loss of RMB3.5 million in the nine months ended 30 September 2008 in connection with capital contributions that were denominated in Hong Kong dollars due to the depreciation of the Hong Kong dollar against the Renminbi, and there were no such expenses in the nine months ended 30 September 2009.

Research and Development Costs

Our research and development costs primarily consist of payments made to third parties in relation to the development of new product candidates. Our research and development costs amounted to RMB11.4 million, RMB13.0 million, RMB13.9 million and RMB1.6 million in 2006, 2007, 2008 and the nine months ended 30 September 2009, respectively. We expect research and development costs to increase as we increase our research and development efforts to expand our product offerings.

Finance Costs

Our finance costs consist of interest paid on our bank loans and other indebtedness (including bills payable to related companies). Interest rates on our bank loans, all of which are granted by PRC commercial banks and denominated in RMB, are typically linked to benchmark rates published by the PBOC. In 2006, 2007, 2008 and the nine months ended 30 September 2009, our finance costs amounted to RMB16.7 million, RMB20.3 million, RMB14.7 million and RMB8.8 million, respectively.

Taxation

Under the current laws of Cayman Islands, we are not subject to any income or capital gains tax.

Our primary operating subsidiary, Ruinian Industry, was subject to the PRC Enterprise Income Tax Law Concerning Foreign-Invested Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法) prior to 1 January 2008. Under this law and its related regulations, a foreign-invested enterprise operating in an economic and technological development zone was subject to enterprise income tax at a statutory rate of 24%. In addition, certain foreign-invested enterprises were entitled to an exemption from enterprise income tax for a period of two years starting from the first profit-making year, followed by a reduction of enterprise income tax by 50.0% for a period of three years. Ruinian Industry obtained approval from the relevant PRC tax authorities to enjoy preferential tax treatment in accordance with such laws and regulations. As a result, the applicable tax rate for Ruinian Industry was 12.0%, 12.0% and 12.5% for the years ended 31 December 2006, 2007 and 2008, respectively. Ruinian Sales, which was dissolved in October 2007, was subject to enterprise income tax at a statutory rate of 33% (30% national income tax plus 3% local income tax) before its dissolution because it did not enjoy any preferential tax treatment. Nanjing Ruinian has received confirmation letters from the state taxation authority and the local taxation authority of Nanjing City, Jiangsu Province, that it complied with PRC tax laws and regulations. The state taxation authority has further confirmed that Nanjing Ruinian is entitled to an exemption from enterprise income tax for a period of two years starting from 1 January 2008, and an enterprise income tax rate of 12.5% for a period of three years starting from 1 January 2010. Our PRC legal counsel, Grandall Legal Group (Shanghai), has confirmed that the tax rates applicable to Ruinian Industry, Nanjing Ruinian and Ruinian Sales comply with the requirements of PRC laws.

Effective on 1 January 2008, the new EIT Law imposes a uniform tax rate of 25.0% on all PRC enterprises, including foreign-invested enterprises, unless they qualify under certain limited exceptions. Under the new EIT Law, we continued to enjoy the original preferential tax reduction and were entitled to a 12.5% income tax rate for the year ended 31 December 2008. Starting from 1 January 2009, the enterprise income tax rate applicable to Ruinian Industry is 25.0%, which is the standard enterprise income tax rate for all PRC enterprises. See "Risk Factors — Risks Related to Doing Business in the PRC — The discontinuation of the preferential tax treatment currently available to our PRC subsidiaries could materially and adversely affect our results of operations."

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that require our management to exercise judgment and to make estimates that would yield materially different results if our management applied different assumptions or made different estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. We have not changed our assumptions or estimates in the past and have not noticed any material errors regarding our estimates or assumptions. Under the current circumstances, we do not expect that our estimates or assumptions are likely to change significantly in the future. We believe the following critical accounting policies involve the most significant estimates and judgments used in the preparation of our financial statements.

Property, Plant and Equipment

Our property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment loss, if any.

Depreciation is calculated using the straight-line method over the respective estimated useful lives, at the following rates per year:

Buildings	5%
Plant and machinery	10%
Motor vehicles	20%
Furniture, fixtures and equipment	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. We determine these based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. We will increase the depreciation charge where useful lives are less than previously estimated lives, and will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual useful lives and residual values may differ from the estimated ones. As a result, our periodic review at each statement of financial position date could result in a change in useful lives and residual values, and therefore changes in depreciation expenses in future periods.

Intangible Assets

Our intangible assets mainly include technology we purchased and developed, which are carried at cost less accumulated amortisation and accumulated impairment losses, if any. These costs are amortised over their estimated useful lives of 10 years.

We determine the estimated useful lives and related amortisation charges for our intangible assets based on the practice in similar industries with intangible assets of a similar nature and function. We may decide to increase the amortisation charge when useful lives of the intangible assets are less than their previously estimated useful lives, and may also decide to write off or write down those technically obsolete or non-strategic intangible assets that will likely be abandoned or sold.

We capitalise development costs in association with an internally generated intangible asset only if it is anticipated that the development costs will be recovered through future commercial activities. We recognise development costs as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- our management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Intangible assets are amortised from the point at which the assets are ready for use, on a straight-line basis over their estimated useful lives of 10 years, and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses, if any.

We reassess our projects' technical and commercial feasibility at each statement of financial position date. Such feasibility could change significantly as a result of technological innovations and the change of estimated profit projections. When there are adverse changes in technological innovations or profit projections, we will write off or write down capitalised development costs.

Inventories

We record inventories at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated related selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of a similar nature and could change significantly as a result of changes in customer tastes and competitor actions. We review our inventory of packaging materials, raw materials and finished goods and work in progress at each statement of financial position date and write down the cost of inventory that we specifically identify and consider as obsolete. We currently do not have a rigid inventory obsolescence policy based on the shelf lives of products. We determine inventory obsolescence on a case by case basis by considering a range of factors including the expiry date and packaging condition of products.

Impairment of Non-financial Assets

Tangible assets and intangible assets are reviewed for impairment at each statement of financial position date. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Judgment of our management is required in assessing impairment, particularly in determining: (i) whether an event has occurred that may indicate that asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections, including the rate at which such projects are discounted. Changing the assumptions selected by our management in assessing impairment could materially affect the net present value in the impairment test and as a result affect our financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to record an impairment charge.

Impairment of Financial Assets

A provision for impairment is established when there is evidence that we will not be able to collect all amounts due according to the original terms of the receivables, based on the financial condition and credit history of our customers and other debtors and the current market condition. The amount of the provision is the difference between an asset's carrying amount and the present value of estimated future cash flows from such asset, discounted at the original effective interest rate. We reassess the amount of provisions at each statement of financial position date. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the statement of comprehensive income.

Tax and Deferred Income Tax

Our current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted in the PRC at each statement of financial position date. We periodically evaluate positions taken in our tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establish provisions on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised in full on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. 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 the initial recognition 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 our management considers that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

RESULTS OF OPERATIONS

The following table sets forth information from our statements of comprehensive income for the periods indicated:

	Year ended 31 December			Nine months ended 30 September	
(RMB in thousands)	**2006**	**2007**	**2008**	**2008**	**2009**
				(Unaudited)	
Turnover	196,747	405,523	632,357	586,729	523,672
Cost of goods sold	(24,253)	(86,915)	(206,068)	(182,931)	(175,873)
Gross profit	172,494	318,608	426,289	403,798	347,799
Other income	4,119	6,594	1,975	1,568	718
Selling and distribution costs	(91,271)	(114,675)	(200,833)	(197,989)	(123,750)
Administrative expenses	(19,852)	(22,731)	(42,059)	(31,025)	(21,151)
Research and development costs	(11,375)	(13,000)	(13,900)	(11,300)	(1,600)
Finance costs	(16,744)	(20,267)	(14,657)	(11,170)	(8,772)
Profit before taxation	37,371	154,529	156,815	153,882	193,244
Taxation	(12,856)	(19,321)	(36,836)	(35,282)	(60,878)
Profit for the year/period	24,515	135,208	119,979	118,600	132,366
Other comprehensive income					
Exchange differences arising on translation of foreign operations	—	—	176	—	3
Total comprehensive income for the year/period	24,515	135,208	120,155	118,600	132,369
Earnings per share - Basic	5.5 cents	26.5 cents	16.0 cents	15.8 cents	17.6 cents

Nine Months Ended 30 September 2009 compared with Nine Months Ended 30 September 2008

Turnover

Our turnover decreased by 10.7% from RMB586.7 million in the nine months ended 30 September 2008 to RMB523.7 million in the nine months ended 30 September 2009.

Our turnover from sales of nutritional supplements and general health food products decreased by 14.5% from RMB479.8 million in the nine months ended 30 September 2008 to RMB410.2 million in the nine months ended 30 September 2009, primarily due to a decrease in sales of liquid amino acids from RMB154.0 million in the nine months ended 30 September 2008 to RMB32.3 million in the nine months ended 30 September 2009, which was partially offset by the increase in sales of our other nutritional supplements and general health food products. The decrease in sales of liquid amino acids was primarily due to the global financial crisis and economic downturn and our plan to gradually replace this product with our Ruinian-branded liquid amino acids after we receive the GMP certification and the food production licence as required by the Implementation Regulations of the PRC Food Safety Law for our production line, thereby we cut back our marketing expenses on liquid amino acids. Our turnover from sales of health drinks, which we began to market and sell in February 2008, increased from RMB106.9 million in the nine months ended 30 September 2008 to RMB113.5 million in the nine months ended 30 September 2009. Selling prices of our products remained stable in the nine months ended 30 September 2009, compared to the nine months ended 30 September 2008.

Turnover from sales of pharmaceutical products amounted to RMB0.04 million in the nine months ended 30 September 2009.

Cost of goods sold

Our cost of goods sold decreased by 3.9% from RMB182.9 million in the nine months ended 30 September 2008 to RMB175.9 million in the nine months ended 30 September 2009.

Cost of goods sold for our nutritional supplements and general health food products increased by 9.3% from RMB106.0 million in the nine months ended 30 September 2008 to RMB115.9 million in the nine months ended 30 September 2009, primarily due to costs for certain other general health food products manufactured by Independent Third Parties. Our packaging material costs increased from RMB23.7 million in the nine months ended 30 September 2008 to RMB25.7 million in the nine months ended 30 September 2009, primarily because we changed packaging of our Ruinian-branded protein powder. Our costs of raw materials amounted to RMB20.7 million in the nine months ended 30 September 2008, compared to RMB19.0 million in the nine months ended 30 September 2009.

Our cost of goods sold for health drinks decreased from RMB76.9 million in the nine months ended 30 September 2008 to RMB60.0 million in the nine months ended 30 September 2009 primarily due to lower market prices of the packaging materials, which enabled us to purchase Shun-branded herbal tea from third party manufacturers at lower prices. For example, our purchase price for the herbal tea package containing twenty-four 310 ml cans decreased by 12.9% from the nine months ended 30 September 2008 to the nine months ended 30 September 2009.

Our cost of goods sold for pharmaceutical products amounted to RMB0.01 million in the nine months ended 30 September 2009.

Gross profit and gross margin

As a result of the foregoing, our gross profit decreased from RMB403.8 million in the nine months ended 30 September 2008 to RMB347.8 million in the nine months ended 30 September 2009. Our gross margin decreased from 68.8% in the nine months ended 30 September 2008 to 66.4% in the nine months ended 30 September 2009 primarily due to the sale of certain other general health food products manufactured by Independent Third Parties, which had lower gross margins. Gross margin of Yixikang oral liquids and Honger oral liquids was negative 4.4% and negative 5.5%, respectively, in the nine months ended 30 September 2009. The decrease in gross margin was also because herbal tea, which had a lower gross margin compared to our other products, represented a higher percentage of our turnover in the nine months ended 30 September 2009 compared to the nine months ended 30 September 2008.

Other income

Our other income decreased from RMB1.6 million in the nine months ended 30 September 2008 to RMB0.7 million in the nine months ended 30 September 2009, primarily due to a decrease in interest income from pledged bank deposits, which earns interest at a higher interest rate compared to regular bank deposits, as we terminated all trade financing transactions in March 2008.

Selling and distribution costs

Our selling and distribution costs decreased by 37.5% from RMB198.0 million in the nine months ended 30 September 2008 to RMB123.8 million in the nine months ended 30 September 2009, primarily due to a decrease in advertising and promotional expenses from RMB165.5 million in the nine months ended 30 September 2008 to RMB100.8 million in the nine months ended 30 September 2009 as we decreased our television advertising efforts and cut back our marketing expenses on liquid amino acids. Selling and distribution costs as a percentage of our turnover decreased from 33.7% in the nine months ended 30 September 2008 to 23.6% in the nine months ended 30 September 2009.

Administrative expenses

Our administrative expenses decreased by 31.8% from RMB31.0 million in the nine months ended 30 September 2008 to RMB21.2 million in the nine months ended 30 September 2009, primarily due to a decrease in legal and professional fees from RMB10.3 million in the nine months ended 30 September 2008 to RMB4.2 million in the nine months ended 30 September 2009 as we suspended our efforts to prepare for the Global Offering as a result of unfavourable market conditions. The decrease in administrative expenses was also attributable to our cost-saving measures, such as reducing salaries of our management members and employees, so our staff costs decreased from RMB5.9 million in the nine months ended 30 September 2008 to RMB4.5 million in the nine months ended 30 September 2009. In the nine months ended 30 September 2008, we incurred an exchange loss of RMB3.5 million in connection with capital contributions that were denominated in Hong Kong dollars due to the depreciation of the Hong Kong dollar against the Renminbi. Administrative expenses as a percentage of our turnover decreased from 5.3% in the nine months ended 30 September 2008 to 4.0% in the nine months ended 30 September 2009.

Research and Development Costs

Our research and development costs decreased from RMB11.3 million in the nine months ended 30 September 2008 to RMB1.6 million in the nine months ended 30 September 2009 because, in light of the financial crisis and economic downturn, we decreased our research and development efforts to concentrate our financial resources on marketing and selling our existing products, considering that we had a number of our product candidates pending regulatory approval.

Finance costs

Our finance costs decreased by 21.5% from RMB11.2 million in the nine months ended 30 September 2008 to RMB8.8 million in the nine months ended 30 September 2009, primarily due to lower interest rates for bank loans in the nine months ended 30 September 2009. The interest rates of our variable-rate bank loans ranged from 5.3% to 7.6% as of 30 September 2009, compared to 6.4% to 7.5% as of 30 September 2008.

Taxation

Our tax charge increased by 72.5% from RMB35.3 million in the nine months ended 30 September 2008 to RMB60.9 million in the nine months ended 30 September 2009 primarily due to the increased tax rate as a result of the expiration of the preferential tax treatment under the EIT Law. As a result, our effective tax rates in the nine months ended 30 September 2008 and 2009 were 22.9% and 31.5%, respectively.

Profit for the period

As a result of the foregoing, our profit for the period increased from RMB118.6 million in the nine months ended 30 September 2008 to RMB132.4 million in the nine months ended 30 September 2009. Our profit margin increased from 20.2% in the nine months ended 30 September 2008 to 25.3% in the nine months ended 30 September 2009.

Year Ended 31 December 2008 compared with Year Ended 31 December 2007

Turnover

Our turnover increased by 55.9% from RMB405.5 million in 2007 to RMB632.4 million in 2008.

Our turnover from sales of nutritional supplements and general health food products increased by 24.9% from RMB405.5 million in 2007 to RMB506.7 million in 2008, primarily due to the increased penetration of such products in existing geographic markets as well as expansion of sales into more second and third-tier cities, such as Chongqing Municipality (重慶市) and Kashi City (喀什市) in Xinjiang Province (新疆). The increase was also attributable to the introduction of liquid amino acids in September 2007 resulting in turnover of RMB159.6 million for this product in 2008, compared to RMB116.6 million in 2007, as well as marginal increases in the average selling prices of our products.

We commenced sales of health drinks in February 2008, resulting in turnover of RMB125.7 million for this product in 2008. We had no such sales in 2007.

Cost of goods sold

Our cost of goods sold increased by 137.1% from RMB86.9 million in 2007 to RMB206.1 million in 2008.

Cost of goods sold for our nutritional supplements and general health food products increased by 32.2% from RMB86.9 million in 2007 to RMB114.9 million in 2008, primarily because of the increase in our sales. Our packaging material costs increased from RMB20.9 million in 2007 to RMB23.7 million in 2008, and our costs of raw materials increased from RMB11.6 million in 2007 to RMB22.7 million in 2008. The increase was also attributable to the introduction of liquid amino acids in September 2007, resulting in cost of goods sold of RMB33.4 million for this product in 2008, compared to RMB26.3 million in 2007.

In relation to our sale of health drinks, we incurred costs of RMB91.2 million to purchase herbal tea from third parties in 2008. We had no such expenses in 2007.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased from RMB318.6 million in 2007 to RMB426.3 million in 2008. However, our gross margin decreased from 78.6% in 2007 to 67.4% in 2008 primarily due to the launch of sales of health drinks in February 2008, which had a lower gross margin of 27.4% compared to 83.4% of our Ruinian-branded amino acid-based tablets.

Other income

We had other income of RMB2.0 million in 2008 which decreased from RMB6.6 million in 2007, primarily due to a decrease in interest income from pledged bank deposits, which earns interest at a higher interest rate compared to regular bank deposits, as we terminated all trade financing transactions in March 2008.

Selling and distribution costs

Our selling and distribution costs increased by 75.1% from RMB114.7 million in 2007 to RMB200.8 million in 2008, primarily due to a significant increase in advertising and promotional expenses from RMB107.0 million in 2007 to RMB156.8 million in 2008 as we increased our television advertising efforts. Our transportation charges increased from RMB 0.3 million in 2007 to RMB 22.9 million in 2008, primarily because we began to bear the costs of delivering our products to our distributors in 2008. Selling and distribution costs as a percentage of our turnover increased from 28.3% in 2007 to 31.8% in 2008. The increase in selling and distribution costs was also attributable to an increase in transportation costs we incurred in connection with the shipping of our products to our distributors.

Administrative expenses

Our administrative expenses increased by 85.0% from RMB22.7 million in 2007 to RMB42.1 million in 2008, primarily due to an increase in legal and professional fees from RMB4.7 million in 2007 to RMB14.8 million in 2008 in connection with the Global Offering. In 2008, we incurred an exchange loss of RMB3.7 million in connection with capital contributions that were denominated in Hong Kong dollars due to the depreciation of the Hong Kong dollar against the Renminbi. Administrative expenses as a percentage of our turnover increased from 5.6% in 2007 compared to 6.7% in 2008.

Research and Development Costs

Our research and development costs increased from RMB13.0 million in 2007 to RMB13.9 million in 2008, primarily associated with the development of product candidates including Ruinian-branded liquid amino acids, e-jiao gelatin with heme iron capsules, collagen complex tablets, colostrum tablets, natural gingko capsules and polypeptide tablets.

Finance costs

Our finance costs decreased by 27.7% from RMB20.3 million in 2007 to RMB14.7 million in 2008 due to lower interest rates for bank loans in 2008. The interest rates of our variable-rate bank loans ranged from 6.4% to 7.5% as of 31 December 2008, compared to 6.1% to 8.3% as of 31 December 2007.

Taxation

Our tax charge increased by 90.7% from RMB19.3 million in 2007 to RMB36.8 million in 2008 primarily due to the new requirement under the EIT Law that advertising expenses exceeding 15% of turnover cannot be deducted in the current period/year, and would only be deductible in future periods when advertising expenses are less than 15.0% of turnover in such period/year. Our effective income tax rates in 2007 and 2008 were 12.5% and 23.5%, respectively.

Profit for the year

As a result of the foregoing, our profit for the year decreased from RMB135.2 million in 2007 to RMB120.0 million in 2008. Our profit margin decreased from 33.3% in 2007 to 19.0% in 2008.

Year Ended 31 December 2007 compared with Year Ended 31 December 2006

Turnover

Our turnover increased by 106.1% from RMB196.7 million in 2006 to RMB405.5 million in 2007, primarily due to turnover of liquid amino acids in the amount of RMB116.6 million in 2007, which we began to market and sell in September 2007. The increase was also attributable to an increase in turnover of Ruinian-branded amino acid-based tablets from RMB132.4 million in 2006 to RMB195.3 million in 2007 as a result of our increased television advertising efforts and our commencement of sales of Ruinian-branded protein powder, which was launched in December 2006 and recorded turnover of RMB29.3 million in 2007, as well as slight increases in the average selling prices of our products in 2007 compared to 2006. The increase in turnover was partially offset by a decrease in sales of Linger-branded amino acid-based tablets in 2007 as we decreased our marketing efforts with respect to this product in order to concentrate our sales and marketing activities on Ruinian-branded amino acid-based tablets to further promote such brand.

Cost of goods sold

Our cost of goods sold increased by 258.4% from RMB24.3 million in 2006 to RMB86.9 million in 2007, primarily due to an increase in sales as a result of our increased advertising and promotion efforts. Cost of goods sold also increased mainly due to purchase costs of RMB26.3 million of the liquid amino acids we began to market and sell in September 2007, and increases in packaging material costs and raw material costs. Our packaging material costs increased from RMB17.1 million to RMB20.9 million, primarily due to our decision to change the design of the packaging of all our products in late 2006 to unify them with the image of our brand name presented in our television advertising campaigns. Costs of raw materials increased from RMB10.5 million to RMB11.6 million, primarily due to the increase in per unit purchase price of our raw materials, such as amino acid granules and coatings.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased from RMB172.5 million in 2006 to RMB318.6 million in 2007. Our gross margin decreased from 87.7% in 2006 to 78.6% in 2007 primarily due to the introduction of liquid amino acids, which had a lower margin of 77.4%, compared to 82.7% of our Ruinian-branded amino acid-based tablets, as we need to purchase liquid amino acids from Independent Third Parties. The decrease was also attributable to an increase in packaging cost as we changed the design of the packaging of our products in 2007.

Other income

We had other income of RMB6.6 million in 2007 which increased from RMB4.1 million in 2006, primarily due to an increase in interest income as a result of increased average deposits and higher interest rates for pledged bank deposits.

Selling and distribution costs

Our selling and distribution costs increased by 25.6% from RMB91.3 million in 2006 to RMB114.7 million in 2007, primarily due to a significant increase in advertising and promotional expenses from RMB67.0 million in 2006 to RMB107.0 million in 2007, substantially all of which was associated with our increased television advertising efforts. The increase was partially offset by a decrease in staff costs from RMB11.4 million in 2006 to RMB1.9 million in 2007, because we reduced our reliance on full time sales and marketing employees when we terminated the operations of Ruinian Sales in December 2006. Selling and distribution costs as a percentage of our turnover decreased from 46.4% in 2006 to 28.3% in 2007. See "Business — Marketing and Distribution — Marketing" for more information on our selling and marketing activities upon the termination of Ruinian Sales' operations in December 2006.

Administrative expenses

Our administrative expenses increased by 14.5% from RMB19.9 million in 2006 to RMB22.7 million in 2007, primarily due to an increase in the staff and worker's bonus welfare fund from RMB5.5 million in 2006 to RMB7.4 million in 2007 which was determined by our Board of Directors. Administrative expenses as a percentage of our turnover decreased from 10.1% in 2006 to 5.6% in 2007.

Research and development costs

Our research and development costs increased from RMB11.4 million in 2006 to RMB13.0 million in 2007, primarily associated with the development of new product candidates including e-jiao gelatin with heme iron capsules, collagen complex tablets and the Ruinian-branded liquid amino acids in 2007.

Finance costs

Our finance costs increased by 21.0% from RMB16.7 million in 2006 to RMB20.3 million in 2007, primarily due to the higher interest rates for bank loans in 2007. The interest rates of our variable-rate bank loans ranged from 6.1% to 8.3% as of 31 December 2007, compared to 5.3% to 6.1% as of 31 December 2006.

Taxation

Our tax charge increased by 50.3% from RMB12.9 million in 2006 to RMB19.3 million in 2007 primarily due to our increased profit before taxation. Our effective tax rates in 2006 and 2007 were 34.4% and 12.5%, respectively. The decrease in our effective tax rate was primarily because Ruinian Sales, which did not enjoy any preferential tax treatment, ceased operations in December 2006.

Profit for the year

As a result of the foregoing, our profit for the year increased from RMB24.5 million in 2006 to RMB135.2 million in 2007. Our profit margin increased from 12.5% in 2006 to 33.3% in 2007.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations primarily through cash flows from operations, short-term bank loans, bills payable to related companies and amounts due to related companies. We recorded a net cash inflow of RMB11.4 million and RMB95.4 million in 2006 and 2007, respectively, and a net cash outflow of RMB115.9 million in 2008. We recorded a net cash outflow of RMB88.1 million in the nine months ended 30 September 2008 and a net cash inflow of RMB73.3 million in the nine months ended 30 September 2009. We were able to repay our obligations, bank loans, bills payable to related companies and amounts due to related companies when they became due during the Track Record Period.

As of 30 September 2009, we had outstanding short-term bank loans of RMB226.0 million, which bore interest rates of 4.4% to 8.2%. These short-term bank loans have terms ranging from six to twelve months. We have not experienced any delay in renewing our existing banking facilities. We had no outstanding bills payable to related companies or amounts due to related companies as of 30 September 2009. See "— Indebtedness."

Cash Flow

The following table sets forth a summary of our net cash flows for the periods indicated:

	Year ended 31 December			Nine months ended 30 September	
(RMB in thousands)	**2006**	**2007**	**2008**	**2008**	**2009**
				(Unaudited)	
Net cash from (used in) operating activities	57,002	12,323	(78,508)	(162,846)	140,593
Net cash (used in) from investing activities	(274,839)	253,414	(128,319)	(19,598)	(78,491)
Net cash from (used in) financing activities	229,266	(170,316)	90,881	94,372	11,214
Net increase (decrease) in cash and cash equivalents	11,429	95,421	(115,946)	(88,072)	73,316

Operating activities

Our net cash from operating activities was RMB140.6 million in the nine months ended 30 September 2009, which was derived from a profit before taxation of RMB193.2 million, adjusted to reflect net increases relating to non-cash items and items of income or expense associated with investing or financing cash flows, and a net decrease relating to changes in operating assets and liabilities. The adjustments relating to non-cash items were primarily comprised of depreciation of property, plant and equipment of RMB11.2 million and amortisation of intangible assets of RMB3.1 million. The adjustments relating to changes in operating assets and liabilities, which resulted in a net decrease of RMB34.3 million, were primarily comprised of:

- an increase in trade and other receivables of RMB92.0 million principally due to an increase in sales of our products in the third quarter of 2009; and
- a decrease in trade and other payables of RMB6.3 million principally due to a decrease in advertising accruals as a result of our settlement of advertising expenses; which was partially offset by

- a decrease in inventories of RMB64.0 million principally because we were able to reduce the inventory of merchandise for resale and finished goods as a result of the improved sales level of our products in the nine months ended 30 September 2009.

Our net cash used in operating activities was RMB78.5 million in 2008, which was derived from a profit before income tax of RMB156.8 million, adjusted to reflect net increases relating to non-cash items and items of income or expense associated with investing or financing cash flows, and a net decrease relating to changes in operating assets and liabilities. The adjustments relating to non-cash items were primarily comprised of depreciation expenses of RMB5.7 million and amortisation of intangible assets of RMB2.7 million. The adjustments relating to changes in operating assets and liabilities, which resulted in a net decrease of RMB228.6 million, were primarily comprised of:

- an increase in trade and other receivables of RMB139.3 million principally due to a deposit of RMB172.3 million for our acquisition of Nanjing Ruinian;
- an increase in inventories of RMB63.8 million principally due to increases in inventories of merchandise for resale, raw materials and packaging materials as a result of the unexpected decrease in the production and sale of our products in the fourth quarter of 2008 due to the global financial crisis and economic downturn; and
- a decrease in trade and other payables of RMB25.5 million principally due to decreases in bills payable, trade payables and other tax payables as a result of the decrease in the production and sales of our products in the fourth quarter of 2008 due to the global financial crisis and economic downturn.

Our net cash from operating activities was RMB12.3 million in 2007, which was derived from a profit before taxation of RMB154.5 million, adjusted to reflect net increases relating to non-cash items and items of income or expense associated with investing or financing cash flows, and a net decrease relating to changes in operating assets and liabilities. The adjustments relating to non-cash items were primarily comprised of depreciation of property, plant and equipment of RMB5.7 million and amortisation of intangible assets of RMB2.7 million. The adjustments relating to changes in operating assets and liabilities, which resulted in a net decrease of RMB161.8 million, were primarily comprised of:

- an increase in trade and other receivables of RMB249.5 million principally due to the significant increase in sales of our products and increases in deposits we paid to our suppliers and in prepayments for media airtime; which was partially offset by
- an increase in trade and other payables of RMB58.2 million principally as a result of the significant increase in the production and sales of our products, which in turn resulted in increases in advertising accruals, customers' deposits and other tax payables; and
- a decrease in inventories of RMB29.5 million principally as a result of our return of obsolete packaging materials in the amount of RMB11.7 million to suppliers in 2007, as we decided to change the design of the packaging of our products.

Our net cash from operating activities was RMB57.0 million in 2006, which was derived from a profit before taxation of RMB37.4 million, adjusted to reflect net increases relating to non-cash items and items of income or expense associated with investing or financing cash flows, and a net decrease relating to changes in operating assets and liabilities. The adjustments relating to non-cash items were primarily comprised of depreciation of property, plant and equipment of RMB5.7 million and amortisation of intangible assets of RMB2.2 million. The adjustments relating to changes in operating assets and liabilities, which resulted in a net decrease of RMB0.9 million, were primarily comprised of:

- a decrease in trade and other payables of RMB32.7 million principally due to our settlement of purchases of property, plant and equipment and intangible assets and a decrease in bills payable; and
- an increase in inventories of RMB12.6 million principally as a result of our decision to increase our inventories toward the end of 2006 in preparation for increased market demand for our products before the 2007 Chinese New Year; which was partially offset by
- a decrease in trade and other receivables of RMB46.2 million principally as a result of the settlement of an interest-free loan we provided to a third party in the amount of RMB46.7 million.

Investing activities

Our net cash used in investing activities was RMB78.5 million in the nine months ended 30 September 2009. This was primarily for the remaining payment for the purchase of land use rights for two parcels of land, on which we plan to build our herbal tea production facility and logistics centres and the payment for the construction of a warehouse.

Our net cash used in investing activities was RMB128.3 million in 2008. This was primarily for the payment of RMB55.9 million for the purchase of land use rights for two parcels of land, on which we plan to build our herbal tea production facility and logistics centres, the purchase of manufacturing machinery and equipment of RMB66.0 million in connection with the construction of our liquid amino acid production line and osteoid sachet powder production line, and deposits of RMB57.7 million for our acquisition of Nanjing Ruinian.

Our net cash from investing activities was RMB253.4 million in 2007 primarily due to a decrease in pledged bank deposits of RMB238.4 million and repayment of amounts due from related companies of RMB171.2 million, which were partially offset by advances made to related companies of RMB150.6 million and the purchase of manufacturing machinery and equipment of RMB12.0 million in connection with the construction of an office building.

Our net cash used in investing activities was RMB274.8 million in 2006, primarily relating to an increase in pledged bank deposits of RMB147.6 million and advances made to related companies of RMB184.4 million, which was partially offset by repayment from related companies of RMB143.7 million, a purchase of manufacturing machinery and equipment for RMB53.7 million in connection with the construction of our liquid amino acid production line, a purchase of land use rights of RMB30.5 million, and cash used for the development cost of RMB5.3 million associated with Ruinian-branded royal jelly tablets and Ruinian-branded protein powder.

Financing activities

Our net cash from financing activities was RMB11.2 million in the nine months ended 30 September 2009. This was due to bank loans raised of RMB256.0 million, partially offset by repayment of bank loans of RMB236.0 million and interest payments of RMB8.8 million. Cash generated from financing activities in the nine months ended 30 September 2009 was mainly used to purchase inventory and for general working capital.

Our net cash from financing activities was RMB90.9 million in 2008. This was primarily due to bills payable to related companies raised of RMB511.4 million, bank loans raised by us of RMB269.0 million and capital injections from our shareholders of RMB182.0 million, partially offset by repayment of bank loans of RMB266.0 million and repayment of bills payable to related companies of RMB575.8 million. Cash generated from financing activities in 2008 was mainly used to fund our purchases of machinery and our working capital (including deposits paid to suppliers and prepayments for media airtime).

Our net cash used in financing activities was RMB170.3 million in 2007. This was primarily due to repayments of bank and other loans of RMB417.0 million, repayment of bills payable to related companies of RMB1,099.8 million and dividend payments of RMB138.6 million, partially offset by bank loans raised of RMB282.5 million, bills payable to related companies raised of RMB1,065.7 million and capital injections from our shareholders of RMB149.6 million.

Our net cash from financing activities was RMB229.3 million in 2006. This was primarily due to bank loans raised by us of RMB342.5 million and bills payable to related companies raised of RMB1,443.5 million, partially offset by repayment of bills payable to related companies of RMB1,301.7 million and repayment of bank loans of RMB262.1 million. Cash generated from financing activities in 2006 was primarily used to fund our purchases of machinery and land use rights, construction of new buildings and general working capital.

Statement of Financial Position

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of 31 December			As of 30 September	As of 30 November
(RMB in thousands)	**2006**	**2007**	**2008**	**2009**	**2009**
Current assets					
Inventories	53,591	24,101	87,099	23,558	24,680
Trade and other receivables	83,516	320,742	288,405	383,056	432,758
Amount due from ultimate holding company	8	—	—	—	—
Amounts due from related companies	171,154	79,452	—	—	—
Amount due from a Director	1,065	—	—	—	—
Pledged bank deposits	289,183	50,801	983	246	—
Bank balances and cash	22,347	117,768	1,840	75,159	156,936
	620,864	592,864	378,327	482,019	614,374
Current liabilities					
Trade and other payables	46,985	103,429	77,926	79,070	97,156
Bills payable to related companies	249,080	107,580	—	—	—
Amount due to ultimate holding company	—	15,011	—	—	57,770(2)
Amounts due to related companies	29,051	—	—	—	—
Amount due to a Director	—	439	47	156	123(3)
Taxation	265	17,525	20,860	35,337	25,997
Other loans(1)	15,000	—	—	—	—
Borrowings related to bills discounted with recourse	—	36,300	—	—	—
Current portion of long-term bank loans	70	21	—	—	—
Short-term bank loans	297,650	198,000	201,000	226,000	226,000
	638,101	478,305	299,833	340,563	407,046
Net current (liabilities) assets	(17,237)	114,559	78,494	141,456	207,328

Notes:

(1) From Wuxi Taihu National Holiday Resort Industrial Management Station (無錫太湖國家旅遊度假區工業管理站), a government organisation in the area in which we operate. Wuxi Taihu National Holiday Resort Industrial Management Station provides loans to companies in the area to encourage the development of the area.

(2) Representing the aggregate amount of the loans of US$8.5 million from SHKF, Sharp Gain and RPI to Furui and then to our Group as an interest-free shareholder loan to settle the fees and expenses of the professional parties in connection with the Global Offering and to provide additional working capital. These loans will be repaid in full before the Listing.
(3) The amount due to a Director was settled in December 2009.

We had net current liabilities as of 31 December 2006 of RMB17.2 million with short-term loans of RMB297.7 million, part of which was used to finance our purchases of fixed assets and intangible assets. Our bills payable to related companies amounted to RMB249.1 million as of 31 December 2006, all of which was attributable to our trade financing arrangements with related companies.

The following table sets forth a breakdown of other receivables as of the dates indicated:

(RMB in thousands)	As of 31 December 2006	2007	2008	As of 30 September 2009
Deposits paid to suppliers	1,103	83,674	70,120	31,945
Property rental deposits	—	—	339	271
Prepayments for research and development	—	14,000	9,700	6,100
Prepayments for media airtime	15,076	60,857	84,412	45,492
Value-added tax receivables	—	—	—	168
Other prepayments and deposits	2,214	18	1,300	3,386
Total	18,393	158,549	165,871	87,362

Deposits paid to suppliers primarily consisted of payments to suppliers of our packaging materials and raw materials. Prepayments for research and development expenses consisted of payments to a research company who conducted research and development for us. Prepayments for media airtime primarily consisted of payments to third-party advertising agencies.

Our deposits paid to suppliers increased from RMB1.1 million as of 31 December 2006 to RMB83.7 million as of 31 December 2007. The increase was primarily due to an increase in prepayments to the third-party manufacturers of liquid amino acids to enable them to expand production, prepayments to the third-party manufacturers of our new herbal tea product and an increase in prepayments to suppliers of packaging materials and raw materials to lock in favourable prices in 2007. Our deposits paid to suppliers decreased to RMB70.1 million as of 31 December 2008 and to RMB31.9 million as of 30 September 2009. As of 31 December 2009, we had received goods amounting to RMB30.1 million against prepayments as of 30 September 2009.

Our prepayments for research and development expenses are in connection with our e-jiao gelatin with heme iron capsules, collagen complex tablets, colostrum tablets, natural gingko capsules and polypeptide tablets. Our prepayments for research and development expenses as of 30 September 2009 amounted to RMB6.1 million, of which RMB0.4 million had been recognised as expenses or intangible assets as of 31 December 2009.

Our prepayments for media airtime increased from RMB15.1 million as of 31 December 2006 to RMB60.9 million as of 31 December 2007 and to RMB84.4 million as of 31 December 2008. The increase was primarily as a result of our increased level of advertising and marketing activities. In 2008, as a result of the global financial crisis and economic downturn, we decided to decrease our planned television and advertising efforts. We re-negotiated with our advertising agencies, all of which are Independent Third Parties, and received a refund of our prepayments for media airtime of RMB172.3 million. Our prepayments for media airtime decreased to RMB45.5 million as of 30 September 2009, of which RMB40.9 million had been recognised as expenses as of 31 December 2009.

The following table sets forth a breakdown of other payables as of the dates indicated:

(RMB in thousands)	As of 31 December			As of 30 September
	2006	2007	2008	2009
Customers' deposits	4,017	17,788	45	2,088
Payroll and welfare payables	5,110	11,810	12,375	11,005
Other tax payables	6,134	26,544	9,939	28,389
Other payables	646	—	4,135	2,688
Construction payables	—	—	—	5,485
Advertising accruals	6,838	11,583	34,685	4,732
Sales volume rebate	—	5,217	5,217	5,217
Other accruals	1,004	576	2,081	8,530
Total	23,749	73,518	68,477	68,134

Advertising accruals consisted of advertising expenses that have been recognised during the year but have not been paid as of period-end, in accordance with the relevant advertising contracts. Advertising accruals increased from RMB6.8 million as of 31 December 2006 to RMB11.6 million as of 31 December 2007 and to RMB34.7 million as of 31 December 2008, primarily due to our increased level of advertising activities. Advertising accruals decreased to RMB4.7 million as of 30 September 2009 because of our settlement of advertising expenses. As of 31 December 2009, 1.0 million had been paid against advertising accruals that were outstanding as of 30 September 2009.

Customers' deposits consisted of payments we received from our customers before such amounts were recognised as turnover, which are generally paid voluntarily by our customers. Customers' deposits increased from RMB4.0 million as of 31 December 2006 to RMB17.8 million as of 31 December 2007, primarily due to the significant increase in sales of our products. Customers' deposits were approximately nil and RMB2.1 million as of 31 December 2008 and 30 September 2009, respectively, as we delivered more products to customers. As of 31 December 2009, RMB2.1 million had been recognised against customers' deposits that were outstanding as of 30 September 2009.

Accruals for sales volume rebates represented the volume-related rebates incurred in 2007 payable to the selected distributors of liquid amino acids. As of 31 December 2009, all accruals for sales volume rebates had been fully settled.

Other tax payables increased from RMB6.1 million as of 31 December 2006 to RMB26.5 million as of 31 December 2007, primarily due to an increase in our VAT tax payables as a result of a significant increase in sales of our products in December 2007, the VAT tax of which was not due as of 31 December 2007. Similarly, our other tax payables increased from RMB9.9 million as of 31 December 2008 to RMB28.4 million as of 30 September 2009, primarily due to an increase in our VAT tax payables as a result of the increase in sales of our products in September 2009.

According to the provisions of the Lending General Provisions (貸款通則) promulgated by the PBOC on 28 June 1996, in respect of loans or loans in disguised form conducted among enterprises without permission, the PBOC will confiscate all illegal borrowings and impose a fine on the lender in the amount of one to five times the amount of income derived from such illegal borrowings. In addition, according to the PRC courts, inter-enterprise loan contracts violate the relevant financial regulations and are deemed as illegal contracts. The principal of such loans shall be returned to the borrower and any interest in connection with such loans shall be confiscated. We have entered into various inter-enterprise borrowing arrangements with related companies during the Track Record

Period. Our PRC legal counsel, Grandall Legal Group (Shanghai), has advised that such inter-enterprise borrowings by Ruinian Industry with related companies were not in compliance with PRC laws. However, on the basis that such inter-enterprise loans were non-interest bearing and that we did not receive any income from such lending activities, Grandall Legal Group (Shanghai) has advised that such non-compliance will not result in any fines or other penalties imposed on Ruinian Industry under the Lending General Provisions. In the event of any legal dispute, such lending contracts shall be deemed void and the principal shall be returned. We have discontinued such type of borrowing arrangements, and where any financing is necessary, we will conduct the relevant financing operations by legally permitted methods such as trust loans with financial institutions.

Turnover Days of Trade Receivables, Inventories and Trade Payables and Gearing Ratios

The following table sets forth the turnover days of our Company's trade receivables, inventories and trade payables as of the dates indicated:

	Year ended 31 December			Nine months ended 30 September
	2006	2007	2008	2009
Turnover days of trade receivables(1)	130	102	82	109
Turnover days of inventories(2)	712	163	98	86
Turnover days of trade payables(3)	313	192	29	28

	As of 31 December			As of 30 September
	2006	2007	2008	2009
Gearing ratio(4)	38.5%	25.1%	22.0%	21.3%

Notes:

(1) Turnover days of trade receivables for a period is derived by dividing the arithmetic mean of the opening and closing balances of trade and bills receivables by turnover during the relevant period and then multiplying the quotient by 365 days (for a year) and 273 days (for nine months) as applicable.

(2) Turnover days of inventories for a period is derived by dividing the arithmetic mean of the opening and closing balances of inventory by cost of goods sold during the relevant period and then multiplying the quotient by 365 days (for a year) or 273 days (for nine months), as applicable.

(3) Turnover days of trade payables for a period is derived by dividing the arithmetic mean of opening and closing balances of trade and bills payables by purchases for the relevant period and then multiplying the quotient by 365 days (for a year) or 273 days (for nine months), as applicable.

(4) Gearing ratio is derived by dividing total debt by total assets.

Trade receivables

Prior to January 2008, we generally granted a credit term of 45 days to our distributors, and for those purchasing our newly introduced products, we generally extended our credit term to 90 days. Since January 2008, we changed our credit terms to distributors from 45 days to 90 days to facilitate our efforts to increase product penetration and expand our product's geographic reach. We monitor and collect trade receivables by evaluating the credit history and creditworthiness of distributors in light of our production requirements, inventory requirements and market conditions. Our sales and marketing team is in charge of periodic collection tasks, and our finance team periodically verifies collection status with our sales and marketing team, monitors the ageing of accounts and prepares financial records. Stronger collection efforts will be made with respect to accounts with long overdue or high balances. Trade receivable turnover days decreased from 130 days in 2006 to 102 days in 2007 and to 82 days in 2008, primarily because we increased our efforts to collect trade receivables. Our trade receivable turnover days increased to 109 days in the nine months ended 30 September 2009, primarily due to an increase in sales of our products in the third quarter of 2009, the payments for which were not due as of 30 September 2009.

As seasonality has a significant effect on our turnover, our turnover from the fourth quarter has generally accounted for approximately one third of our total turnover for the year and accounted for the majority of our trade receivables as of year-end. As such, trade and bills receivable balances are typically higher at the year-end statement of financial position date, resulting in a larger numerator compared to turnover, resulting in a high turnover days figure for the year. Therefore, turnover days of trade receivables normally could not reflect or match with the credit terms to our customers. Our trade receivable turnover days are also affected by the timing of our sales before the Chinese New Year holidays prior to our change of credit policy from 45 days to 90 days in January 2008. We typically would have less trade receivables at year end if the following year's Chinese New Year occurs early in the calendar year. Our trade and bills receivables amounted to RMB295.7 million as of 30 September 2009, of which RMB287.1 million had been settled as of 31 December 2009. In the past, we have experienced limited amounts of uncollectible trade receivables. In 2006, 2007, 2008 and the nine months ended 30 September 2009, our allowance for doubtful debts amounted to RMB0.4 million, nil, nil and nil, respectively.

The following table sets forth a summary of ageing analysis of our trade and bills receivables as of the dates indicated:

(RMB in thousands)	As of 31 December			As of 30 September
	2006	2007	2008	2009
0 to 90 days	60,928	144,594	49,976	263,497
91 days to 180 days	1,069	8,261	60,638	32,086
181 days to 365 days	2,016	8,299	11,920	111
Over 1 year	1,110	1,039	—	—
Total	65,123	162,193	122,534	295,694

Our trade and bills receivables of 91 days to 180 days have increased from RMB8.3 million as of 31 December 2007 to RMB60.6 million as of 31 December 2008 because we increased in the first half of 2008 our credit terms to distributors from 45 days to 90 days to facilitate our efforts to expand our geographic reach. With this increase in credit terms, any short-term delay (i.e., one to five days) in payment by our distributors will have an effect of increasing our trade and bills receivables of 91 days to 180 days. Our trade and bills receivables of 181 days to 365 days increased from RMB2.0 million as of 31 December 2006 to RMB8.3 million as of 31 December 2007 and to RMB11.9 million as of 31 December 2008, primarily because we allowed certain of our distributors to delay payments to us to incentivise them to sell our new products.

Inventories

Our inventories comprise raw materials, packaging materials, work in progress, finished goods and merchandise for resale. The following table sets forth our ending inventory balances as of the dates indicated:

(RMB in thousands)	As of 31 December 2006	As of 31 December 2007	As of 31 December 2008	As of 30 September 2009
Raw materials	3,415	4,505	13,130	6,340
Work in progress	9,832	4,141	2,802	7,377
Finished goods	24,588	10,717	13,868	617
Merchandise for resale	—	1,091	49,111	3,370
Packaging materials	15,756	3,647	8,188	5,854
Total	53,591	24,101	87,099	23,558

Our inventories decreased from RMB53.6 million as of 31 December 2006 to RMB24.1 million as of 31 December 2007, primarily due to our return of obsolete packaging materials as we decided to change the design of the packaging of our products. Inventories increased to RMB87.1 million as of 31 December 2008 primarily due to an increase in merchandise for resale, as a result of the decrease in the sale of these products, affected by the global financial crisis and economic downturn, in the fourth quarter of 2008. Our merchandise for resale as of 31 December 2008 consisted of liquid amino acids, health drinks and other merchandise for resale we purchased from Independent Third Parties. Since none of such merchandise for resale was considered obsolete as of 31 December 2008, we did not make any provision with respect to these inventories. Our inventories decreased to RMB23.6 million as of 30 September 2009 primarily due to decreases in merchandise for resale and finished goods.

We actively monitor our inventory levels and seek to maintain a low level of inventory of raw materials, work in progress and finished products. We closely monitor and assess the sales performance of our products, so that we can adjust our production plans. We increase the purchase of raw materials when we believe the costs of raw materials and our estimates of production and sales make it prudent to do so. We review our inventory of finished goods on a case by case basis to determine whether it has become obsolete. To reduce the risk of inventory obsolescence, we may sell those products of substantial inventory history at a discount to our distributors which in turn sell them in promotional events. We did not have any inventory write-downs during the Track Record Period. We believe that our current policy on provision for inventory write-down is prudent given the declining trend of our inventory days.

Our inventory days in 2006 was 712 days primarily due to the high level of inventories, including packaging materials and finished goods, as of 31 December 2006, as we anticipated an increase in the sales of our products in 2007 as a result of our increased television advertising efforts, coupled with the lower level of cost of goods sold in 2006 as we did not purchase any merchandise for resale prior to the launch of liquid amino acids in 2007 and health drinks in 2008. Our cost of goods sold of merchandise for resale (excluding changes in inventory of merchandise for resale) amounted to nil, RMB26.6 million and RMB200.2 million in 2006, 2007 and 2008, respectively. The increase in our merchandise for resale from nil as of 31 December 2006 to RMB1.1 million as of 31 December 2007 was more than offset by the decrease in our inventory of finished goods, packaging materials and work in progress. Inventory days decreased from 712 days in 2006 to 163 days in 2007 and decreased to 98 days in 2008, primarily attributable to the increase in cost of goods sold as we expanded our business over the period. In addition, our inventory turnover days are also affected by the timing of our sales before the Chinese New Year holidays prior to our change of credit policy from 45 days to 90 days in January 2008. We typically would have lower levels of inventories at year end if the following year's Chinese New Year occurs early in the calendar year, which was the case in 2008. Our inventory turnover days in the nine months ended 30 September 2009 were 86 days. Our inventories as of 30 September 2009 were RMB23.6 million, of which RMB19.5 million had been sold or used as of 31 December 2009.

The following table sets forth the breakdown of finished goods and merchandise for resale as of the dates indicated:

(RMB in thousands)	As of 31 December 2006	2007	2008	As of 30 September 2009
Ruinian-branded amino acid-based tablets	18,304	7,997	8,024	157
Liquid amino acids	—	1,091	2,337	922
Ruinian-branded protein powder	177	552	1,365	27
Ruinian-branded osteoid sachet powder	1,926	1,199	1,083	18
Linger-branded amino acid-based tablets	3,227	636	1,247	95
Herbal tea	—	—	7,258	2,438
Others	954	333	41,665	330
Total	24,588	11,808	62,979	3,987

Others mainly include general health food products.

The shelf life of our finished products, which is determined based on testing of the relevant product and requires approval by the relevant regulatory agencies, is generally two years. During the Track Record Period, we were able to sell all of our inventories before they became obsolete. The following tables set forth a summary of ageing analysis of our finished goods and merchandise for resale as of the dates indicated:

	As of 31 December 2006				
(RMB in thousands)	1~6 months	7~12 months	13~24 months	Over 24 months	Total
Ruinian-branded amino acid-based tablets	16,659	1,631	14	—	18,304
Liquid amino acids	—	—	—	—	—
Ruinian-branded protein powder	177	—	—	—	177
Ruinian-branded osteoid sachet powder	1,926	—	—	—	1,926
Linger-branded amino acid-based tablets	2,862	365	—	—	3,227
Others	412	46	496	—	954
Total	22,036	2,042	510	—	24,588

	As of 31 December 2007				
	1~6 months	7~12 months	13~24 months	Over 24 months	Total
Ruinian-branded amino acid-based tablets	7,997	—	—	—	7,997
Liquid amino acids	1,091	—	—	—	1,091
Ruinian-branded protein powder	545	7	—	—	552
Ruinian-branded osteoid sachet powder	723	190	286	—	1,199
Linger-branded amino acid-based tablets	399	91	146	—	636
Others	177	33	123	—	333
Total	10,932	321	555	—	11,808

	As of 31 December 2008				
	1~6 months	7~12 months	13~24 months	Over 24 months	Total
Ruinian-branded amino acid-based tablets	125	7,899	—	—	8,024
Liquid amino acids	48	2,289	—	—	2,337
Ruinian-branded protein powder	1,360	5	—	—	1,365
Ruinian-branded osteoid sachet powder	747	336	—	—	1,083
Linger-branded amino acid-based tablets	1,067	180	—	—	1,247
Herbal tea	2,575	4,683	—	—	7,258
Others	35,498	6,167	—	—	41,665
Total	41,420	21,559	—	—	62,979

	As of 30 September 2009				
	1~6 months	7~12 months	13~24 months	Over 24 months	Total
Ruinian-branded amino acid-based tablets	55	102	—	—	157
Liquid amino acids	922	—	—	—	922
Ruinian-branded protein powder	9	18	—	—	27
Ruinian-branded osteoid sachet powder	18	—	—	—	18
Linger-branded amino acid-based tablets	8	87	—	—	95
Herbal tea	2,438	—	—	—	2,438
Others	100	230	—	—	330
Total	3,550	437	—	—	3,987

Trade Payables

Our trade payables primarily include payables to our packaging material and raw material suppliers. The credit term provided by our suppliers typically ranges from 70 to 90 days. Our trade payable turnover days in 2006 was 313 days, primarily due to the high level of trade payables as a result of our increased purchases of packaging materials and raw materials in the fourth quarter of 2006 in anticipation of an increase in the sales of our products in 2007, together with the lower level of purchases in 2006 as we did not purchase any merchandise for resale prior to the launch of liquid amino acids in 2007 and health drinks in 2008. Our trade and bills payables as of 31 December 2007 amounted to RMB29.9 million, compared to RMB23.2 million as of 31 December 2006. Trade payable turnover days decreased from 313 days in 2006 to 192 days in 2007, primarily because suppliers of our packaging materials and raw materials increased their collection efforts as we continued to increase demand for packaging materials and raw materials. Our trade payable turnover days decreased from 192 days in 2007 to 29 days in 2008, primarily due to decreases in trade and bills payables as a result of the unexpected decrease in the production and sales of our products in the fourth quarter of 2008. In addition, in 2007 and 2008, we made prepayments for our purchases of liquid amino acids and health drinks, and prepaid some of our raw materials and packaging materials suppliers in advance in order to lock in favourable prices. Trade payable turnover days further decreased to 28 days in the nine months ended 30 September 2009.

Turnover days of trade and bills payables normally could not reflect or match with our credit terms. As our suppliers generally allow us to use bank bills to settle trade balances upon the expiration of the credit terms, we obtain additional days of credit when using bank bills depending on the maturity date of the bank bills, thereby essentially extending our payment time for the purchases. As turnover days of trade and bills payables are calculated taking into account the actual payment time and include both trade payables and bills payables, they are generally longer than the credit terms granted to us. Our trade and bills payables amounted to RMB10.9 million as of 30 September 2009, of which RMB8.4 million had been paid as of 31 December 2009.

The following table sets forth a summary of ageing analysis of our trade and bills payables as of the dates indicated:

(RMB in thousands)	As of 31 December			As of 30 September
	2006	2007	2008	2009
0 to 90 days	18,018	24,268	7,393	9,179
91 days to 180 days	3,533	4,614	1,407	896
181 days to 365 days	1,485	63	502	800
Over 1 year	200	966	147	61
Total	23,236	29,911	9,449	10,936

Gearing Ratios

Gearing ratio represents total debt as a percentage of total assets. Our gearing ratio was 38.5%, 25.1%, 22.0% and 21.3% as of 31 December 2006, 2007, 2008 and 30 September 2009, respectively. The decrease in gearing ratio as of 31 December 2007 compared to 31 December 2006 was primarily due to our repayment of bank loans and the increase in bank balances associated with capital injections from our shareholders. The decrease in gearing ratio as of 31 December 2008 compared to as of 31 December 2007 was mainly attributable to the increase in total equity due to capital injections from new equity investors in 2008.

Intangible Assets

The following table sets forth a breakdown of our intangible assets as of the dates indicated:

(RMB in thousands)	As of 31 December			As of 30 September
	2006	2007	2008	2009
Product development costs				
Ruinian-branded amino acid-based tablets(1)	6,000	5,200	4,400	3,800
Ruinian-branded royal jelly tablets(1)	4,959	4,459	3,959	3,583
Ruinian-branded liquid amino acids(1)	—	—	—	1,917
Linger-branded amino acid-based tablets(1)	1,646	1,396	1,146	958
Ruinian-branded protein powder(1)	246	221	196	177
Subtotal	12,851	11,276	9,701	10,435
Technological know-how				
Ruinian-branded osteoid sachet powder(2)	8,166	7,166	6,166	5,417
Ruinian-branded blood lipid capsules(2)	800	700	600	525
Topotecan hydrochloride capsules(2)(3)	—	—	—	20,111
Oflosain eye drops(2)(3)	—	—	—	10,057
Ciprofloxacin hydrochloride eye drops(2)(3)	—	—	—	7,054
Subtotal	8,966	7,866	6,766	43,164
Nanjing Ruinian GMP certifications(3)	—	—	—	6,720
Total	21,817	19,142	16,467	60,319

Notes:

(1) We developed this product in collaboration with an Independent Third Party.

(2) We acquired the technological know-how associated with this product from Independent Third Parties.

(3) The amount was based on the fair value measurement performed by an international valuation firm upon the acquisition of Nanjing Ruinian for accounting purposes.

Summary of Key Financial Ratios during the Track Record Period

Return on equity

The table below sets forth our return on equity ratios for the periods indicated:

	Year ended 31 December		
	2006	**2007**	**2008**
Return on equity[1]	14.9%	55.7%	25.9%

Note:

(1) Return on equity is calculated by profit for the year divided by the arithmetic mean of the opening and closing balances of shareholders' equity expressed during the relevant year as a percentage.

Our return on equity ratio increased from 14.9% in 2006 to 55.7% in 2007, due to an increase in profit for the year in 2007. Our return on equity decreased from 55.7% in 2007 to 25.9% in 2008, primarily due to an increase in equity primarily as a result of the capital injections from new equity investors in 2008.

Liquidity Ratios

The table below sets forth our liquidity ratios for the periods indicated:

	As of 31 December			As of 30 September
	2006	**2007**	**2008**	**2009**
Current ratio[1]	97.3%	124.0%	126.2%	141.5%
Quick ratio[2]	88.9%	118.9%	97.1%	134.6%

Notes:

(1) Current ratio is calculated by dividing current assets by current liabilities.

(2) Quick ratio is calculated by dividing current assets less inventories by current liabilities.

Our current ratio increased from 97.3% as of 31 December 2006 to 124.0% as of 31 December 2007, primarily due to increases in trade receivables, prepayments for purchases as our business expanded, an increase in prepayments for advertisements as we increased our television advertising efforts, and a decrease in borrowings in 2007. Our quick ratio increased from 88.9% as of 31 December 2006 to 118.9% as of 31 December 2007, primarily due to our repayments of bank loans and the increase in bank balances and cash as a result of the capital injections from our shareholders. Our current ratio increased from 124.0% as of 31 December 2007 to 126.2% as of 31 December 2008, primarily due to a decrease in current liabilities as a result of the settlements of bills payable to related companies, amount due to ultimate holding company and borrowings related to bills discounted with recourse, and was partially offset by a decrease in bank balances and cash as a result of a cash payment made in late 2008 in connection with our acquisition of Nanjing Ruinian. Quick ratio decreased from 118.9% as of 31 December 2007 to 97.1% as of 31 December 2008, primarily due to an increase in inventory. Our quick ratio and current ratio increased from 97.1% and 126.2%, respectively, as of 31 December 2008 to 134.6% and 141.5%, respectively, as of 30 September 2009, primarily due to the increase in bank balances and cash as a result of the increase in sales of our products in the third quarter of 2009.

INDEBTEDNESS

A significant portion of our operations are financed with borrowings from commercial banks in China, bills payable to related companies and amounts due to related companies. Most of these borrowings from commercial banks and bills payable to related companies are in the form of interest-bearing short-term loans, while most of these amounts due to related companies are non-interest-bearing. All of our borrowings are denominated in Renminbi. As of 30 November 2009, our total borrowings amounted to RMB283.9 million, comprising bank loans of RMB226.0 million from commercial banks, RMB57.8 million of amount due to ultimate holding company and RMB0.1 million of amount due to a Director.

The following table sets forth the breakdown of our short-term indebtedness as of the dates indicated:

(RMB in thousands)	As of 31 December			As of 30 September	As of 30 November
	2006	2007	2008	2009	2009
Short-term bank loans	297,650	198,000	201,000	226,000	226,000
Bills payable to related companies	249,080	107,580	—	—	—
Borrowings related to bills discounted with recourse	—	36,300	—	—	—
Amounts due to related companies	29,051	—	—	—	—
Amount due to ultimate holding company	—	15,011	—	—	57,770[2]
Other loans[1]	15,000	—	—	—	—
Amount due to a Director	—	439	47	156	123[3]
Long-term bank loans	91	21	—	—	—
Total	590,872	357,351	201,047	226,156	283,893

Notes:

(1) From Wuxi Taihu National Holiday Resort Industrial Management Station (無錫太湖國家旅遊度假區工業管理站), a government organisation in the area in which we operate. Wuxi Taihu National Holiday Resort Industrial Management Station provides loans to companies in the area to encourage the development of the area.

(2) Representing the aggregate amount of the loans of US$8.5 million from SHKF, Sharp Gain and RPI to Furui and then to our Group as an interest-free shareholder loan to settle the fees and expenses of the professional parties in connection with the Global Offering and to provide additional working capital. These loans will be repaid in full before the Listing.

(3) The amount due to a Director was settled in December 2009.

All amounts due to related companies and amount due to a Director were settled prior to the date of this prospectus.

The following table sets forth the types of our bank loans as of the dates indicated:

(RMB in thousands)	As of 31 December			As of 30 September	As of 30 November
	2006	2007	2008	2009	2009
Secured	36,000	48,000	18,000	18,000	18,000
Guaranteed	194,720	125,000	—	5,000	5,000
Others	66,930	25,000	183,000	203,000	203,000
Total	297,650	198,000	201,000	226,000	226,000

The following table sets forth the maturity profile of our bank loans for the periods indicated.

(RMB in thousands)	As of 31 December			As of 30 September	As of 30 November
	2006	2007	2008	2009	2009
Bank loans:					
Within 6 months	218,150	128,000	163,000	176,000	191,000
6 months to 1 year	79,500	70,000	38,000	50,000	35,000
1 year to 2 years	—	—	—	—	—
Total	297,650	198,000	201,000	226,000	226,000

Except as disclosed in this section of the prospectus, apart from intra-group liabilities, neither our Company nor any of our Company's subsidiaries had, as of 30 November 2009, mortgages, charges, debentures, bank overdrafts, loans, liabilities under acceptance, hire purchase commitments, debt securities or material amounts of quantifiable guarantees and contingent liabilities.

SUBSEQUENT CHANGES

The Directors have confirmed that there has not been any material change in the indebtedness or contingent liabilities of our Company since 30 November 2009.

As of 30 November 2009, our used and unused credit facilities amounted to RMB226.0 million and RMB327.0 million, respectively.

CAPITAL EXPENDITURES

Our capital expenditures consist of cash used in acquisition of land use rights, construction of our production facilities and purchase of intangible assets. We have financed our capital expenditures through cash flows from operations and short-term bank loans. In 2006, 2007, 2008 and the nine months ended 30 September 2009, our capital expenditures amounted to RMB89.4 million, RMB12.0 million, RMB122.1 million and RMB84.5 million, respectively.

The following table sets forth our capital expenditures for the periods indicated:

	Year ended 31 December			Nine months ended 30 September
(RMB in thousands)	**2006**	**2007**	**2008**	**2009**
Land use rights	30,451	—	55,942	40,870
Property, plant and equipment	53,737	12,036	66,205	41,620
Intangible assets	5,250	—	—	2,000
Total	89,438	12,036	122,147	84,490

NON-COMPLIANT TRADE FINANCING WITH RELATED COMPANIES

During the portion of the Track Record Period up to 31 March 2008, our PRC subsidiaries, Ruinian Industry and Nanjing Ruinian, and their respective related companies namely, Ruinian Group, Jiangsu Ruinian Qianjin Pharmaceutical Co. Ltd., and Wuxi Ruinian Biotechnology Co., Ltd. entered into trade financing transactions with certain PRC commercial banks. The principal reason for these arrangements, which were duly approved by the respective directors of Ruinian Industry and Nanjing Ruinian, was to lower their overall financing costs, and to increase their overall interest income on bank deposits. In 2006, 2007 and the three months ended 31 March 2008, the interest rates of the bank bills issued by Ruinian Industry and discounted by the related companies ranged from 1.9% to 4.0%, 3.1% to 4.8% and 6.7% to 8.6%, respectively. In 2006, 2007 and the three months ended 31 March 2008, the interest rates of the bank bills issued by the related companies and discounted by Ruinian Industry ranged from 1.9% to 3.6% and 3.2% to 4.8% and was 5.2%, respectively. As 31 December 2006, 2007 and 2008, the interest rates of our variable-rate bank loans ranged from 5.3% to 6.1%, 6.1% to 8.3% and 6.4% to 7.5%, respectively.

In 2006, 2007 and 2008, the total bills payable to related companies raised by Ruinian Industry was RMB1,443.5 million, RMB1,065.7 million and RMB511.4 million, respectively, and the total repayment of bills payable to related companies was RMB1,301.7 million, RMB1,099.8 million and

RMB575.8 million, respectively. As these bills usually have a term of six months, bills were entered into from time to time to refinance maturing bills. The total bills payable to related companies raised by Ruinian Industry and repayment of bills payable to related companies in each year represented a large number of such arrangements entered into back and forth between us and our related companies, and do not correlate to the total amount of debt outstanding at any given point in time, or to our turnover over any period of time. The net effect of interest born by the related companies in relation to such transactions amounted to RMB3.2 million, RMB1.4 million and RMB0.4 million in 2006, 2007 and 2008, respectively. For further information on such trade financing transactions, see "Business — Trade Financing with Related Companies." No fraudulent activities by the Company, Ruinian Industry and Nanjing Ruinian and their respective related companies were involved in the course of obtaining such trade financing. We do not intend to enter into such trade financing transactions with related companies in the future.

During the Track Record Period, we had also certain other unsecured and, with one exception, non-interest bearing loans and borrowings to and from related companies with no fixed repayment terms. See notes 26 to 32 of the Accountants' Report included in Appendix I to this prospectus.

COMMITMENTS

As of 31 December 2006, 2007 and 2008 and 30 September 2009, our capital commitments were RMB29.2 million, RMB17.5 million, RMB84.7 million and RMB76.0 million, respectively, all of which were related to property, plant and equipment and technological know-how.

Except as disclosed above, neither our Company nor any of our Company's subsidiaries had as of the Latest Practicable Date any other material capital commitments.

WORKING CAPITAL CONFIRMATION

The Directors are of the opinion that, after taking into account the estimated net proceeds of the Global Offering (see "Future Plans and Use of Proceeds from the Global Offering — Use of Proceeds") and our internally generated funds, our Company has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this prospectus.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENCIES

The following table sets forth our guarantees as of the dates indicated:

(RMB in thousands)	As of 31 December 2006	As of 31 December 2007	As of 31 December 2008	As of 30 September 2009
Related company controlled by Mr. WANG Fucai	20,000	5,000	—	—
Third parties	61,900	37,000	—	—
Total	81,900	42,000	—	—

In order to obtain bank loans, we are required by certain banks in the PRC to provide third party guarantees. As such, we had cross guarantee relationships with third parties and related company. As of 31 December 2006 and 2007, we provided guarantees to Wuxi Changchun Metal Products Co., Ltd. (無錫長椿金屬製品有限公司), Wuxi Taihu National Holiday Resort Construction and Development Co. (無錫太湖國家旅遊度假區城市建設綜合開發公司) and Jiangsu Zhenda Seamless Tube Group Co., Ltd. (江蘇振達鋼管集團有限公司), all of which were Independent Third Parties, for their loan obligations. In the same period, we provided guarantees to Nanjing Ruinian, which was wholly owned by the Controlling Shareholders.

As of 30 June 2008, all guarantees and cross guarantees to and from third parties and related company had been released. We have not entered into any derivative financial instruments, interest rate swap transactions or foreign currency forward contracts. We do not engage in speculative transactions involving derivatives.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Foreign Currency Exchange Risk

Our turnover, costs and expenses are currently denominated entirely in Renminbi. As a result, fluctuations in the value of Renminbi may affect the price competitiveness of our products versus competitor products from multinational companies.

As we plan to market our products to Southeast Asia, a portion of our future turnover may be denominated in foreign currencies, and we may be exposed to risks resulting from fluctuations in the value of the Renminbi. We monitor foreign currency exposure to ensure that the net exposure is kept to an acceptable level and will consider hedging significant transactions should the need arise. We currently do not and have no plans to employ any financial instruments for hedging purposes as the impact of foreign currency on our total profit is not significant.

Interest Rate Risk

Our exposure from changes in interest rates relate primarily to the interest expenses associated with our bank loans. An increase in prevailing interest rates would lead to an increase in interest cost on our short-term borrowings when such borrowings are rolled over. We have not historically used, and do not expect to use in the future, any derivative financial instruments to manage our interest risk exposure.

Inflation

In recent years, China has not experienced significant inflation and thus inflation has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the change in the Consumer Price Index in China was 1.5%, 4.8% and 5.9% in 2006, 2007 and 2008, respectively. Based on the upward change of the Consumer Price Index in late 2007, the PRC government announced measures to restrict bank lending and investment in China in order to reduce inflationary pressures on China's economy. Such measures adopted by the PRC government may not be successful in reducing or slowing the rate of inflation in China, and sustained or increased inflation in China in the future may adversely affect our business and financial results.

RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors confirm that they are not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

Our properties were revalued at RMB152,100,000 as at 30 November 2009 by DTZ Debenham Tie Leung Limited. Details of the valuation are summarised in Appendix V to this prospectus. There is a net revaluation surplus, representing the excess market value of the properties over their book value, approximately RMB7,496,000 of which has not been included in the Group's accounts for the nine months ended 30 September 2009. Except for the properties of Nanjing Ruinian, which are stated at fair value, all properties are stated at cost less accumulated depreciation. As such, the net revaluation surplus arising from the valuation of properties has not been included in the unaudited pro forma statement of assets and liabilities as at 30 September 2009 under the section headed "Unaudited Pro Forma Financial Information of the Group" in Appendix III to this prospectus. Had the properties been stated at such valuation, an additional depreciation and amortisation of approximately RMB370,000 per annum would have been incurred.

Disclosure of the reconciliation of the property interests and the valuation of such property interests as required under Rule 5.07 of the Listing Rules are set out below.

	RMB'000	RMB'000
Valuation of properties as of 30 November 2009 as set out in the Valuation Report included in Appendix V		152,100
Carrying value of the following properties as at 30 September 2009 as set out in the Accountants' Report on the Group included in Appendix I		
— Buildings[(1)]	72,955	
— Land use rights[(2)]	72,532	
	145,487	
Less: Depreciation of Buildings during the period from 30 September 2009 to 30 November 2009 (unaudited)	(619)	
Less: Amortisation of Land use rights during the period from 30 September 2009 to 30 November 2009 (unaudited)	(264)	
Carrying value of properties as at 30 November 2009 subject to valuation as set out in the Valuation Report included in Appendix V		144,604
Net revaluation surplus		7,496

Notes:

(1) Among the buildings amounting to an aggregate value of RMB128.7 million as of 30 September 2009, only buildings with building ownership certificates amounting to approximately RMB73.0 million were included in the Valuation Report in Appendix V to this prospectus.

(2) Among the land use rights amounting to an aggregate value of RMB167.7 million as of 30 September 2009, only land use rights with certificates for the use of state-owned land amounting to approximately RMB72.5 million were included in the Valuation Report in Appendix V to this prospectus.

DIVIDEND POLICY

After completion of the Global Offering, we may distribute dividends by way of cash or by other means that our Directors consider appropriate. A decision to distribute any interim dividend or recommend any final dividend would require the approval of our Board of Directors and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. Our Board of Directors will review our Company's dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- financial results of our Company;
- shareholders' interests;
- general business conditions, strategies and future expansion needs;
- our Company's capital requirements;
- the payment by its subsidiaries of cash dividends to our Company;
- possible effects on liquidity and financial position of our Company; and
- other factors the Board of Directors may deem relevant.

Ruinian Industry declared and paid dividends of RMB138.6 million in respect of the year ended 31 December 2007. We did not declare or pay any dividends in other periods during the Track Record Period and currently do not expect to distribute dividends in respect of the year ended 31 December 2009. We currently expect that at least 30% of our profit after taxation for the year ending 31 December 2010 will be distributed as dividends, but the declaration of dividends will be subject to the approval by our Board of Directors after considering the above factors and by our then Shareholders.

DISTRIBUTABLE RESERVES

There had been no distributable reserves available for distribution to our shareholders as of the Latest Practicable Date.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS STATEMENT

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of the Group, which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 30 September 2009.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial positions of the Group had the Global Offering been completed as of 30 September 2009 or at any future dates.

	Adjusted combined net tangible assets of the Group attributable to owners of the Company as of 30 September 2009(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted net tangible assets of the Group	Unaudited pro forma adjusted net tangible assets value per Share(3)	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an Offer Price of HK$2.95 per share	655,182	585,179	1,240,361	1.24	1.41
Based on an Offer Price of HK$3.78 per share	655,182	759,489	1,414,671	1.41	1.61

Notes:

(1) The adjusted combined net tangible assets of the Group attributable to owners of the Company as of 30 September 2009 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to owners of the Company as of 30 September 2009 of RMB715.5 million with an adjustment for the intangible assets as of 30 September 2009 of RMB60.3 million.

(2) The estimated net proceeds from the Global Offering are based on an Offering Price of HK$2.95 (equivalent to RMB2.60) and HK$3.78 (equivalent to RMB3.33) per share, respectively (after deducting the underwriting fees and other related expenses), and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option and options under the Pre- IPO Share Option Scheme. For the purpose of the estimated net proceeds from the Global Offering, the amount stated in Hong Kong dollars has been converted into Renminbi at the rate of RMB0.8803 to HK$1.00.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in note 2 in the preceding paragraph and on the basis that 1,000,000,000 Shares were in issue assuming that the Global Offering has been completed on 30 September 2009 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and the options under the Pre-IPO Share Option Scheme.

(4) As of 30 November 2009, the Group's property interests were revalued by DTZ Debenham Tie Leung Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix V to this prospectus. The net valuation surplus, representing the excess of market value of the properties over their book value, is approximately RMB7.5 million. Such revaluation surplus has not been incorporated in the Group's combined financial information for the nine months ended 30 September 2009 and will not be incorporated in the Group's financial statements in the year ended 31 December 2009. The above adjustment does not take into account the above revaluation surplus. Had the properties been stated at such valuation, an additional depreciation and amortisation of approximately RMB0.4 million per annum would have been charged against the combined statements of comprehensive income.

(5) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading result or other transaction of the Group entered into subsequent to 30 September 2009.

UNAUDITED PRO FORMA ESTIMATED BASIC EARNINGS PER SHARE

The following unaudited pro forma estimated basic earnings per Share has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2009. The unaudited pro forma estimated basic earnings per Share has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial results of the Group following the Global Offering or for any future periods.

For the year ended 31 December 2009	
Estimated combined profit attributable to owners of the Company(1)	Not less than RMB200 million (equivalent to approximately HK$227 million)
Estimated basic earnings per Share(2)	Not less than RMB0.2 (equivalent to approximately HK$0.2)

Notes:

(1) The bases on which the estimated combined profit attributable to owners of the Company for the year ended 31 December 2009 are extracted from the section headed "Profit Estimate" in Appendix IV to the prospectus. The bases on which the above profit estimate for the year ended 31 December 2009 have been prepared are summarised in the section headed "Profit Estimate" in Appendix IV to the prospectus.

(2) The calculation of the estimated basic earnings per Share is based on the estimated combined profit attributable to owners of the Company for the year ended 31 December 2009 and a total of 1,000,000,000 Shares in issue, assuming that the Global Offering and the Reorganisation had been completed on 1 January 2009 (without taking into the account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options under the Pre-IPO Share Option Scheme).

PROFIT ESTIMATE FOR THE TWELVE-MONTH PERIOD ENDED 31 DECEMBER 2009

Estimated combined profit attributable to owners of our Company(1)	RMB200.0 million

Note:

(1) The bases on which the above profit estimate has been prepared are set out in Appendix IV to this prospectus.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Company since 30 September 2009, being the last date of our latest audited financial results as set out in Appendix I "Accountants' Report" to this prospectus.