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8 February 2010

The Directors  
Ruinian International Limited  
The Hongkong and Shanghai Banking Corporation Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to 南京瑞年百思特製藥有限公司 (Nanjing Ruinian Best Pharmaceutical Co., Ltd.) (“Nanjing Ruinian”) for each of the three years ended 31 December 2008 and the period from 1 January 2009 to acquisition date on 23 July 2009 (the “Relevant Periods”), for inclusion in the prospectus of Ruinian International Limited (the “Company”) dated 8 February 2010 (the “Prospectus”).

Nanjing Ruinian, formerly known as 南京瑞年雙科製藥有限公司 (Nanjing Ruinian Shuangke Pharmaceutical Co., Ltd.) till August 2006, was established in Mainland China (the “PRC”) on 5 January 2004 as a sino-foreign equity joint venture and is principally engaged in the manufacture and sales of pharmaceutical products. Pursuant to a conditional sales and purchase agreement in November 2008, the then owners of Nanjing Ruinian agreed to transfer the entire equity interest in Nanjing Ruinian to 無錫瑞年實業有限公司 (Wuxi Ruinian Industry & Commerce Co., Ltd.) (“Ruinian Industry”) and Jet Bright International Holdings Limited (the “Acquisition”). In July 2009, pursuant to the approval from the relevant PRC authorities, the Acquisition was completed and Nanjing Ruinian remained as a sino-foreign equity joint venture for a term of 20 years until 4 January 2024.

The PRC statutory financial statements of Nanjing Ruinian for the year ended 31 December 2006 were audited by 江蘇蘇港會計師事務所有限公司 (Jiangsu Sukong Certified Public Accountants Co., Ltd.), certified public accountants registered in the PRC. The statutory financial statements for each of the two years ended 31 December 2008 were audited by 南京永寧會計師事務所有限公司 (Nanjing YungNing CPAs Co., Ltd.), certified public accountants registered in the PRC. All these PRC statutory financial statements for each of the three years ended 31 December 2008 were prepared in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises.

For the purpose of this report, the directors of Nanjing Ruinian have prepared financial statements for the Relevant Periods under Hong Kong Financial Reporting Standards (“HKFRS”) (the “Underlying Financial Statements”). We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

We have examined the Underlying Financial Statements for the Relevant Periods in accordance with the Auditing Guideline 3.340 “Prospectuses and the reporting accountant” as recommended by the HKICPA.

The statements of financial position of Nanjing Ruinian as at 31 December 2006, 31 December 2007, 31 December 2008 and 23 July 2009 and the statements of comprehensive income and cash flows of Nanjing Ruinian for the Relevant Periods have been prepared from the Underlying Financial

Statements, for the purpose of preparing our report for inclusion in the Company's Prospectus. No adjustments are considered necessary to adjust the Underlying Financial Statements in the preparation of this report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of Nanjing Ruinian who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Nanjing Ruinian as at 31 December 2006, 31 December 2007, 31 December 2008 and 23 July 2009 and of the loss and cash flows of Nanjing Ruinian for the Relevant Periods.

## A. STATEMENTS OF COMPREHENSIVE INCOME

	Section E Notes	Year ended 31 December			Period from 1 January to 23 July
		2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover .....		—	—	—	822
Cost of goods sold .....		—	—	—	(184)
Gross profit .....		—	—	—	638
Other income .....		81	723	1,964	1,166
Selling and distribution costs .....		—	—	—	(23)
Other expenses .....		(567)	(1,382)	(5,952)	(5,750)
Administrative expenses .....		(1,713)	(1,607)	(2,078)	(1,269)
Finance costs .....	7	(75)	(3,319)	(3,147)	(841)
Loss for the year/period and total comprehensive loss for the year/period .....	8	<u>(2,274)</u>	<u>(5,585)</u>	<u>(9,213)</u>	<u>(6,079)</u>

## B. STATEMENTS OF FINANCIAL POSITION

	Section E Notes	At 31 December			At
		2006	2007	2008	23 July 2009
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	12	107,445	109,820	110,832	107,601
Land use rights	13	30,882	30,242	29,602	29,229
Intangible assets	14	—	24,167	24,937	23,275
Deposits made on acquisition of property, plant and equipment		3,330	2,079	2,104	1,257
Advance payments for acquisition of technical know-how	15	28,319	14,289	17,260	17,260
		<u>169,976</u>	<u>180,597</u>	<u>184,735</u>	<u>178,622</u>
Current assets					
Inventories	16	52	233	335	348
Trade and other receivables	17	1,723	1,221	1,703	2,693
Amounts due from related companies	18	56,430	22,552	20,257	—
Pledged bank deposits	19	5,000	—	—	—
Bank balances and cash	19	5,105	101	156	213
		<u>68,310</u>	<u>24,107</u>	<u>22,451</u>	<u>3,254</u>
Current liabilities					
Trade and other payables	20	10,940	8,905	7,516	7,484
Bills payables to a related company	21	5,000	—	—	—
Amount due to a related company	22	—	—	—	16,918
Amount due to a director	23	123	123	123	123
Current portion of long-term bank loans	24	15,000	20,000	20,000	—
Short-term bank loans	25	15,000	5,000	20,000	5,000
		<u>46,063</u>	<u>34,028</u>	<u>47,639</u>	<u>29,525</u>
Net current assets (liabilities)		<u>22,247</u>	<u>(9,921)</u>	<u>(25,188)</u>	<u>(26,271)</u>
Total assets less current liabilities		<u>192,223</u>	<u>170,676</u>	<u>159,547</u>	<u>152,351</u>
Non-current liabilities					
Long-term bank loans	24	20,000	—	—	—
Government grants	26	19,160	18,521	16,605	15,488
		<u>39,160</u>	<u>18,521</u>	<u>16,605</u>	<u>15,488</u>
Net assets		<u>153,063</u>	<u>152,155</u>	<u>142,942</u>	<u>136,863</u>
Capital and reserve					
Paid-in capital	27	157,744	162,421	162,421	162,421
Deficit		(4,681)	(10,266)	(19,479)	(25,558)
Total equity		<u>153,063</u>	<u>152,155</u>	<u>142,942</u>	<u>136,863</u>

## C. STATEMENTS OF CHANGES IN EQUITY

	<u>Paid-in capital</u>	<u>Deficit</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000
At 1 January 2006 .....	104,583	(2,407)	102,176
Capital contributions .....	53,161	—	53,161
Loss for the year and total comprehensive loss for the year .....	<u>—</u>	<u>(2,274)</u>	<u>(2,274)</u>
At 31 December 2006 .....	157,744	(4,681)	153,063
Capital contributions .....	4,677	—	4,677
Loss for the year and total comprehensive loss for the year .....	<u>—</u>	<u>(5,585)</u>	<u>(5,585)</u>
At 31 December 2007 .....	162,421	(10,266)	152,155
Loss for the year and total comprehensive loss for the year .....	<u>—</u>	<u>(9,213)</u>	<u>(9,213)</u>
At 31 December 2008 .....	162,421	(19,479)	142,942
Loss for the period and total comprehensive loss for the period .....	<u>—</u>	<u>(6,079)</u>	<u>(6,079)</u>
At 23 July 2009 .....	<u>162,421</u>	<u>(25,558)</u>	<u>136,863</u>

## D. STATEMENTS OF CASH FLOWS

	Year ended 31 December			Period
	2006	2007	2008	from 1 January
	RMB'000	RMB'000	RMB'000	to 23 July
				RMB'000
Operating activities				
Loss for the year/period	(2,274)	(5,585)	(9,213)	(6,079)
Adjustments for:				
Interest income	(81)	(62)	(48)	(46)
Interest expenses	75	3,319	3,147	841
Loss on disposal of property, plant and equipment	—	—	—	63
Depreciation of property, plant and equipment	133	155	158	4,088
Amortisation of intangible assets	—	833	2,730	1,662
Operating lease rentals in respect of land use rights	—	—	—	373
Amortisation of government grants	—	(639)	(1,916)	(1,117)
Operating cash flows before movements in working capital	(2,147)	(1,979)	(5,142)	(215)
Increase in inventories	(12)	(181)	(102)	(13)
(Increase) decrease in trade and other receivables	(818)	502	(482)	(990)
Increase (decrease) in trade and other payables	7,475	(2,035)	(1,389)	(32)
Net cash from (used in) operating activities	4,498	(3,693)	(7,115)	(1,250)
Investing activities				
Interest received	81	62	48	46
Deposit made on acquisition of property, plant and equipment paid	—	—	(25)	—
Advance payments for acquisition of technical know-how paid	(320)	(10,970)	(6,321)	—
Purchase of property, plant and equipment	(10,875)	(639)	(530)	(73)
Purchase of intangible assets	—	—	(150)	—
Advances made to related companies	(102,257)	(58,932)	(33,297)	—
Repayment from related companies	58,578	92,810	35,592	20,257
(Increase) decrease in pledged bank deposits	(5,000)	5,000	—	—
Net cash (used in) from investing activities	(59,793)	27,331	(4,683)	20,230
Financing activities				
Interest paid	(3,095)	(3,319)	(3,147)	(841)
Capital contributions	53,161	4,677	—	—
Bills payables to a related company raised	12,000	—	—	—
Repayment of bills payables to a related company	(7,000)	(5,000)	—	—
Borrowings from a related company	—	—	—	16,918
Borrowings from a director	36	—	—	—
Bank loans raised	15,000	5,000	25,000	5,000
Repayment of bank loans	(10,000)	(30,000)	(10,000)	(40,000)
Net cash from (used in) financing activities	60,102	(28,642)	11,853	(18,923)
Net increase (decrease) in cash and cash equivalents	4,807	(5,004)	55	57
Cash and cash equivalents at 1 January	298	5,105	101	156
Cash and cash equivalents at the end of the year/period	5,105	101	156	213
Analysis of the balances of cash and cash equivalents				
Bank balances and cash	5,105	101	156	213

**E. NOTES TO THE FINANCIAL INFORMATION****1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

The functional and presentation currency of Nanjing Ruinian is Renminbi (“RMB”) which is consistent with the presentation currency of the financial information of the Company and its subsidiaries incorporated in the Prospectus in connection with the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

At 31 December 2007, 31 December 2008 and 23 July 2009, the current liabilities of Nanjing Ruinian exceeded its current assets by RMB9,921,000, RMB25,188,000 and RMB26,271,000 respectively. The financial information of Nanjing Ruinian have been prepared on a going concern basis as the Company has agreed to provide adequate funds to enable Nanjing Ruinian to meet its full obligations as they fall due for the foreseeable future.

**2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

The HKICPA issued a number of new Hong Kong Accounting Standards (“HKAS”s) and HKFRSs, Amendments and Interpretations (“INT”s) (hereinafter collectively referred to as the “new HKFRSs”) which are effective for Nanjing Ruinian’s accounting periods beginning on 1 January 2009. For the purposes of preparing and presenting the Financial Information of the Relevant Periods, Nanjing Ruinian have adopted all these new HKFRSs consistently throughout the Relevant Periods.

Nanjing Ruinian has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs issued in 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 <sup>2</sup>
HKAS 24 (Revised)	Related party disclosure <sup>3</sup>
HKAS 27 (Revised 2008)	Consolidated and separate financial statements <sup>1</sup>
HKAS 32 (Amendment)	Classification of right issues <sup>4</sup>
HKAS 39 (Amendment)	Eligible hedged items <sup>1</sup>
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters <sup>5</sup>
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions <sup>5</sup>
HKFRS 3 (Revised 2008)	Business combinations <sup>1</sup>
HKFRS 9	Financial instruments <sup>6</sup>
HK (IFRIC*) — INT 14 (Amendment)	Prepayments of a minimum funding requirement <sup>3</sup>
HK (IFRIC) — INT 17	Distributions of non-cash assets to owners <sup>1</sup>
HK (IFRIC) — INT 19	Extinguishing financial liabilities with equity instruments <sup>7</sup>

\* IFRIC represents the International Financial Reporting Interpretations Committee.

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009.

<sup>2</sup> Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>4</sup> Effective for annual periods beginning on or after 1 February 2010.

- <sup>5</sup> Effective for annual periods beginning on or after 1 January 2010.
- <sup>6</sup> Effective for annual periods beginning on or after 1 January 2013.
- <sup>7</sup> Effective for annual periods beginning on or after 1 July 2010.

The directors of Nanjing Ruinian anticipate that the application of the new and revised HKFRSs will have no material impact on the results and the financial position of Nanjing Ruinian.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis and in accordance with the following accounting policies which conform with HKFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts, value added tax and sales related taxes.

Sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

#### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less accumulated impairment losses, if any. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

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

**Land use rights**

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

When the leasehold land is in the course of development for production or for administrative purposes, the leasehold land is classified as land use rights and amortised on a straight line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of construction in progress.

The up-front payments to acquire leasehold interest in land are accounted for as operating leases and are stated at cost and released over the lease term on a straight line basis.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

**Intangible assets***Intangible assets acquired separately*

On initial recognition, intangible assets acquired separately are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

*Research and development costs*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

**Financial instruments**

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

***Financial assets***

Nanjing Ruinian's financial assets are mainly classified into loans and receivables.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss.

***Impairment of financial assets***

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

Objective evidence of impairment could include:

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

For certain categories of loans and receivables, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a

collective basis. Objective evidence of impairment for a portfolio of receivables could include Nanjing Ruinian's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days and observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment loss is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### ***Financial liabilities and equity***

Financial liabilities and equity instruments issued by Nanjing Ruinian are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of Nanjing Ruinian after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instrument are set out below.

### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimate future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

### ***Financial liability***

Financial liability including trade and other payables, bills payables to a related company, amount due to a related company, amount due to a director and bank loans is subsequently measured at amortised cost, using the effective interest method.

### ***Equity instrument***

Equity instrument issued by Nanjing Ruinian are recorded at the proceeds received, net of direct issue costs.

### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Nanjing Ruinian has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### *Impairment*

At the end of each reporting period, Nanjing Ruinian reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years/periods. A reversal of an impairment loss is recognised as income immediately.

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from 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 it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rate (and tax laws) that have been enacted or substantially enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit and loss, except when it related to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

### **Government grants**

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to profit or loss over the useful life of the assets. Grants related to expense items are recognised at the same period as those expenses are charged in the profit or loss and are reported separately as other income.

### **Operating leases**

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

### **Retirement benefits costs**

Payments to government-managed retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

## **4. CAPITAL RISK MANAGEMENT**

Nanjing Ruinian manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of Nanjing Ruinian consists of bank loans, bank deposits, cash and cash equivalents and equity attributable to owners of Nanjing Ruinian, comprising paid-in capital and deficit as disclosed in the Financial Information.

The management of Nanjing Ruinian reviews the capital structure regularly. The management considers the cost of capital and the risks associated with each class of capital, and will balance the entity's overall capital structure through the payment of dividends, new capital raising of the entity as well as the raising of bank loans.

## **5. FINANCIAL INSTRUMENTS**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets and financial liabilities are disclosed in note 3 to section E.

**Categories of financial instruments**

	At 31 December			At
	2006	2007	2008	23 July 2009
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loans and receivables (including cash and cash equivalents) . . . . .	68,121	23,674	21,845	2,529
Financial liabilities				
Amortised cost . . . . .	65,914	33,837	47,372	29,041

**Financial risk management objectives and policies**

Nanjing Ruinian's major financial instruments include trade and other receivables, amounts due from related companies, bank balances and cash, trade and other payables, amount due to a related company, amount due to a director and bank loans. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Credit risk**

Nanjing Ruinian's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets stated in the statement of financial position.

Nanjing Ruinian's credit risk is primarily attributable to its trade and other receivables. In order to minimise the credit risk, Nanjing Ruinian's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, Nanjing Ruinian reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Nanjing Ruinian consider that Nanjing Ruinian's credit risk is significantly reduced.

The credit risk on bank balances is minimal as such amounts are placed in banks with good reputation.

Nanjing Ruinian does not have any other significant concentration of credit risk.

**Currency risk**

Throughout the Relevant Periods, Nanjing Ruinian does not have foreign currency sales and purchase, which expose to foreign currency risk. Nanjing Ruinian does not have foreign currency denominated monetary assets and liabilities during the Relevant Periods.

**Liquidity risk management**

The directors of Nanjing Ruinian has built an appropriate liquidity risk management framework for the management of Nanjing Ruinian's short and long-term funding and liquidity

management requirements. Nanjing Ruinian manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows and the maturity profiles of its financial liabilities.

Nanjing Ruinian has net current liabilities as at 31 December 2007, 31 December 2008 and 23 July 2009, which exposed Nanjing Ruinian to liquidity risk. In order to mitigate the liquidity risk, the Company has agreed to provide adequate funds to enable Nanjing Ruinian to meet its financial obligations as they fall due for the foreseeable future.

The following table details Nanjing Ruinian's remaining contractual maturity for its financial liabilities. The table has been drawn up to reflect the undiscounted cash flows of financial liabilities based on the earliest date on which Nanjing Ruinian can be required to pay. The table includes both interest and principal cash flows. The interest payments are computed using contractual rates or if variable, based on prevailing market rate at the end of each reporting periods

	Weighted average interest rate	Less than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	More than 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities							
At 31 December 2006							
Trade and other payables . . . .	—	10,791	—	—	—	10,791	10,791
Bills payables to a related company . . . . .	—	5,000	—	—	—	5,000	5,000
Amount due to a director . . . .	—	123	—	—	—	123	123
Short-term bank loans . . . . .							
— variable rate . . . . .	7.3	181	181	10,295	—	10,657	10,000
— fixed rate . . . . .	5.1	5,019	—	—	—	5,019	5,000
Long-term bank loans							
— fixed rate . . . . .	5.8	502	502	16,005	21,138	38,147	35,000
		<u>21,616</u>	<u>683</u>	<u>26,300</u>	<u>21,138</u>	<u>69,737</u>	<u>65,914</u>
At 31 December 2007							
Trade and other payables . . . .	—	8,714	—	—	—	8,714	8,714
Amount due to a director . . . .	—	123	—	—	—	123	123
Short-term bank loans . . . . .							
— fixed rate . . . . .	5.6	5,028	—	—	—	5,028	5,000
Long-term bank loans							
— fixed rate . . . . .	5.9	288	288	20,561	—	21,137	20,000
		<u>14,153</u>	<u>288</u>	<u>20,561</u>	—	<u>35,002</u>	<u>33,837</u>
At 31 December 2008							
Trade and other payables . . . .	—	7,249	—	—	—	7,249	7,249
Amount due to a director . . . .	—	123	—	—	—	123	123
Short-term bank loans . . . . .							
— variable rate . . . . .	8.2	5,089	—	—	—	5,089	5,000
— fixed rate . . . . .	7.9	285	15,049	—	—	15,334	15,000
Long-term bank loans							
— fixed rate . . . . .	5.9	20,022	—	—	—	20,022	20,000
		<u>32,768</u>	<u>15,049</u>	—	—	<u>47,817</u>	<u>47,372</u>
At 23 July 2009							
Trade and other payables . . . .	—	7,000	—	—	—	7,000	7,000
Amount due to a related company . . . . .	—	16,918	—	—	—	16,918	16,918
Amount due to a director . . . .	—	123	—	—	—	123	123
Short-term bank loans . . . . .							
— fixed rate . . . . .	5.8	72	72	5,058	—	5,202	5,000
		<u>24,113</u>	<u>72</u>	<u>5,058</u>	—	<u>29,243</u>	<u>29,041</u>

### Interest rate risk management

Nanjing Ruinian is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly bank balances and short-term bank loans at variable interest rates. Bank loans at fixed interest rates expose Nanjing Ruinian to fair value interest rate risk. Nanjing Ruinian currently does not have an interest rate hedging policy.

However, the management will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for bank balances and variable rate bank loans at the end of each reporting period and assumed that the amount of assets and liabilities outstanding at the end of each reporting period was outstanding for the whole year/period.

If interest rates on pledged bank deposits, bank balances and bank loans had been 50 basis points lower and all other variables were held constant, the potential effect on profit for the year/period is as follows:

	Year ended 31 December			Period from 1 January to 23 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Increase (decrease) in profit for the year/period . . . . .	—	—	18	(1)

There would be an equal and opposite impact on the profit for the year/period where there had been 50 basis points higher.

#### **Fair value of financial instruments**

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

The directors of Nanjing Ruinian consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values at the end of each reporting period.

## **6. SEGMENT INFORMATION**

Segment information has been identified on the basis of internal management reports which are prepared in accordance with accounting policies that conform with HKFRSs. These reports are regularly reviewed by the Chief Executive Officer in order to allocate resources to the reportable segments and to assess their performance.

Nanjing Ruinian's reportable segment under HKFRS 8 is manufacture and sales of pharmaceutical products.

During the Relevant Periods, Nanjing Ruinian has not commenced full commercial operation.

All Nanjing Ruinian's assets are located in the PRC.

## 7. FINANCE COSTS

	Year ended 31 December			Period
	2006	2007	2008	from 1 January
	RMB'000	RMB'000	RMB'000	to 23 July
Interest on bank borrowings wholly repayable within five years . . . . .	(3,095)	(3,319)	(3,147)	2009
Less: Interest capitalised under construction in progress . . . . .	3,020	—	—	RMB'000
	<u>(75)</u>	<u>(3,319)</u>	<u>(3,147)</u>	<u>(841)</u>

During the years ended 31 December 2006, 31 December 2007 and 31 December 2008 and the period from 1 January 2009 to 23 July 2009, borrowing costs capitalised arose on the general borrowing pool and are calculated by applying capitalisation rate at 5.8% to 7.3%, 6.0% to 7.6%, 5.6% to 8.2% and nil to expenditure on construction in progress.

## 8. LOSS FOR THE YEAR/PERIOD

	Year ended 31 December			Period
	2006	2007	2008	from 1 January
	RMB'000	RMB'000	RMB'000	to 23 July
Loss for the year/period has been arrived at after charging:				2009
Directors' remuneration (note 9 to section E) . . . . .	30	18	—	RMB'000
Other staff's retirement benefits scheme contributions . .	81	71	111	26
Other staff costs . . . . .	571	444	531	206
	<u>682</u>	<u>533</u>	<u>642</u>	<u>232</u>
Operating lease rentals in respect of land use rights . . . .	640	640	640	373
Less: Capitalised under construction in progress . . . . .	(640)	(640)	(640)	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>373</u>
Amortisation of intangible assets included in other expenses . . . . .	—	833	2,730	1,662
Depreciation of property, plant and equipment . . . . .	133	155	158	4,088
Loss on disposal of property, plant and equipment . . . . .	—	—	—	63
and after crediting:				
Amortisation of government grants . . . . .	—	639	1,916	1,117
Interest income . . . . .	81	62	48	46
	<u>81</u>	<u>62</u>	<u>48</u>	<u>46</u>

## 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	Year ended 31 December			Period from 1 January to 23 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Directors' fees .....	—	—	—	—
Other emoluments to executive directors				
— basic salaries and allowances .....	30	18	—	—
— retirement benefits scheme contributions .....	—	—	—	—
	<u>30</u>	<u>18</u>	<u>—</u>	<u>—</u>

Details of emoluments paid by Nanjing Ruinian to the director are as follows:

	Year ended 31 December			Period from 1 January to 23 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Ms. Peng Yin				
— basic salaries and allowances .....	30	18	—	—
— retirement benefits scheme contributions .....	—	—	—	—
Total .....	<u>30</u>	<u>18</u>	<u>—</u>	<u>—</u>

The five highest paid individuals included one director for the years ended 31 December 2006 and 31 December 2007 while the emoluments of the five highest paid individuals, none of whom are directors of Nanjing Ruinian for the year ended 31 December 2008 and the period from 1 January 2009 to 23 July 2009, details of whose emoluments are set out above. The emoluments of the remaining individuals for the Relevant Periods were as follows:

	Years ended 31 December			Period from 1 January to 23 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Employees				
— basic salaries and allowances .....	108	88	93	78
— retirement benefits scheme contributions .....	22	19	22	13
	<u>130</u>	<u>107</u>	<u>115</u>	<u>91</u>

The emoluments of the employees were less than HK\$1,000,000.

During the Relevant Periods, no emoluments were paid by Nanjing Ruinian to the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining Nanjing Ruinian or as compensation for loss of office. The directors have not waived any emoluments during the Relevant Periods.

**10. TAXATION**

No provision for taxation has been made as Nanjing Ruinian had no assessable profit during the Relevant Periods.

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

Pursuant to the PRC Enterprise Income Tax Law and regulations, prevailed when it was set up, Nanjing Ruinian could be entitled to a tax holiday starting from its first profit-making year, which consisted of full tax exemption for the first two years and a 50% relief for the three years thereafter. On 16 March 2007, the new Enterprise Income Tax Law was passed at the Fifth session of the Tenth National People's Congress of the PRC. Though Nanjing Ruinian did not commence its operations since its establishment and no profit were yet generated, the tax holiday aforementioned shall be deemed to be triggered off on 1 January 2008, according to Guo Fa [2007] No. 39. In addition, the income tax rate for both domestic and foreign investment enterprise shall be unified at 25% effective from 1 January 2008 (Order of the President [2007] No. 63).

Taxation for the Relevant Periods is reconciled to loss for the year/period as follows:

	Year ended 31 December						Period from 1 January to 23 July	
	2006		2007		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Loss for the year/period . . . . .	<u>(2,274)</u>		<u>(5,585)</u>		<u>(9,213)</u>		<u>(6,079)</u>	
Tax at the applicable income tax rate . . . . .	750	33.0	1,843	33.0	2,303	25.0	1,520	25.0
Tax effect of expenses not deductible for tax purposes . . . . .	(777)	(34.2)	(2,082)	(37.3)	(2,794)	(30.3)	(1,971)	(32.4)
Tax effect of income not taxable for tax purposes . . . .	<u>27</u>	<u>1.2</u>	<u>239</u>	<u>4.3</u>	<u>491</u>	<u>5.3</u>	<u>451</u>	<u>7.4</u>
Tax effect and effective tax rate for the year/period . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

**11. DIVIDENDS**

No dividends has been paid or declared by Nanjing Ruinian during the Relevant Periods.

## 12. PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u> RMB'000	<u>Furniture, fixtures and equipment</u> RMB'000	<u>Motor vehicles</u> RMB'000	<u>Plant and machinery</u> RMB'000	<u>Construction in progress</u> RMB'000	<u>Total</u> RMB'000
COST						
At 1 January 2006 .....	—	262	292	12	85,763	86,329
Additions .....	—	108	164	25	21,017	21,314
At 31 December 2006 .....	—	370	456	37	106,780	107,643
Additions .....	—	25	—	—	2,505	2,530
At 31 December 2007 .....	—	395	456	37	109,285	110,173
Additions .....	—	25	—	—	1,145	1,170
At 31 December 2008 .....	—	420	456	37	110,430	111,343
Additions .....	417	252	—	251	—	920
Transfers .....	44,016	557	—	65,857	(110,430)	—
Disposals .....	—	—	(202)	—	—	(202)
At 23 July 2009 .....	44,433	1,229	254	66,145	—	112,061
DEPRECIATION						
At 1 January 2006 .....	—	29	35	1	—	65
Provided for the year .....	—	60	70	3	—	133
At 31 December 2006 .....	—	89	105	4	—	198
Provided for the year .....	—	68	82	5	—	155
At 31 December 2007 .....	—	157	187	9	—	353
Provided for the year .....	—	71	82	5	—	158
At 31 December 2008 .....	—	228	269	14	—	511
Provided for the period .....	995	64	45	2,984	—	4,088
Eliminated on disposals .....	—	—	(139)	—	—	(139)
At 23 July 2009 .....	995	292	175	2,998	—	4,460
NET BOOK VALUES						
At 31 December 2006 .....	—	281	351	33	106,780	107,445
At 31 December 2007 .....	—	238	269	28	109,285	109,820
At 31 December 2008 .....	—	192	187	23	110,430	110,832
At 23 July 2009 .....	43,438	937	79	63,147	—	107,601

Nanjing Ruinian's buildings are erected on land held under medium-term land use rights in the PRC.

At 31 December 2006, Nanjing Ruinian has pledged certain of its construction in progress with an carrying value of RMB10,389,000 to a bank to secure the credit facilities granted to Nanjing Ruinian.

At 31 December 2006, 31 December 2007, 31 December 2008 and 23 July 2009, the accumulated borrowing costs capitalised to construction in progress was RMB4,057,000.

At 31 December 2006, 31 December 2007, 31 December 2008 and 23 July 2009, there were accumulated operating lease rentals in respect of land use rights amounting to RMB1,109,000, RMB1,749,000, RMB2,389,000 and RMB2,389,000 respectively capitalised under construction in progress.

## 13. LAND USE RIGHTS

	At 31 December			At
	2006	2007	2008	23 July
	RMB'000	RMB'000	RMB'000	2009
Carrying value				RMB'000
At 1 January .....	31,522	30,882	30,242	29,602
Capitalised under construction in progress during the year/period .....	(640)	(640)	(640)	—
Charged to profit or loss during the year/period .....	—	—	—	(373)
At 31 December .....	<u>30,882</u>	<u>30,242</u>	<u>29,602</u>	<u>29,229</u>

The balance represents the prepayment of rentals for medium-term land use rights situated in the PRC for a period of 50 years.

At 31 December 2006, 31 December 2007 and 31 December 2008, Nanjing Ruinian has pledged all of its land use rights to a bank to secure the credit facilities granted to Nanjing Ruinian.

## 14. INTANGIBLE ASSETS

	Technical know-how
	RMB'000
CARRYING VALUE	
At 1 January 2006 and 31 December 2006 .....	—
Additions .....	25,000
Charged to profit or loss during the year .....	(833)
At 31 December 2007 .....	24,167
Additions .....	3,500
Charged to profit or loss during the year .....	(2,730)
At 31 December 2008 .....	24,937
Charged to profit or loss during the period .....	(1,662)
At 23 July 2009 .....	<u>23,275</u>

Technical know-how represents the acquired know-how in connection with pharmaceutical products and is amortised on a straight line basis over their estimated useful life of 10 years.

## 15. ADVANCE PAYMENTS FOR ACQUISITION OF TECHNICAL KNOW-HOW

The balance represents the substantial payments in connection with the acquisition of technical know-how for pharmaceutical products of which the completion is subject to the licence expected to be granted by the relevant PRC government authorities by the end of 2011.

## 16. INVENTORIES

	At 31 December			At
	2006	2007	2008	23 July
	RMB'000	RMB'000	RMB'000	2009
Raw materials .....	—	—	51	51
Consumable goods .....	12	60	24	37
Packaging materials .....	40	64	76	76
Finished goods .....	—	109	184	184
	<u>52</u>	<u>233</u>	<u>335</u>	<u>348</u>

## 17. TRADE AND OTHER RECEIVABLES

	At 31 December			At
	2006	2007	2008	23 July
	RMB'000	RMB'000	RMB'000	2009
Trade receivables	—	—	—	822
Value-added tax receivables	137	200	271	377
Other receivables	1,586	1,021	1,432	1,494
	<u>1,723</u>	<u>1,221</u>	<u>1,703</u>	<u>2,693</u>

Payment terms with customers are mainly on credit. Invoices are normally payable 90 days from date of issuance. Nanjing Ruinian has made some sales since 2009 to test the market. However, full commercial operation has not commenced during the Relevant Periods.

The age of the trade receivables at 23 July 2009 is within 90 days.

There are no trade receivables which are past due at the reporting date for which Nanjing Ruinian has not provided for impairment loss.

All trade and other receivables are denominated in RMB.

## 18. AMOUNTS DUE FROM RELATED COMPANIES

Details of the amounts due from related companies which are controlled by Mr. Wang Fucui, are as follows:

Name of related company	At 31 December			At
	2006	2007	2008	23 July
	RMB'000	RMB'000	RMB'000	2009
瑞年集團有限公司 (Ruinian Group Co., Ltd.) ("Ruinian Group")	22,510	22,552	13,260	—
瑞年(無錫)生物科技有限公司 (Wuxi Ruinian Biotechnology Co., Ltd.) ("Ruinian Biotechnology")	33,920	—	6,997	—
	<u>56,430</u>	<u>22,552</u>	<u>20,257</u>	<u>—</u>

Name of related company	Maximum amount outstanding during the year/period			
	Year ended 31 December			Period
	2006	2007	2008	from 1 January to 23 July 2009
Ruinian Group	43,658	49,425	36,052	13,260
Ruinian Biotechnology	33,920	44,297	6,997	6,997
	<u>77,578</u>	<u>93,722</u>	<u>43,049</u>	<u>20,257</u>

The amounts due from related companies were unsecured, interest-free, repayable on demand and were fully settled in July 2009.

## 19. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances and cash comprise cash held by Nanjing Ruinian and short-term bank deposits with an original maturity of three months or less. The pledged bank deposits carry at the prevailing market interest rate at 2.1% per annum at 31 December 2006.

All pledged bank deposits and bank balances and cash are denominated in RMB.

**20. TRADE AND OTHER PAYABLES**

	At 31 December			At
	2006	2007	2008	23 July
	RMB'000	RMB'000	RMB'000	2009
Trade payables .....	—	—	—	2
Construction payables .....	10,687	8,588	7,137	6,384
Other payables .....	104	126	112	614
Accruals .....	149	191	267	484
	<u>10,940</u>	<u>8,905</u>	<u>7,516</u>	<u>7,484</u>

The age of the trade payables at 23 July 2009 is within 90 days.

**21. BILLS PAYABLES TO A RELATED COMPANY**

Between February 2006 and up to February 2007, Nanjing Ruinian and Ruinian Group, which is controlled by Mr. Wang Fucui entered into financing arrangements with a PRC commercial bank. Under these arrangements, Nanjing Ruinian issued bank bills to the related company with equal amount of pledged bank deposits. At 31 December 2006, there were bank deposits of RMB5,000,000 that were pledged to this PRC commercial banks for this financing arrangements.

**22. AMOUNT DUE TO A RELATED COMPANY**

The amount due to a related company, Ruinian Group, was unsecured, interest-free, repayable on demand, and was subsequently fully settled by the Company through off-setting the deposits previously made on acquisition of Nanjing Ruinian.

**23. AMOUNT DUE TO A DIRECTOR**

The amount due to a director, Mr. Wang Fucui was unsecured, interest-free, repayable on demand and was fully settled on 30 July 2009.

**24. LONG-TERM BANK LOANS**

	At 31 December			At
	2006	2007	2008	23 July
	RMB'000	RMB'000	RMB'000	2009
The bank loans are repayable as follows:				
Within one year .....	15,000	20,000	20,000	—
Between one to two years .....	<u>20,000</u>	—	—	—
	35,000	20,000	20,000	—
Less: Amounts due within one year shown under current liabilities .....	<u>15,000</u>	<u>20,000</u>	<u>20,000</u>	—
Amounts due after one year .....	<u>20,000</u>	—	—	—
Analysed as				
— secured .....	20,000	20,000	20,000	—
— unsecured .....	<u>15,000</u>	—	—	—
	<u>35,000</u>	<u>20,000</u>	<u>20,000</u>	—

At 31 December 2006, 31 December 2007 and 31 December 2008, the long-term bank loans carry fixed interest rate at 5.8%, 5.9% and 5.9% per annum respectively.

At 31 December 2006, 31 December 2007 and 31 December 2008, the unsecured long-term bank loans are jointly guaranteed by a director of the Company, Mr. Wang Fucui, Ruinian Industry, a related company controlled by Mr. Wang Fucui and 無錫濱湖中小企業投資擔保有限公司 (Wuxi Binghu Small and Medium Enterprises Investment Trustee Co., Ltd).

All the long-term bank loans were denominated in RMB.

## 25. SHORT-TERM BANK LOANS

	At 31 December			At
	2006	2007	2008	23 July
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
Bank loans				
— variable rate	10,000	—	5,000	—
— fixed rate	5,000	5,000	15,000	5,000
	<u>15,000</u>	<u>5,000</u>	<u>20,000</u>	<u>5,000</u>
Analysed as				
— secured	5,000	—	—	—
— unsecured	10,000	5,000	20,000	5,000
	<u>15,000</u>	<u>5,000</u>	<u>20,000</u>	<u>5,000</u>

All the variable rate bank loans carry interests at the prime rate offered by the People's Bank of China which were repriced from every month to every three months. At 31 December 2006 and 31 December 2008, Nanjing Ruinian has variable rate bank loans carrying interest at 7.3% per annum and 8.2% per annum respectively.

At 31 December 2006, 31 December 2007, 31 December 2008 and 23 July 2009, Nanjing Ruinian has fixed rate bank loans that carry interest at 5.1% per annum, 5.6% per annum, 7.5% to 8.2% per annum, and 5.8% per annum.

At 31 December 2006, 31 December 2007, 31 December 2008 and 23 July 2009, the following unsecured bank loans are guaranteed by:

	At 31 December			At
	2006	2007	2008	23 July
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
A third party	—	—	10,000	—
A related company controlled by Mr. Wang Fucui	5,000	5,000	10,000	5,000
A related company controlled by Mr. Wang Fucui and a third party	5,000	—	—	—
	<u>10,000</u>	<u>5,000</u>	<u>20,000</u>	<u>5,000</u>

At 31 December 2006, 31 December 2007, 31 December 2008 and 23 July 2009, Nanjing Ruinian does not have unutilised credit facilities.

All the above guarantees were released in December 2009.

All the short-term bank loans denominated in RMB.

**26. GOVERNMENT GRANTS**

In 2005, Nanjing Ruinian received government grants of RMB19,160,000 from the relevant PRC local authorities for the investment in economic development zones located in Nanjing in the PRC. They were granted as an incentive in relation to technical know-how on tumour medicine amounted to RMB19,160,000.

For each of the three years ended 31 December 2008 and the period from 1 January 2009 to 23 July 2009, the related amortisation expense of technical know-how which has been charged to the profit or loss amounted to Nil, RMB833,000, RMB2,730,000 and RMB1,662,000 respectively and the government grant which was recognised as other income was Nil, RMB639,000, RMB1,916,000 and RMB1,117,000 respectively. As at 31 December 2006, 31 December 2007 and 31 December 2008 and 23 July 2009, an amount of RMB19,160,000, RMB18,521,000, RMB16,605,000 and RMB15,488,000 respectively remains unamortised.

**27. PAID-IN CAPITAL**

	<b>US\$'000</b>
At 1 January 2006 . . . . .	11,732
Capital contributions . . . . .	<u>7,662</u>
At 31 December 2006 . . . . .	19,394
Capital contributions . . . . .	<u>606</u>
At 31 December 2007, 31 December 2008 and 23 July 2009 . . . . .	<u><u>20,000</u></u>

Shown in the statements of financial position at

	<b>RMB'000</b>
— 1 January 2006 as . . . . .	<u>104,583</u>
— 31 December 2006 as . . . . .	<u>157,744</u>
— 31 December 2007, 31 December 2008 and 23 July 2009 as . . . . .	<u><u>162,421</u></u>

**28. OPERATING LEASE COMMITMENTS**

Nanjing Ruinian has no significant operating lease commitments during the Relevant Periods.

**29. CAPITAL COMMITMENTS**

	<b>At 31 December</b>			<b>At</b>
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>23 July</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>2009</b>
				<b>RMB'000</b>
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of technical know-how . . . . .	<u>19,291</u>	<u>8,321</u>	<u>2,000</u>	<u>2,000</u>

**30. CONTINGENT LIABILITIES**

Nanjing Ruinian has no significant contingent liabilities during the Relevant Periods.

**31. RETIREMENT BENEFITS SCHEME**

The employees of Nanjing Ruinian are members of the state-managed retirement benefits scheme operated by the PRC government. Nanjing Ruinian is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligations of Nanjing Ruinian with respect to the retirement benefits scheme is to make the required contributions under the scheme.

**F. ULTIMATE HOLDING COMPANY**

Upon completion of the Acquisition in July 2009, Furui Investments Limited, a company which is incorporated in the British Virgin Islands became the ultimate holding company of Nanjing Ruinian.

**G. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by Nanjing Ruinian subsequent to 23 July 2009.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong