瑞年國際
Real Nutriceutical

瑞年國際有限公司
REAL NUTRICEUTICAL GROUP LIMITED

(formerly known as “Ruinian International Limited 瑞年國際有限公司”)
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2010

STRENGTHEN THE NATIONAL PHYSIQUE
SERVE THE HUMAN
HEALTH

ANNUAL REPORT 2011

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Wang Fucai
(Chairman and Chief Executive Officer)
Mr. Yu Yan
Mr. Li Lin
Mr. Yi Lin
Mr. Zhang Yan
Ms. Au-yeung Kam Ling Celeste

Non-executive Directors

Mr. Ip Tak Chuen, Edmond
Mr. Tsang Sze Wai, Claudius

Independent Non-executive Directors

Dr. Wong Lung Tak Patrick, BBS, J.P.
Dr. Fong Chi Wah
Mr. Bernard Ban-yew Yaw
Mr. Chan Kee Ming

AUDIT COMMITTEE

Dr. Wong Lung Tak Patrick, BBS, J.P. *(Chairman)*
Dr. Fong Chi Wah
Mr. Bernard Ban-yew Yaw

REMUNERATION COMMITTEE

Dr. Fong Chi Wah *(Chairman)*
Mr. Wang Fucai
Dr. Wong Lung Tak Patrick, BBS, J.P.
Mr. Bernard Ban-yew Yaw

NOMINATION COMMITTEE

Mr. Wang Fucai *(Chairman)*
Dr. Wong Lung Tak Patrick, BBS, J.P.
Dr. Fong Chi Wah
Mr. Bernard Ban-yew Yaw
Mr. Chan Kee Ming

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Poon Yick Pang, Philip

AUTHORISED REPRESENTATIVES

Ms. Au-yeung Kam Ling Celeste
Mr. Poon Yick Pang, Philip

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

COMPLIANCE ADVISOR

SinoPac Securities (Asia) Limited
21/F One Peking
1 Peking Road
Tsim Sha Tsui
Kowloon, Hong Kong

REGISTERED OFFICE

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Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

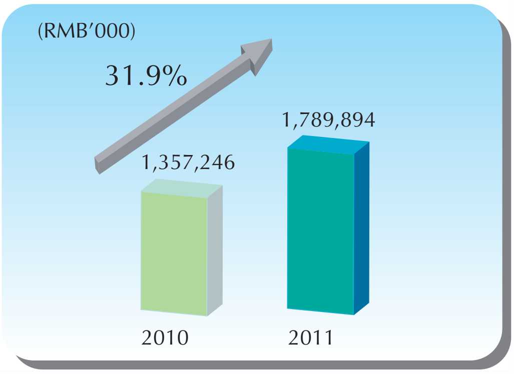
Unit A, 10th Floor
China Overseas Building
No.139 Hennessy Road and
No.138 Lockhart Road
Wan Chai, Hong Kong

FINANCIAL HIGHLIGHTS

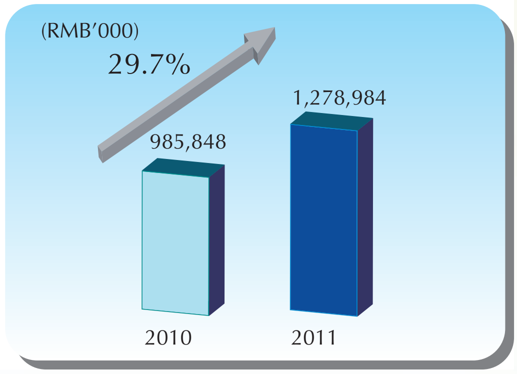
	2011 RMB'000	2010 RMB'000	Change %
Turnover	**1,789,894**	1,357,246	31.9%
Gross profit	**1,278,984**	985,848	29.7%
Profit attributable to owners of the Company	**551,638**	352,265	56.6%
Basic earnings per share (cents)	**48.9**	34.7	40.9%
Declared final dividend (HK cents)	**3.0**	2.0	50%

FINANCIAL HIGHLIGHTS

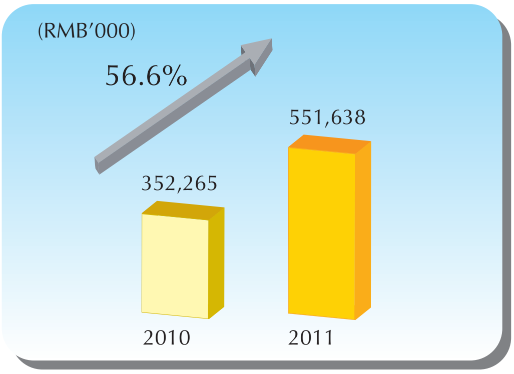
Turnover



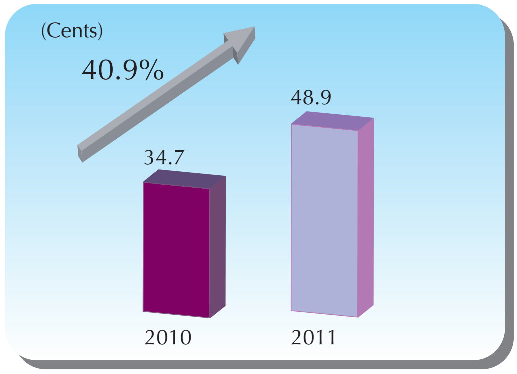
Gross Profit



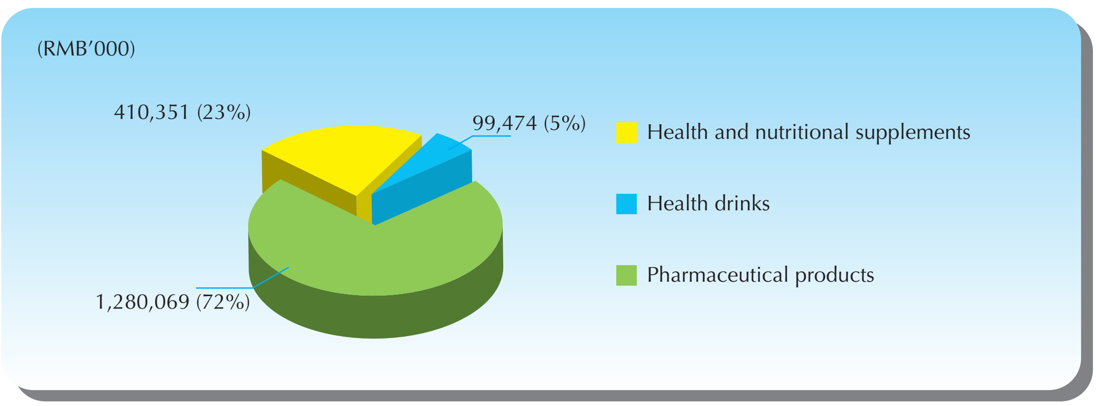
Profit attributable to owners of the Company



Basic earnings per share



Sales analysis by categories



CHAIRMAN'S STATEMENT FOR THE YEAR 2011

Chairman

Mr. Wang Fucai

We are pleased to present the final results of Real Nutriceutical Group Limited (the "Company") and its subsidiaries (collectively the "Group) for the year ended December 31, 2011.

BUSINESS REVIEW

The nation's economy continues to grow with rising health awareness of the general population, driving the rapid expansion of the China health supplement market and creating a strong demand for high quality health supplements. The Group is dedicated to improving national health and providing consumers with top quality healthcare supplement products. During the year, the Group's amino acids tablets continued to be the official gift for The National People's Congress of the People's Republic of China (NPC) and National Committee of the Chinese People's Political Consultative Conference (CPPCC) ("中國兩會"), the Group's "Real Nutri" brand was also recognized as a China Famous Trade Mark by State Administration for Industry and Commerce of People's Republic of China. All these achievements further consolidate the Group's leading position in China's amino acids health supplement market. According to a market survey conducted by Euromonitor International Plc. ("Euromonitor"), the Group continued to maintain the No. 1 position in China's amino acids health supplement market with a market share of 45.0% in 2011. For the year ended December 31, 2011, the Group reported turnover of RMB1,789.9 million and net profit of RMB551.6 million with year-on-year growth of 31.9% and 56.6% respectively. The overall gross profit margin decreased from 72.6% in 2010 to 71.5% in 2011, mainly due to the change in sales mix and slight increase in production cost.

During the year, sales of our health and nutritional supplement products grew sharply by 30.3% to RMB1,280.1 million as a result of sales channel expansion and brand promotion which led to the surge in sales of amino acids tablet and liquid products. Other health and nutritional supplement products also reported an increase in sales, amongst which the sales of Osteoid Sachet Powder, a bone density enhancing supplement, reached RMB95.1 million with year-on-year growth of 25.2%. As the aging of the China population accelerates and more middle aged and elderly people are concerned with the health condition of their bones, there is a strong demand for the bone density enhancing supplement. As the Group has been placing considerable promotional efforts in the health drinks business in the second half of the year, health drinks posted impressive annual sales of RMB410.4 million, with year-on-year growth of 39.8% which is in line with the Group's sales target. For the year end December 31, 2011, the Group's pharmaceutical products reported sales of RMB99.5 million, with year-on-year growth of 22.2% which is also in line with the sales target.

CHAIRMAN'S STATEMENT FOR THE YEAR 2011

The Group's products are being sold to 60,000 retail outlets in China.

As at December 31, 2011, the Group's health and nutritional supplement products were sold through approximately 60,000 retail outlets in China, which increased from approximately 50,000 retail points as at the end of 2010. These retail points include certain newly developed channels like the large chain stores of Jiangsu Horizon Supermarket, Shanghai Shenkelong Supermarket, Beijing Tong Ren Tang Shandong Pharmacies, Hubei Shiyan City Shoukan Yongle, Nanjing Guosheng Pharmacy, Sanjiang Shopping Club, and Zhejiang Tantaway Supermarket. The Group's health drinks were sold through over 100,000 retail outlets including RT-Mart, Auchan Hypermarket and Wal-Mart in Jiangsu and Zhejiang, Carrefour in Yunnan and Ningbo, Sanjiang Shopping Club in Ningbo, Suguo Supermarkets in Nanjing, Wuxi Sunny Group, Jingzhou Haolinju Plaza in Hubei, Trust-Mart and Jincheng Hypermarket in Jingmen. The pharmaceutical products of the Group were sold through over 100 hospitals as at December 31, 2011.

To further penetrate into the local markets, the Group has been implementing long term systematic local expansion programmes and brand reinforcing projects for the year ended December 31, 2011. The Group advertised in over 40 television channels including CCTV, provincial and city television channels for more than 1,200 hours' commercial airtime. The Group was named 2011 Emerging Partner by the Suzhou Broadcast System. A letter of intent for 2012 was signed between the Group and Wuxi Television Station to continue the close cooperation. Besides, the Group shortlisted representative retail points of major shopping malls, supermarkets, hypermarkets and retail pharmacies as well as public transports, and placed new advertisements of over 100,000 square meters in these spots. During the year, the Group regularly held different promotion events, including over 600 sales promotion events for health and nutritional supplement products and over 500 promotion activities for health drinks. The Group also participated in major conferences and exhibitions including The 27th Asia International Stamp Exhibition in Jiangsu Wuxi, The 6th International Retailers' Sourcing Fair, The 11th China International Healthcare Expo, Jiangsu Commodities Trade Fair (Nanning) and The Zhangshu 42nd National Medicinal Materials & Pharmaceuticals Fair. In addition, the Group increased advertising through the internet in the second half of 2011 and posted advertisements in over 50 popular websites such as Sina, Sohu, Tencent, Netease, Hexun, iFeng, People, Xinhuanet, China Daily, and also set up Real Nutri internet blogs in famous portals like Sina, Tencent and Sohu. For in depth public education, the Group is committed to implementing a series of educational work, including the establishment of Real Nutri Growth Gold Division which provides diversified educational information for the public to better understand the vital elements for the healthy growth of the youth and children. The Group has also been cooperating with famous Chinese academic institutions and experts to set up Shainny Modern Traditional Chinese Medicine ("TCM") Research and Development Center to develop a scientific TCM nurture and beauty platform based on the TCM methodology.

CHAIRMAN'S STATEMENT FOR THE YEAR 2011

For new marketing initiatives, the Group has set up over 100 Real Nutri Health Stores in Nanjing, Suzhou, Shanghai, Guangzhou, Zhuhai, Zhongshan, Guiyang, Fuzhou as at December 31, 2011. The stores has brought in sales of RMB55.2 million in the year. While Real Nutri Health Stores open up new sales channels for the Group, they also help the Group to build a closer bond with the products' ultimate end-users. Real Nutri Health Stores has been providing various services to Nutri Health Club members and consumers including free basic body checks, health consultation by physicians or nutritionists, health seminars and exercise classes. The Group also made a breakthrough through the internet sales. It has over 120,000 registered members and recorded annual sales of RMB47.7 million for the year ended December 31, 2011.

For overseas markets, the Group has continued to enhance the international brand position through multi-faceted promotion in Hong Kong. In the second half of 2011, the Group launched a new series of television commercials with famous actress Ms. Esther Kwan as spokesperson for the Amilok Beauty 18 Amino Acids Products and sponsored various TV programs including "All Star Glam Exam" ("華麗明星賽"), "They Finally Came" ("福祿壽大假光臨") and the theatrical play "18 M". The Group's products have gradually entered the markets in Macau and Taiwan from the fourth quarter of 2011. The products Amilok-Beauty 18 and Amilok-DrunkBye 18 were selling in Macau. Amilok-Beauty 18 was also launched in Taiwan in early 2012. Furthermore, the Group participated in a number of international conferences including The 8th Amino Acid Assessment Workshop in Washington, United States, and The 18th Vietnam International Hospital, Medical and Pharmaceutical Exhibition.

Over 100 Real Nutri Health Stores have been set up.

In addition, the Group held over 40 promotion events for its pharmaceutical products, participated in The 15th Conference of Ophthalmology in Hubei Province in June 2011 to promote the use of Proparacaine Hydrochloride Eye Drops and, hosted the Xinze Topotecan Hydrochloride Capsules Interim Clinical Research Seminar in Beijing in November 2011 to explore the future development of oral cancer drugs in China with national tumor experts and scholars.

The Group maintains the policy to produce the core products in-house so that it can exercise full control over product quality. Factory buildings of the health drinks production base were constructed and production of health drinks (Herbal Tea and Amino Acids Drinks) was launched in the first quarter of 2012. During the year, the Group launched more than 20 new products including Rhodiola and Amino Acids Capsules, Donkey-hide Heme Iron Capsules, Balsampear and Amino Acids Capsules, Ziziphi Spinosae Pearl and Amino Acids Capsules, Natto Kinase and Amino Acids Capsules, Epimedium & Astragalus Extract and Amino Acids Capsules.

Investor Relations

The business development of the Group is highly dependent on investors' trust and support. The Group has been actively participating in diverse investor-relation activities. During the year, the Group participated in 16 major investment conferences and a number of roadshows in New York, Boston, London, Singapore, Kuala Lumpur, Hong Kong, Shenzhen, Shanghai, Tianjin, Beijing and Taipei. We held over 250 investor meetings, communicated with over 700 fund managers and analysts through meetings and conference calls, hosted over 16 plant visits in Wuxi, and organized one distributors and retail outlets due diligence tour for investors and analysts in October 2011. The Group will continue to proactively join various investor conferences organized by major securities firms and maintain close dialogues with investors. During the year, the Group was selected for the first time as "Asia's 200 Best Under A Billion" by world-renowned financial magazine Forbes, reflecting international recognition on the Group's leading market position and business potentials.

The Group's health drinks are being sold through over 100,000 retail outlets in China

Corporate Social Responsibility

The Group also places high recognition on the importance of social responsibility and concerns about the welfare of different communities. During the year, the Group took part in various social and charity events and encouraged the staff to participate in related activities in their spare time, including organising visits and health supplements donation to the Mashan Feng Ying Nursing Homes in Wuxi, visits to the Hong Kong Yan Chai Hospital Artiste Training Alumni Association Care and Attention Home together with The Chain of Charity Movement Service Center, health supplements donations to The Hong Kong Jockey Club — Helping Hand and the Hong Kong Association of the Deaf and S.K.H. St. Christopher's Home, participation in the volunteer work in Hong Kong Hong Chi Association under The Community Chest Corporate Volunteer Matching Scheme, and active involvement in ORBIS fund raising. In addition, the Group was accredited as the Excellent Entity in Caring For the Elderly by the Wuxi Binhu District Pension Services Industry Association and was also granted permission to use the 2010/11 Caring Company logo by the Hong Kong Council of Social Service.

PROSPECTS

To achieve the Group's mid to long term goal of becoming one of the top enterprises in China's nutriceutical industry, the Group will accelerate the development pace of its various businesses. Through sales channels expansion, production bases extension, new products development and strategic merger and acquisition, the Group is confident to meet this target.

CHAIRMAN'S STATEMENT FOR THE YEAR 2011

The Group will continue to drive its sales growth by expanding and exploring different sales channels. Besides reinforcing market penetration in the original major eastern and southern China markets, the Group will also develop new markets and retail outlets by cooperating with more distributors for the Group's geographical expansion. The Group's new sales channel Real Nutri Health Stores will play an important role in the development of the local markets. The Group plans to expand the number of Real Nutri Health Stores consistently and targets to open at least 100 Real Nutri Health Stores in 2012 in over 40 cities in 15 provinces including Jiangsu, Zhejiang, Guangdong, Shandong, Hebei, Heilongjiang, Jilin, Liaoning, Anhui and Fujian. In addition, the Group targets to open 12 sizable Real Nutri Flagship Stores in cities including Shanghai, Wuxi, Nanjing, Nantong, Shenzhen, Wuhan, Qingdao, Linbo, Jinhua, Suzhou, Changzhou and Jiaxin in 2012. These flagship stores will act as the model stores for other Real Nutri Health Stores and demonstrate the Group's commitment to investing and developing the local markets. Riding on the rapid expansion of e-commerce in China, the Group will grasp the opportunity to speed up its health and nutritional supplements sales on the internet, as well as the enrollment of Real Nutri Health Club members with a target of 200,000 members by the end of 2012. The Group will continue to enhance the management of membership database so as to accurately analyze the consumption pattern of the health club members. The China internet sales market offers infinite business potential for the Group's health supplements business. Through the full utilization of the Group's internet direct sales platform and customer call center, the Group is confident to drive profit growth further.

At least 100 new Real Nutri Health Stores will be opened in 2012.

Amino acids health supplement products have been consumed in many countries for decades and the health enhancing function of amino acids is well supported by diverse and in-depth scientific research data. Therefore, amino acids health supplements is a sustainable industry. With the expanding mid- and high-spending consumer population, increasing demand for high quality and safe health supplement products and extended use of amino acids in medicine, China will develop into a giant amino acids consuming country. To fulfill future market demands, the Group will continue to expand the health supplements production base in Wuxi with a target to at least double up the existing production capacity for health supplement products within two years's time.

The Group will continue to improve the quality of its health and nutritional supplement products through in-house research and development, as well as acquisition of product knowhows with great potentials. The Group will launch

CHAIRMAN'S STATEMENT FOR THE YEAR 2011

more competitive health and nutritional supplement products, targeting specific user groups. The Group plans to launch at least 10 new health and nutritional supplement products including Collagen and Amino Acids Tablet, E-jiao Gelatin with Heme Iron Capsules, Chewable Multi-Vitamins Tablets for Children, Nutritional Tablets for Pregnant Women and Vitamins Complex Tablets in order to provide a variety of high quality products for the vast consumer population. At the same time, the Group targets to fulfill the specific needs of consumers of different ages, physical conditions and life styles. Concerning overseas market development, Taiwan will be one of our major markets. In 2012, the Group will launch other products including Amilok-Soundzleep 18 which can improve sleep quality. The Group also schedules to launch health and nutritional supplement products in Vietnam in the second half of 2012.

Following the launch of the health drinks production base in Wuxi, the Group will accelerate the penetration of the Shun-branded herbal tea in the second- and third-tier cities in China. The Group plans to organize over 1,000 small to large scale promotion events for health drinks products in 2012, aiming to establish the Shun-branded to be one of the top five herbal tea brands in China. For pharmaceutical products, the Group will continue to launch new products and distribute its various medicine products to over 200 hospitals in China.

Pursuit of high quality health and nutritional supplement products will be the trend for the future development of China's enormous consumer healthcare market. The Group will continue to adhere to the motto of "Strengthen the National Physique and Serve Human Health" and accomplish breakthroughs in becoming one of the most advanced nutriceutical enterprises in China.

DIVIDEND

The Board of Directors recommended the payment of a final dividend of HK3.0 cents per share for the year ended December 31, 2011 (2010: HK2.0 cents).

ACKNOWLEDGEMENTS

I acknowledge with deep gratitude the work and support of the Board of Directors and the staff of the Group, which have been crucial to our success. I am confident that their endeavours will continue to help the Group achieve greater accomplishments in the years ahead. I would also like to take this opportunity to express my sincere appreciation to all our shareholders, customers and suppliers for their continuous support.

Wang Fucai
Chairman

Hong Kong, March 20, 2012

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The turnover of the Group in 2011 was RMB1,789.9 million, representing an increase of approximately 31.9% from RMB1,357.2 million in 2010. Profit attributable to owners of the Company increased by approximately 56.6% to RMB551.6 million in 2011 from RMB352.3 million in 2010. The Company's basic earnings per share ("Share") reached RMB48.9 cents (2010: RMB34.7 cents) based on the weighted average number of 1,127.9 million (2010: 1,015.7 million) Shares in issue during the year.

Turnover

The turnover of the Group increased by approximately 31.9% from RMB1,357.2 million in 2010 to RMB1,789.9 million in 2011. Sales of health and nutritional supplements increased by approximately 30.3% from RMB982.3 million in 2010 to RMB1,280.1 million in 2011, which was primarily due to the increase in sales of the Group's amino acids tablets and liquid amino acid in 2011. Sales of health drinks increased by approximately 39.8% from RMB293.5 million in 2010 to RMB410.4 million in 2011. Turnover from sales of pharmaceutical products increased by approximately 22.2% from RMB81.4 million in 2010 to RMB99.5 million in 2011.

Gross profit

The Group's gross profit increased from RMB985.8 million in 2010 to RMB1,279.0 million in 2011. The Group's average gross profit margin decreased from 72.6% in 2010 to 71.5% in 2011. Such decrease in gross profit margin was mainly due to the change in sales mix and slight increase in production cost.

Other income

The Group's other income increased from RMB3.5 million in 2010 to RMB26.7 million in 2011, which was mainly due to the increase in interest income from bank deposits.

Selling and distribution costs

The Group's selling and distribution costs increased by approximately 18.6% from RMB368.2 million in 2010 to RMB436.7 million in 2011, represented approximately 27.1% in 2010 and 24.4% in 2011 of the Group's turnover. Such increase was primarily due to the increase in advertising and promotional expenses for the Group's products from RMB317.5 million in 2010 to RMB349.0 million in 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative, listing and equity-settled share based payments expenses

The Group's administrative expenses increased by approximately 16.2% from RMB58.1 million in 2010 to RMB67.5 million in 2011, represented approximately 4.3% in 2010 and 3.8% in 2011 of the Group's turnover. Such increase was primarily due to the depreciation of property, plant and equipment increased from RMB6.6 million in 2010 to RMB9.4 million in 2011. No listing expenses (2010: RMB4.6 million) incurred in 2011. Equity-settled share based payments RMB7.5 million in 2011 (2010: RMB19.7 million) were the expenses in relation to the employee share options granted under the Pre-IPO Share Option Schemes.

Interest on bank borrowings

The Group's interest on bank borrowings increased by approximately 84.1% from RMB10.6 million in 2010 to RMB19.5 million in 2011, which was primarily due to the increase in interest rates for bank loans in 2011. The interest rates of the Group's variable-rate bank loans ranged from 5.8% to 6.7% in 2011, compared to 4.8% to 5.8% in 2010.

Taxation

Tax charge increased by approximately 26.8% from RMB175.8 million in 2010 to RMB222.9 million in 2011 primarily due to the increase in profit before taxation. The Group's effective tax rates in 2010 and 2011 were 33.3% and 28.8%, respectively.

Profit attributable to owners of the Company

As a result of the foregoing, the Group's profit for the year increased from RMB352.3 million in 2010 to RMB551.6 million in 2011. The Group's profit margin increased from approximately 26.0% in 2010 to approximately 30.8% in 2011.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

In 2011, net cash decreased by RMB79.0 million. RMB424.6 million was generated from operating activities, while RMB481.7 million and RMB21.9 million were spent on investing activities and financing activities respectively .

Inventories

The Group's inventories increased to RMB59.1 million (2010: RMB18.8 million) as at December 31, 2011 primarily due to increases in inventory for the Chinese New Year in January 2012. The Group's inventories comprise raw materials, packaging materials, work in progress, finished goods and merchandise for resale. During the year, inventory turnover was approximately 28 days (2010: 20 days). The longer inventory turnover period during the year was primarily the result of increase in inventory for the Chinese New Year at the year end.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade receivables

The Group's trade and bills receivables amounted to RMB449.0 million (2010: RMB323.1 million) as at December 31, 2011. During the year, the distributors were generally granted a credit term of 90 days. Turnover days for trade and bills receivables decreased to 79 days (2010: 94 days), primarily due to the increased effort to collect funds from the distributors.

Trade Payables

The Group's trade and bills payables amounted to RMB52.8 million (2010: RMB77.3 million) as at December 31, 2011. During the year, the credit term provided by the suppliers generally was 90 days. Turnover days for trade and bills payables decreased to 46 days (2010: 62 days), which was primarily the result of the re-negotiation with suppliers to fixed the materials price for earlier payment.

Borrowings

As at December 31, 2011, the Group had short-term bank loans in the amount of RMB127.0 million (2010: RMB65.0 million) and a gearing ratio of 3.9% (2010: 2.4%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Pledge of assets

As at December 31, 2011, the Group has not pledged any assets (2010: RMB1.5 million pledged bank deposits).

Capital expenditure

During the year, the Group invested approximately RMB508.8 million (2010: RMB283.7 million) for purchase of property, plant and equipment, land use rights and intangible assets.

Capital commitments and contingent liabilities

As at December 31, 2011, the Group's capital commitments were approximately RMB222.2 million (2010: RMB233.4 million), all of which were related to acquisition of property, plant and equipment and technical knowhow. The Group has no material contingent liabilities as at December 31, 2011 (2010: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Use of net proceeds from the Company's initial public offering and placing

The total net proceeds from the Listing after the issue of the over-allotment shares amounted to approximately HK$806.6 million (RMB692.6 million) and the total net proceeds from placing in October 2010 amounted to approximately HK$597.2 million (RMB517.1 million). As at December 31, 2011, net proceeds of accumulated approximately RMB818.0 million has been applied on market expansion, capital expenditures, product development and other working capital, and the remaining of the net proceeds has been deposited into banks and qualified financial institutions, which are intended to be applied in accordance with the proposed application set out in the "Use of proceeds" section in the prospectus dated February 8, 2010 issued by the Company (the "Prospectus") and in the announcement dated October 28, 2010.

HUMAN RESOURCES MANAGEMENT

Quality and dedicated staff are indispensable assets to the Group's success in the competitive market. The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to all employees in Hong Kong and the PRC. The Group reviews its human resources and remuneration policies periodically to ensure they are in line with market practice and regulatory requirements. As at December 31, 2011, the Group employed a work force of 916. The total salaries and related costs for the year ended December 31, 2011 amounted to approximately RMB23.8 million (2010: RMB20.0 million).

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") as its own code of corporate governance. The directors of the Company ("Directors") consider that for the year ended December 31, 2011 the Company has complied with all the code provisions as set out in the CG Code, except for deviation of provision A.2.1 of the CG Code as mention below.

The Directors are committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximise the interests of the shareholders of the Company ("Shareholders").

Set out below is a detailed discussion of the corporate governance practices adopted and observed by the Company for the year ended December 31, 2011.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in Company's securities. Having made specific enquiries of all the Directors of the Company, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code for the year ended December 31, 2011.

BOARD OF DIRECTORS

(i) Board Composition

The board of Directors ("Board") currently comprises a combination of six executive Directors, two non-executive Directors and four independent non-executive Directors.

As at December 31, 2011, the Board consisted the following Directors:

Executive Directors
Mr. Wang Fucai *(Chairman and Chief Executive Officer)*
Mr. Yu Yan
Mr. Li Lin
Mr. Yi Lin
Mr. Zhang Yan
Ms. Au-yeung Kam Ling Celeste

Non-executive Directors
Mr. Ip Tak Chuen, Edmond
Mr. Tsang Sze Wai, Claudius

Independent Non-executive Directors
Dr. Wong Lung Tak Patrick, BBS, J.P.
Dr. Fong Chi Wah
Mr. Bernard Ban-yew Yaw
Mr. Chan Kee Ming

The executive Directors, with the assistance from the senior management, form the core management team of the Company. The executive Directors have the overall responsibility for formulating the business strategies and development plan while the senior management are responsible for supervising and executing the plans of the Company and its subsidiaries (together, the "Group").

(ii) Board Functions and Duties

The principal functions and duties conferred on the Board include:

- convening general meetings and reporting the Board's work at general meetings;
- implementing the resolutions passed by Shareholders in general meetings;
- deciding business plans and investment plans;
- preparing annual financial budgets and final reports;
- formulating the proposals for profit distributions, recovery of losses and for the increase or reduction of registered capital; and
- exercising other powers, functions and duties conferred by Shareholders in general meetings.

(iii) Board Meetings

During the year, the Board convened a total of four meetings in person or by means of electronic communication. Prior notices convening the board meetings were despatched to the Directors setting out the matters to be discussed. At the meetings, the Directors were provided with the relevant documents to be discussed and approved. The company secretary of the Company are responsible for keeping minutes for the board meetings.

(iv) Attendance Record

The following is the attendance record of the board meetings held by the Board:

	Attendance at meeting
Executive Directors	
Mr. Wang Fucai *(Chairman and Chief Executive Officer)*	4/4
Mr. Yu Yan	4/4
Mr. Li Lin	4/4
Mr. Yi Lin	4/4
Mr. Zhang Yan	4/4
Ms. Au-yeung Kam Ling Celeste	4/4
Non-executive Directors	
Mr. Ip Tak Chuen, Edmond	4/4
Mr. Tsang Sze Wai, Claudius	4/4
Independent Non-executive Directors	
Dr. Wong Lung Tak Patrick, BBS, J.P.	4/4
Dr. Fong Chi Wah	4/4
Mr. Bernard Ban-yew Yaw	3/4
Mr. Chan Kee Ming	4/4

(v) Independent Non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed four independent non-executive Directors. The Board considers that all independent non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of the Shareholders. One of the independent non-executive Directors, Dr. Wong Lung Tak Patrick, BBS J.P., has over 30 years in the accounting profession. Dr. Wong is a Certified Public Accountant (Practising) in Hong Kong.

Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received a written confirmation from each of the independent non-executive Directors in respect of their independence. The Board considers that all independent non-executive Directors are being considered to be independent by reference to the factors stated in the Listing Rules.

(vi) Chairman and Chief Executive Officer

Provision A.2.1 of the CG Code provides that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same person. The Company deviates from this provision because Mr. Wang Fucai has been performing both the roles of Chairman and Chief Executive Officer. Mr. Wang is the founder of the Group and has over 30 years of experience in the health care and pharmaceutical industry. Given the current stage of development of the Group, the Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies. The Group will nevertheless review the structure from time to time in light of the prevailing circumstances.

(vii) Appointment and Re-election of Directors

According to the articles of association of the Company, at each annual general meeting one-third of the Directors are subject to retirement by rotation or, if the number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and shall be eligible for re-election. The Directors to be retired by rotation shall be those who have been longest in office since their last appointment or re-election. Every Director shall be subject to retirement at an annual general meeting at least once every three years.

All of the Directors of the Company including the non-executive Directors and the independent non-executive Directors are appointed for a specific term. Each of the executive Directors has entered into a service contract with the Company for a term of two years. Each of the non-executive Directors and the independent non-executive Directors has entered into a service contract with the Company for a term of one year.

(viii) Directors' Remuneration

The remuneration committee makes recommendations to the Board on the remuneration package of the Directors and senior management personnel. It is the Company's policy that the remuneration package of each Director and senior management shall be determined by reference to, inter alia, their duties, responsibilities, experience and qualifications.

Before the listing of the Company, the Directors had been provided with training on their duties and responsibilities as a director of a listed company and the compliance issues under the Listing Rules.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Company established a remuneration committee on February 1, 2010 with written terms of reference in compliance with the CG Code. The remuneration committee comprises Mr. Wang Fucai, Dr. Wong Lung Tak Patrick, BBS, J.P., Dr. Fong Chi Wah and Mr. Bernard Ban-yew Yaw. Dr. Fong Chi Wah is the chairman of the remuneration committee.

The primary responsibilities of the remuneration committee are to make recommendations to the Board on the remuneration package of the Directors and senior management personnel and to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

During the year, the remuneration committee has held one meeting, at which members of the remuneration committee has considered and reviewed the existing terms of remunerations of all the Directors and senior management, and the Group's remuneration policy in relation to that of comparable companies, time commitment and responsibilities of the Directors and senior management and desirability of performance-based remuneration. The remuneration committee considered that the existing terms of remunerations of the Directors and senior management were fair and reasonable.

The following is the attendance record of the committee meeting held by the remuneration committee.

	Attendance at meeting
Dr. Fong Chi Wah	1/1
Mr. Wang Fucai	1/1
Dr. Wong Lung Tak Patrick, BBS, J.P.	1/1
Mr. Bernard Ban-yew Yaw	1/1

NOMINATION COMMITTEE

The Company established a nomination committee on December 13, 2011 with written terms of reference in compliance with the CG Code. The nomination committee comprises Mr. Wang Fucai, Dr. Wong Lung Tak Patrick, BBS, J.P., Dr. Fong Chi Wah, Mr. Bernard Ban-yew Yaw and Mr. Chan Kee Ming. Mr. Wang Fucai is the chairman of the nomination committee.

The primary responsibilities of the nomination committee are to review the structure, size and composition of the Board and make recommendations to the Board on the selection of, individuals nominated for directorships.

During the year, the nomination committee has not held any meeting.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the provisions and recommended practices of the CG Code on February 1, 2010. The primary duties of the audit committee are to review and supervise financial reporting processes and internal control system of the Group. At present, the audit committee comprises Dr. Wong Lung Tak Patrick, BBS, J.P., Dr. Fong Chi Wah and Mr. Bernard Ban-yew Yaw, being the three independent non-executive Directors of the Company. Dr. Wong Lung Tak Patrick, BBS, J.P. is the chairman of the audit committee.

The audit committee is satisfied with their review of the auditor's remuneration, the independence of the auditor, Deloitte Touche Tohmatsu ("DTT"), and recommended the Board to re-appoint DTT as the Group's auditor in the year 2012, which is subject to the approval of shareholders at the forthcoming annual general meeting.

During the year, the audit committee has held two meetings, at which the members of audit committee have reviewed and discussed with the external auditor of the Group's interim results for the period ended June 30, 2011 and the audited annual results for the year ended December 31, 2011, who is of the opinion that such statements have complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

The following is the attendance record of the committee meeting held by the audit committee.

	Attendance at meeting
Dr. Wong Lung Tak Patrick, BBS, J.P.	2/2
Dr. Fong Chi Wah	2/2
Mr. Bernard Ban-yew Yaw	2/2

AUDITOR'S REMUNERATION

The Group's external auditor is Deloitte Touche Tohmatsu. For the year ended December 31, 2011, the total fee paid/payable in respect of audit and non-audit services provided by the Group's external auditor is set out below:

	For the year ended December 31, 2011 HK$'000
Annual audit services	2,680
Non-audit services	1,755

The audit committee is responsible for making recommendation to the Board as to the appointment, re-appointment and removal of the external auditor, which is subject to the approval by the Board and at the general meetings of the Company by the Shareholders.

DIRECTOR'S RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare the accounts of the Group and other financial disclosures required under the Listing Rules and the management will provide information and explanation to the Board to enable it to make an informed assessment of the financial and other Board decisions.

INTERNAL CONTROL

The internal control system has been designed to safeguard the assets of the Company, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations.

The Board is responsible for maintaining and reviewing the effectiveness of the Group's internal control system. They have carried out an annual review of the implemented system and procedures, including areas covering financial, operational and legal compliance controls and risk management functions. The internal control system is implemented to minimise the risks to which the Group is exposed and used as a management tool for the day-to-day operation of business. The system can only provide reasonable but not absolute assurance against misstatement or losses.

The Board is responsible for implementing the internal control system and reviewing its effectiveness. For the year ended December 31, 2011, the Board considered that the Company's internal control system is adequate and effective and the Company has complied with the code provisions on internal control of the CG Code.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The general meetings of the Company provide a forum for communication between the Board and the Shareholders. The chairman of the Board as well as chairmen of the remuneration committee, the audit committee and the nomination committee and, in their absence, other members of the respective committees are available to answer questions at Shareholders' meetings.

The forthcoming annual general meeting ("AGM") will be held on May 25, 2012. The notice of AGM will be sent to Shareholders at least 20 clear business days before the AGM.

To promote effective communication, the Company maintains a website at www.ruinian.com.hk, where extensive information and updates on the Company's financial information, corporate governance practices and other information are posted and available for public access.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Wang Fucai (王福才), aged 56, is the founder, the chairman of the board of directors and the chief executive officer of the Company and is responsible for the overall management, strategic development and major decision making of the Group. Mr. Wang was appointed as an executive Director of the Company on August 30, 2006. Mr. Wang received a graduation certificate (畢業證) from the Medical Department of Harbin Medical University (哈爾濱醫科大學) in July 1983. Mr. Wang established Wuxi Ruinian Industry and Commerce Co. Ltd. ("Ruinian Industry") in 1997 to develop his own business and is now the chairman and general manager of Ruinian Industry. He is an associate director of China Food and Drug Administration Magazine (國家食品藥品監督管理局監督雜誌) and a permanent member of the Association of Hong Kong & Kowloon Practitioners of Chinese Medicine Limited. Mr. Wang possesses almost 30 years of experience in the health care and pharmaceutical industry, including over 10 years in the nutritional supplement industry. Mr. Wang served in BeiMan TeGang and its affiliated hospital (北滿特鋼及其附屬醫院), a state-owned entity, from 1983 to 1992 and was appointed as the Medical Superintendent from 1990 to 1992, during which he gained experiences in management and administration. From 1992 to 1997, Mr. Wang worked in Shenzhen Hygienic Development Company (深圳市衛生發展公司) as the general manager and was responsible for the sale of pharmaceutical products.

Mr. Yu Yan (于岩), aged 47, is an executive Director and is responsible for the Group's production and administration. Mr. Yu was appointed as an executive Director of the Company on August 30, 2006. Mr. Yu has over 24 years of experience in management. He was the supervisor and factory manager of Northern Steel Development Factory (北鋼北發工業公司) and its subsidiary from 1986 to 1996. Mr. Yu joined the Group in December 1997 and is currently the deputy general manager of Ruinian Industry.

Mr. Li Lin (李林), aged 44, is an executive Director and is responsible for the sales and marketing of the Group. Mr. Li was appointed as an executive Director of the Company on August 30, 2006. Mr. Li is a senior economist recognized by the Department of Personnel of Jiangsu Province based on the assessment by Jiangsu Qualification Evaluation Committee of Senior Professional Positions Specialised in Economic Field (江蘇省經濟專業高級專業技術資格評審委員會). He graduated from Hubei University (湖北大學) in July 1989 and obtained an executive MBA degree from Peking University (北京大學) in January 2007. He was employed by Wuhan Standard Vehicle Parts Factory (武漢汽車標準件廠) as a teacher, administrator of student affairs department and plant manager during the period between 1989 and 1995. He worked for Sanzhu Group Limited (三株集團有限公司) as a manager, regional manager and sales director until 2000 and has over 15 years of experience in sales and marketing. Mr. Li joined the Group in October 2000 and is currently the deputy general manager of Ruinian Industry.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yi Lin (伊林), aged 48, is an executive Director and is responsible for the product development and administration of the Group. Mr. Yi was appointed as an executive Director of the Company on August 30, 2006. Mr. Yi obtained a Bachelor's Degree in Pharmaceutical Preparation (製劑) from Shenyang Medical University (瀋陽藥科大學) in 1987. During the period between 1987 and 1993, he was employed by Harbin Pharmaceutical Group (哈藥集團股份有限公司) and later promoted to be a sales manager. Mr. Yi was the head of sales of Shenzhen Bright Way Pharmaceutical Co., Ltd. (深圳凱程醫藥化工有限公司) during the period between 1993 and 1998 and the provincial, regional and Northern China regional manager of Shenzhen Xinpeng Biological Engineering Ltd. (深圳新鵬生物工程有限公司) during the period between 1998 and 2004. He has approximately 22 years of experience in sales and marketing. Mr. Yi joined the Group in February 2004 and is currently the deputy general manager of Ruinian Industry.

Mr. Zhang Yan (張宴), aged 35, is an executive Director and is responsible for the finance and treasury of the Group. Mr. Zhang was appointed as an executive Director of the Company on August 30, 2006. Mr. Zhang completed a diploma study (大學專科) in Finance and Accounting from Shanghai University of Finance & Economics (上海財經大學) in July 1996. He joined Wuxi Desheng Silk Plant (無錫市德生綢廠) in September 1996 and was later promoted as an administrator of the human resources and accounts department. He has accumulated over 13 years of experience in accounting. Mr. Zhang joined the Group in January 2001 and is currently the deputy general manager of Ruinian Industry.

Ms. Au-yeung Kam Ling Celeste (歐陽錦玲), aged 49, is an executive Director and is responsible for the operations of the Group outside the PRC. Ms. Au-yeung joined the Group in October 2004. Ms. Au-yeung was appointed as an executive Director of the Company on March 28, 2008. Ms. Au-yeung has approximately 20 years of experience in the health food industry. Ms. Au-yeung worked in Sunrider International (Hong Kong) Ltd., an international health food company from 1991 to 2001, where she was promoted to district operation manager and gained extensive knowledge and experience in the health food markets in Hong Kong and Southeast Asia. Prior to joining the Group, she worked as operation manager in both Ta Shing Indomold from 2001 to 2003 and Majestic Group from 2003 to 2004. Ms. Au-yeung completed a study in Journalism from Chu Hai College (珠海書院) in Hong Kong in 1986.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. Ip Tak Chuen, Edmond (葉德銓), aged 59, is a non-executive Director and joined the Group in October 2007. Mr. Ip was appointed as a non-executive Director of the Company on March 28, 2008. Mr. Ip is a senior management member at a number of companies. The following chart summarises Mr. Ip's positions at such companies:

Company[1]	Position
CK Life Sciences Int'l., (Holdings) Inc. ("CK Life Sciences")[2]	senior vice president and chief investment officer
Cheung Kong (Holdings) Limited[3]	deputy managing director
Cheung Kong Infrastructure Holdings Limited	executive director and deputy chairman
TOM Group Limited	non-executive director
ARA Asset Management Limited	non-executive director
AVIC International Holding (HK) Limited	non-executive director
Excel Technology International Holdings Limited	non-executive director
Shougang Concord International Enterprises Company Limited	non-executive director
ARA Asset Management (Fortune) Limited, the manager of Fortune Real Estate Investment Trust	non-executive director
Hui Xian Asset Management Limited the manager of Hui Xian Real Estate Investment Trust	non-executive director
ARA Trust Management (Suntec) Limited, the manager of Suntec Real Estate Investment Trust	director

Notes:

(1) All the above are listed companies or REITs listed in Hong Kong and/or Singapore.

(2) CK Life Sciences is a company listed on the Main Board of the Stock Exchange. Mr. Ip joined the CK Life Sciences Group in December 1999.

(3) Mr. Ip joined the Cheung Kong Group in 1993.

Mr. Ip obtained a Bachelor of Arts degree in Economics in 1975 and a Master of Science degree in Business Administration in 1977.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Tsang Sze Wai Claudius, CFA (曾思維), aged 35, is a non-executive Director and joined the Group in May 2010. Mr. Tsang was appointed as a non-executive Director of the Company on May 26, 2010. Mr. Tsang first joined Templeton Assets Management Limited in July 2005. He is now the vice president and executive director of Templeton Asset Management Limited. He had 13 years' experience in investment management industry and served various positions in Jardine Fleming Securities Asia Limited, Chinachem Group, Korean Development Bank and Lehman Brothers. Mr. Tsang obtained a bachelor degree in engineering from The Chinese University of Hong Kong in 1998 and a bachelor of law degree from Tsinghua University in 2006. He is a holder of a Chartered Financial Analyst charter of the CFA Institute.

Independent Non-executive Directors

Dr. Wong Lung Tak Patrick, BBS, J.P. (黃龍德), aged 64, is an independent non-executive Director and joined the Group in March 2008. Dr. Wong was appointed as an independent non-executive Director of the Company on March 28, 2008. Dr. Wong is a Certified Public Accountant (Practising) in Hong Kong and the managing practising director of Patrick Wong CPA Limited, Wong Lam Leung & Kwok CPA Limited and Hong Kong Pengcheng CPA Limited. He has over 30 years experience in the accountancy profession. Dr. Wong holds a Doctor of Philosophy in Business degree, was awarded a Badge of Honour by the Queen of England in 1993 and was appointed a Justice of the Peace in 1998. He was also awarded a Bronze Bauhinia Star by the Government of the HKSAR in 2010. He has been appointed Adjunct Professor, School of Accounting and Finance of the Hong Kong Polytechnic University since 2002. Dr. Wong participates in many types of community services and is holding posts in various organisations and committees in government and voluntary agencies. Dr. Wong is an independent non-executive director of China Precious Metal Resources Holdings Co., Ltd., C C Land Holdings Limited, Water Oasis Group Limited, Sino Oil and Gas Holdings Limited, Galaxy Entertainment Group Limited, Guangzhou Pharmaceutical Company Limited and Winox Holdings Limited, all of which are listed on the Main Board of the Stock Exchange. Dr. Wong has been appointed as an independent non-executive director of National Arts Holdings Limited (listed on the Growth Enterprise Market of the Stock Exchange) with effect from February 3, 2010.

Dr. Fong Chi Wah (方志華), aged 49, is an independent non-executive Director and joined the Group in March 2008. Dr. Fong was appointed as an independent non-executive Director of the Company on March 28, 2008. Dr. Fong is a Chartered Financial Analyst, a member of Hong Kong Institute of CPAs and the Institute of Certified Management Accountants, Australia, and the Hong Kong Institute of Directors. Dr. Fong has over 22 years of experience in various sectors of the financial industry, including direct investment, project and structured finance and capital markets, with a focus on the PRC and Hong Kong. Dr. Fong was a director of Baring Capital (China) Management Limited and held various management positions in ING Bank. He was appointed as an independent non-executive director of Syscan Technology Holdings Limited on December 19, 2003 and as an executive director of National Investments Fund Limited on November 1, 2005, and both companies are listed on the Stock Exchange. Dr. Fong obtained a bachelor's degree in management science (economics) from Lancaster University, United Kingdom, in 1984, a master's degree in business administration from Warwick University, United Kingdom, in 1986, a master's degree in investment management from the Hong Kong University of Science and Technology in 1999, a master's degree in practising accounting from Monash University, Australia, in 2001 and a doctorate in business administration from the Hong Kong Polytechnic University in 2007.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Bernard Ban-yew Yaw (饒萬有), aged 52, is an independent non-executive Director and joined the Group in November 2009. Mr. Yaw was appointed as an independent non-executive Director of the Company on November 2, 2009. Mr. Yaw has over 22 years of management and investment experiences. He is the chief executive officer of Asiante Capital Management Sdn. Bhd., an investment advisory and fund management company, located in Kuala Lumpur. Mr. Yaw joined Dubai Ventures Group Sdn Bhd ("DVG") as executive director and head of private equity since December 1, 2005. DVG is a wholly owned subsidiary of Dubai Group, whose sole shareholder is HH Sheikh Mohammed bin Rashid Al-Maktoum who was the ruler of Dubai and the Prime Minister of the United Arab Emirates. DVG was the regional office for Dubai Investment Group in Kuala Lumpur and its primary investment focus was equity investment in this region including Malaysia, Singapore, Thailand, Indonesia, Vietnam, Philippines, Australasia, and North Asia including China. DVG had regional offices in Kuala Lumpur, Hong Kong, London, and New York with its headquarters at Dubai, UAE. Prior to joining DVG, Mr. Yaw was with Malaysia Ventures Capital Management Berhad ("MAVCAP"), a wholly owned subsidiary of the Ministry of Finance Inc. Malaysia, which was the investment arm of the Malaysian Government, in various capacities. He was the senior vice president of direct ventures, in charge of seed ventures and agency ventures and was in charge of the strategic implementation of the Cradle Investment Program since MAVCAP's inception in April 2001. Prior to joining MAVCAP, he was the president and CEO of Intelliquis Inc., a NASDAQ listed company in which he was in charge of raising early and later stages capital, strategic corporate and worldwide expansion and ultimately the listing exercise in NASDAQ. Mr. Yaw graduated from Oral Roberts University in 1985 with a bachelor of science degree in computer science.

Mr. Chan Kee Ming, William (陳基明), aged 47, is an independent non-executive Director and joined the Group in May 2010. Mr. Chan was appointed as an independent non-executive Director of the Company on May 26, 2010. Mr. Chan is the vice president of The Hong Kong Software Industry Association. Mr. Chan was the account executive of Federal Express Limited in 1990 and the general manager of Vanda Computer and Equipment Co Ltd from 1992 to 2000. Mr. Chan has over 11 years' experience in logistic business. From 2002 to 2009, Mr. Chan was a fellow member of the E-logistics Group and S-logistics Group of the Logistics Development Council of Hong Kong. Mr. Chan has been the chief executive officer of DigiLogistics Technology Limited since January 2000. Mr. Chan obtained a bachelor of arts degree from The University of Hong Kong in 1987.

SENIOR MANAGEMENT

Mr. Poon Yick Pang, Philip (潘翼鵬), aged 42, is the chief financial officer and the Company Secretary. He joined the Company in June 2008. Mr. Poon has over 17 years of corporate finance and accounting experience. Prior to joining the Company, he was the director of finance of China Medical Technologies, Inc., a NASDAQ listed company engaged in the manufacture and sales of advanced medical devices in the PRC from 2007 to 2008, and the senior vice president, qualified accountant and company secretary of Paradise Entertainment Limited, a company listed on the Stock Exchange, from 2002 to 2007. Mr. Poon also served various positions in Advent International Corporation, a global private equity firm, and in major listed companies in Hong Kong, including Lenovo Group Limited and Sun Hung Kai Properties Limited. Mr. Poon obtained a Bachelor of Commerce degree from the University of New South Wales in 1993 and is a holder of a Chartered Financial Analyst charter of the CFA Institute, a Certified Practising Accountant (Australia) and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Poon is an independent non-executive director of Infinity Chemical Holdings Company Limited and Trigiant Group Limited, all of which are listed on the Main Board of the Stock Exchange.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Quan Guangde (全廣德), aged 62, is the manager of the production department and an assistant to the chief executive officer. Mr. Quan is responsible for supervising the production of our nutritional health products. He joined the Group in October 2004 and was a mechanical engineer and head of the engineering team of the production department before being promoted to his current positions. Mr. Quan has over 30 years of experience in mechanical engineering, and was qualified as an engineer in 1987 and a senior engineer in 1996 in the PRC. Prior to joining the Group, Mr. Quan worked for various companies in the PRC as a mechanical engineer.

Mr. Yuan Jianjun (袁建軍), aged 41, is the manager of the sales auditing department and an assistant to the chief executive officer. Mr. Yuan is responsible for the auditing and analysis of the sales business and marketing and the daily management of the Group. He graduated from the Jiangxi School of Finance & Economics in July 1994, majoring in financial accounting. He joined the Group in August 2006 and has over 16 years of experience in financial accounting and auditing. He was qualified as an accountant in 2004 in the PRC. Prior to joining the Group, Mr. Yuan served in various companies in the PRC specialising in accounting and auditing.

DIRECTORS' REPORT

The Board hereby presents its report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2011.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Particulars of the principal activities of its principal subsidiaries are set out in note 30 to the consolidated financial statements of this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2011 are set out in the consolidated statement of comprehensive income on page 42 of this annual report.

The Directors recommended the payment of a final dividend of HK3.0 cents per Share.

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment of the Group for the year ended December 31, 2011 amounted to approximately RMB361.5 million. Details of the movements during the year in the Group's property, plant and equipment are set out in note 13 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of the movements during the year in the issued share capital of the Company are set out in note 23 to the consolidated financial statements of this annual report.

RESERVES

Details of the movements during the year in the reserves of the Group are set out in the consolidated statement of changes in equity on page 44–45 of this annual report.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years are set out on page 94 of this annual report.

BORROWINGS

Details of bank loans of the Group as at December 31, 2011 are set out in note 22 to the consolidated financial statements of this annual report.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

For the years ended December 31, 2011 and 2010, sales to the Group's five largest customers, in aggregate represented approximately 22.2% and 26.4% of the Group's total sales, respectively. For the years ended December 31, 2011 and 2010, sales to the single largest customers amounted to approximately 5.2% and 6.9% of the Group's total sales, respectively.

For the years ended December 31, 2011 and 2010, purchases of raw materials, packaging materials and merchandise for resale from the Group's five largest suppliers accounted for approximately 54.0% and 66.8% of the Group's total purchases, respectively. For the years ended December 31, 2011 and 2010, purchases from the single largest supplier amounted to approximately 13.9% and 25.0% of the Group's total purchases, respectively.

For the year ended December 31, 2011, none of the Directors or any of their associates or any shareholders who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital, had any interest in the five largest suppliers or customers.

DONATIONS

The Company made charitable donations totalling RMB50,000 during the year.

DIRECTORS

The Directors during the year and up to the date of this annual report are as follows:

Executive Directors

Mr. Wang Fucai (appointed as an executive director on August 30, 2006)
Mr. Yu Yan (reappointed as an executive director on May 5, 2011)
Mr. Li Lin (reappointed as an executive director on May 5, 2011)
Mr. Yi Lin (reappointed as an executive director on May 5, 2011)
Mr. Zhang Yan (reappointed as an executive director on May 5, 2011)
Ms Au-yeung Kam Ling Celeste (appointed as an executive director on March 28, 2008)

Non-executive Directors

Mr. Ip Tak Chuen, Edmond (appointed as a non-executive director on March 28, 2008)
Mr. Tsang Sze Wai, Claudius (appointed as a non-executive director on May 26, 2010)

Independent Non-executive Directors

Dr. Wong Lung Tak Patrick, BBS, J.P.(appointed as an independent non-executive director on March 28, 2008)
Dr. Fong Chi Wah (appointed as an independent non-executive director on March 28, 2008)
Mr. Bernard Ban-yew Yaw (appointed as an independent non-executive director on November 2, 2009)
Mr. Chan Kee Ming (appointed as an independent non-executive director on May 26, 2010)

In accordance with article 84 of the articles of association of the Company, Mr. Wang Fucai, Ms Au-yeung Kam Ling Celeste, Dr. Wong Lung Tak Patrick, BBS, J.P. and Dr. Fong Chi Wah, who have been longest in office, shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Details of biography of Directors and senior management are set out on page 22–27 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of two years subject to termination by not less than three months' notice in writing served by either party on the other.

Each of the non-executive Directors and the independent non-executive Directors has entered into a service contract with the Company for a term of one year subject to termination by not less than one month's notice in writing served by either party on the other. The appointments are subject to the provisions of retirement by rotation of Directors under the articles of association of the Company.

REMUNERATION OF THE DIRECTORS

The remuneration of each Director is approved at general meetings. Other emoluments will be determined by the members of the remuneration committee with reference to the duties, responsibilities, performance of the Directors and the results of the Group.

Details of the remuneration of the Directors are set out in note 9 to the consolidated financial statements of this annual report.

EMOLUMENTS POLICY

The Group's emolument policies are formulated on the performance of individual employee and on the basis of the salary trends in Hong Kong and the PRC, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted a Pre-IPO Share Option Scheme and a Share Option Scheme for its employees.

RETIREMENT BENEFITS SCHEME

Particulars of the retirement benefits scheme of the Group are set out in note 27 to the consolidated financial statements of this annual report.

INDEPENDENCE OF INDEPENDENT NON EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the independent non-executive Directors are independent in accordance with Rule 3.13.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at December 31, 2011, the interests and short positions of the Directors and chief executives of the Company in the share capital, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") of the Listing Rules, are set out below:

Name of Director	Capacity	Number and class of securities	Number of Shares subject to options granted under the Pre-IPO Share Option Scheme [1]	Approximate shareholding percentage (%)
Mr. Wang Fucai [2]	interest of a controlled Corporation	396,566,093 Shares (L)		35.28%
	short position	16,559,359 Shares (S)		1.47%
Mr. Yu Yan	beneficial owner		1,450,000 Shares (L)	0.13%
Mr. Li Lin	beneficial owner		920,000 Shares (L)	0.08%
Mr. Yi Lin	beneficial owner		880,000 Shares (L)	0.08%
Mr. Zhang Yan	beneficial owner		1,500,000 Shares (L)	0.13%
Ms. Au-yeung Kam Ling Celeste	beneficial owner		560,000 Shares (L)	0.05%

Notes:

(1) The letter "L" denotes the Director's long position in such securities and the letter "S" denotes the Director's short position in such securities.

(2) Furui Investments Limited ("Furui") owns the entire issued share capital of Strong Ally Limited and will be deemed to be interested in the 16,559,359 Shares held by Strong Ally Limited and the short position over 16,559,359 Shares as a result of grant of options by Strong Ally Limited under the Pre-IPO Share Option Scheme, and Mr. Wang Fucai owns the entire issued share capital of Furui and will be deemed to be interested in the 396,566,093 Shares held by Furui and Strong Ally Limited and the short position over 16,559,359 Shares as a result of grant of options by Strong Ally Limited under the Pre-IPO Share Option Scheme.

Save as disclosed herein, as at December 31, 2011, none of the Directors and chief executives of the Company, or any of their sponsor, or children under eighteen years of age, has any interests or short positions in the shares, underlying shares and debentures of the Company, recorded in the register required to be kept under section 352 of SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

The Company has conditionally adopted a Pre-IPO Share Option Scheme on January 29, 2010 and a Share Option Scheme on February 1, 2010.

Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme approved by the written resolutions of the sole Shareholder passed on February 1, 2010:

(1) The purpose of the Share Option Scheme

The Share Option Scheme seeks to provide an incentive for the Qualified Participants (as defined below) to work with commitment towards enhancing the value of the Company and the Shares for the benefit of the Shareholders, and to maintain or attract business relationships with the Qualified Participants whose contributions are or may be beneficial to the growth of the Group.

(2) Who may join

The Board may at its discretion grant options to: (i) any executive Director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any non-executive Directors (including independent non-executive Directors) of the Company, any member of the Group or any Invested Entity; (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any person or entity that provides research, development or technological support to the Company, any member of the Group or any Invested Entity (collectively, "Qualified Participants").

(3) Subscription Price

The subscription price ("Subscription Price") shall, subject to any adjustment, be a price determined by the Board but in any event shall be at least the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date on which the option is offered to a Qualified Participant ("Offer Date");

(ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and

(iii) the nominal value of the Shares.

Detailed terms of the Share Option Scheme are set out in the paragraph headed "Other Information" on page 25 to 32 of Appendix VIII (Statutory and General Information) to the Prospectus.

As at the date of this annual report, no options have been granted or agreed to be granted under the Share Option Scheme.

Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme consists of two parts. The first part of the Pre-IPO Share Option Scheme is conditional upon the occurrence of the Listing and is granted by Strong Ally Limited, a wholly-owned subsidiary of Furui incorporated in the BVI. Under the first part of the Pre-IPO Share Option Scheme, selected employees and other individuals may be granted the rights to purchase from Strong Ally Limited an aggregate number of 20,000,000 Shares, representing approximately 2% of our issued share capital as of the Listing Date (assuming that the Over-allotment Option, options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme are not exercised). Under the second part of the Pre-IPO Option Scheme, our Company will grant rights to selected employees and other individuals to purchase an aggregate number of 20,000,000 Shares, representing approximately 2% of our total issued share capital as of the Listing Date (assuming that the Over-allotment Option, options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme are not exercised), or approximately 1.96% of our issued share capital as of the Listing Date as enlarged by the issue of additional new Shares upon exercise of all options granted by us under the Pre-IPO Share Option Scheme.

The terms of the Pre-IPO Share Option Scheme are substantially the same as the Share Option Scheme except for the following conditions:

(a) the exercise price per Share under the Pre-IPO Share Option Scheme is the offering price HK$3.0 per share;

(b) the grantees shall not, within six months from the Listing Date, exercise any of the options granted under the Pre-IPO Share Option Scheme;

(c) the Pre-IPO Share Option Scheme will only become effective if the following conditions precedent are fulfilled:

  (i) the Listing Committee of the Stock Exchange granting approval on the listing of, and permission to deal in, any Shares to be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme;

  (ii) the Global Offering becoming unconditional (including, if relevant, as a result of the waiver of any condition(s)) and not being terminated in accordance with the terms thereof; and

  (iii) the commencement of dealing in the Shares on the Stock Exchange;

(d) option granted under the Pre-IPO Share Option Scheme shall lapse if the conditions precedent are not fulfilled; and

(e) the maximum number of Shares granted under the Pre-IPO Share Option Scheme shall not exceed 40,000,000 Shares in total.

As at February 3, 2010, options to subscribe for an aggregate of 20,000,000 Shares had been granted by the Group, and options to purchase for an aggregate of 20,000,000 Shares had been granted by Strong Ally Limited, to a total of 104 Qualified Participants under the Pre-IPO Share Option Scheme.

Set out below are details of the outstanding options granted under the Pre-IPO Share Option Scheme:

Grantee	Number of options outstanding on January 1, 2011	Exercised during the year	Cancelled during the year	Lapsed during the year	Number of Options Outstanding up to December 31, 2011
(1) Directors					
Yu Yan	1,500,000	50,000	—	—	1,450,000
Li Lin	1,000,000	80,000	—	—	920,000
Yi Lin	1,115,000	235,000	—	—	880,000
Zhang Yan	1,500,000	—	—	—	1,500,000
Au-yeung Kam Ling Celeste	560,000	—	—	—	560,000
(2) Employees and others	29,932,664	270,305	—	—	29,662,359

Notes:

(1) All options under the Pre-IPO Share Option Scheme were granted on February 3, 2010 at an exercise price of HK$3.0 per share.

(2) All holders of options granted under the Pre-IPO Share Option Scheme may only exercise their options in the following manner:

During the period between the expiry of six months after the Listing Date and the expiry date of the Pre-IPO Share Option Period, one-third of the options granted under our Pre-IPO Share Option Scheme may be exercised; and 1/36th of the options granted under our Pre-IPO Share Option Scheme will become exercisable at the end of each calendar month beginning 12 months after the Listing Date until the expiry date of the Pre-IPO Share Option Period in 24 tranches. The options granted under the Pre-IPO Share Option Scheme shall lapse on the date when a grantee ceases to be a Qualified Participant.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVES

Save as disclosed under the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company", and "Share Options", at no time for the year ended December 31, 2011 was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at December 31, 2011, as recorded in the register required to be kept by the Company under section 336 of the SFO, the following person, other than any Director or the chief executives of the Company, was the substantial shareholders (within the meaning of the Listing Rules) of the Company and had the following interests and short positions in the shares and underlying shares of the Company:

Shareholders	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Furui[1]	beneficial owner and interest in a controlled corporation	396,566,093	35.28%
	short position	16,559,359	1.47%
Qin Shifeng (秦士豐)[2]	interest of spouse	396,566,093	35.28%
	short position	16,559,359	1.47%
State Street Corporation	Interest in a controlled corporation	85,058,879	7.57%
TIAA-CREF Investment Management, LLC("TCIM")	Interest in a controlled corporation	80,499,900	7.16%
Capital Research and Management Company	Interest in a controlled corporation	70,886,000	6.31%

Notes:

(1) Furui owns the entire issued share capital of Strong Ally Limited and will be deemed to be interested in the 16,559,359 Shares held by Strong Ally Limited and the short position over 16,559,359 Shares as a result of grant of options by Strong Ally Limited under the Pre-IPO Share Option Scheme.

(2) Qin Shifeng (秦士豐) is the spouse of Mr. Wang Fucai and will be deemed to be interested in the 396,566,093 Shares which Mr. Wang Fucai is interested in through Furui and Strong Ally Limited and the short position over 16,559,359 Shares as a result of grant of options by Strong Ally Limited under the Pre-IPO Share Option Scheme.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the business of the Group, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in the Prospectus, none of the Directors and their respective associates (as defined in the Listing Rules) has an interest in any business which competes or may compete with the business in which the Group is engaged.

Mr. Wang Fucai who is the Director of the Company, has provided an annual confirmation in respect of the compliance with the non-competition undertaking given by him (as described in the Prospectus) (the "Non-competition Undertaking") and information regarding his investment and engagement in the pharmaceutical business (as disclosed in the Prospectus) and the nature of such investment and engagement.

The independent non-executive Directors have also reviewed the compliance by Mr. Wang Fucai with the Non-competition Undertaking and the information that they have provided regarding investment and engagement by him in the pharmaceutical business (as disclosed in the Prospectus), and the nature of such investment and engagement. The independent non-executive Directors have confirmed that, as far as they can ascertain, there is no breach of Mr. Wang Fucai of the Non-competition Undertaking given by him.

DIRECTORS' REPORT

CONNECTED TRANSACTION

Significant related party transactions entered into by the Group for the year ended December 31, 2011, which do not constitute connected transactions under the Listing Rules on the Stock Exchange, are disclosed in notes 24 and 28 to the consolidated financial statements of this annual report.

AUDIT COMMITTEE

The Company established its audit committee on February 1, 2010. The audit committee currently comprises three independent non-executive Directors, namely Dr. Wong Lung Tak Patrick, BBS, J.P., Dr. Fong Chi Wah and Mr. Bernard Ban-yew Yaw.

The audit committee has adopted a written terms of references which is in compliance with the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules. The audit committee is primarily responsible for the review and supervision of the financial reporting process and internal control system. It has reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed the matters concerning the internal controls, as well as reviewed the Group's interim results for the period ended June 30, 2011 and the audited annual results for the year ended December 31, 2011.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law of the Cayman Islands where the Company is incorporated.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiries to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code for the year ended December 31, 2011.

CODE OF CORPORATE GOVERNANCE PRACTICE

The Company has adopted the code provisions set out in the CG Code contained in Appendix 14 to the Listing Rules. For the year ended December 31, 2011, the Company has complied with all the applicable code provisions as set out in the CG Code, except for deviation of the provision A.2.1 of the CG Code. For details of the Corporate Governance Report, please refer to pages 15–21 of this annual report.

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

For the year ended December 31, 2011, The Company repurchased 7,465,000 issued ordinary shares on The Stock Exchange of Hong Kong Limited. These repurchased shares were cancelled immediately upon repurchase.

Month of repurchase	Number of ordinary shares	Highest price per share HK$	Lowest price per share HK$	Aggregate price paid HK$'000	Equivalent aggregate price paid RMB'000
June 2011	4,509,000	4.66	4.13	19,956	16,633
July 2011	2,956,000	5.04	3.69	12,402	10,281
	7,465,000			32,358	26,914

The repurchase were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the earnings per share of the Company.

Apart from the above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities for the year ended December 31, 2011.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING AND PLACING

The total net proceeds from the Listing after the issue of the over-allotment shares amounted to approximately HK$806.6 million (RMB692.6 million) and the total net proceeds from placing in October 2010 amounted to approximately HK$597.2 million (RMB517.1 million). As at December 31, 2011, net proceeds of accumulated approximately RMB818.0 million has been applied on market expansion, capital expenditures, product development and other working capital, and the remaining of the net proceeds has been deposited into banks and qualified financial institutions, which are intended to be applied in accordance with the proposed application set out in the "Use of proceeds" section in the Prospectus and in the announcement dated October 28, 2010.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained sufficient public float for the year ended December 31, 2011.

AUDITOR

The Company has appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year ended December 31, 2011. A resolution will be proposed for approval by shareholders at the forthcoming annual general meeting to reappoint Deloitte Touche Tohmatsu as the auditor of the Company.

DIRECTORS' REPORT

CLOSURE OF THE REGISTER OF MEMBERS

The register of members will be closed by the Company from Wednesday, May 23, 2012 to Friday, May 25, 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting. In order to be eligible to attend and vote at the forthcoming annual general meeting of the Company, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, May 22, 2012.

The register of members will be closed by the Company from Thursday, May 31, 2012 to Monday, June 4, 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, May 30, 2012.

During the periods mentioned in the above, no transfer of shares of the Company will be registered.

On behalf of the Board
Wang Fucai
Chairman

Hong Kong, March 20, 2012

Deloitte.
德勤

TO THE SHAREHOLDERS OF REAL NUTRICEUTICAL GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Real Nutriceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 42 to 93, which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at December 31, 2011 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 20, 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

	Notes	2011 RMB'000	2010 RMB'000
Turnover	7	**1,789,894**	1,357,246
Cost of goods sold		**(510,910)**	(371,398)
Gross profit		**1,278,984**	985,848
Other income		**26,726**	3,499
Selling and distribution costs		**(436,696)**	(368,235)
Administrative expenses		**(67,498)**	(58,091)
Listing expenses		**—**	(4,641)
Equity-settled share based payments		**(7,473)**	(19,731)
Interest on bank borrowings wholly repayable within five years		**(19,484)**	(10,582)
Profit before taxation	8	**774,559**	528,067
Taxation	10	**(222,921)**	(175,802)
Profit for the year		**551,638**	352,265
Other comprehensive income			
— exchange differences arising on translation of foreign operations		**1,326**	612
Total comprehensive income for the year		**552,964**	352,877
Earnings per share	12		
— Basic		**48.9 cents**	34.7 cents
— Diluted		**48.6 cents**	34.4 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	13	**824,017**	496,052
Land use rights	14	**184,268**	171,601
Intangible assets	15	**49,782**	49,859
Deposits made on acquisition of property, plant and equipment		**44,170**	31,442
Advance payments for acquisition of technical knowhow	16	**174,709**	66,059
Deferred tax assets	17	**5,200**	4,363
		1,282,146	819,376
Current assets			
Inventories	18	**59,116**	18,819
Trade and other receivables	19	**511,374**	383,089
Pledged bank deposits	20	**—**	1,500
Bank balances and cash	20	**1,384,327**	1,462,045
		1,954,817	1,865,453
Current liabilities			
Trade and other payables	21	**159,116**	173,962
Taxation		**62,783**	54,869
Short-term bank loans	22	**127,000**	65,000
		348,899	293,831
Net current assets		**1,605,918**	1,571,622
Total assets less current liabilities		**2,888,064**	2,390,998
Non-current liabilities			
Deferred tax liabilities	17	**11,123**	10,039
Net assets		**2,876,941**	2,380,959
Capital and reserves			
Share capital	23	**9,867**	9,929
Reserves		**2,867,074**	2,371,030
Total equity		**2,876,941**	2,380,959

The consolidated financial statements on pages 42 to 93 were approved and authorised for issue by the Board of Directors on March 20, 2012 and are signed on its behalf by:

WANG FUCAI
CHAIRMAN
AND CHIEF EXECUTIVE OFFICER

AU-YEUNG KAM LING CELESTE
EXECUTIVE DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2011

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Capital redemption reserve RMB'000 (Note b)	Share option reserve RMB'000	Translation reserve RMB'000	Non-distributable reserve RMB'000 (Note c)	Statutory surplus reserve fund RMB'000 (Note d)	Retained profits RMB'000	Total RMB'000
At January 1, 2010	13	331,543	134,782	—	—	186	(23,266)	71,287	278,299	792,844
Exchange differences arising on translation of foreign operations	—	—	—	—	—	612	—	—	—	612
Profit for the year	—	—	—	—	—	—	—	—	352,265	352,265
Total comprehensive income for the year	—	—	—	—	—	612	—	—	352,265	352,877
Arising on group reorganisation	6,580	(331,543)	324,963	—	—	—	—	—	—	—
Issue of shares	3,336	1,303,512	—	—	—	—	—	—	—	1,306,848
Deemed distributions to shareholders	—	—	—	—	—	—	(11,440)	—	—	(11,440)
Expenses incurred in connection with the issue of shares	—	(61,668)	—	—	—	—	—	—	—	(61,668)
Recognition of equity-settled share based payments	—	—	—	—	9,915	—	9,816	—	—	19,731
Dividends	—	—	—	—	—	—	—	—	(18,233)	(18,233)
Transfers	—	—	—	—	—	—	—	35,385	(35,385)	—
	9,916	910,301	324,963	—	9,915	—	(1,624)	35,385	(53,618)	1,235,238
At December 31, 2010	9,929	1,241,844	459,745	—	9,915	798	(24,890)	106,672	576,946	2,380,959
Exchange differences arising on translation of foreign operations	—	—	—	—	—	1,326	—	—	—	1,326
Profit for the year	—	—	—	—	—	—	—	—	551,638	551,638
Total comprehensive income for the year	—	—	—	—	—	1,326	—	—	551,638	552,964
Shares repurchased	(62)	(26,852)	—	62	—	—	—	—	(62)	(26,914)
Recognition of equity-settled share based payments	—	—	—	—	3,742	—	3,731	—	—	7,473
Dividends	—	—	—	—	—	—	—	—	(37,541)	(37,541)
Transfers	—	—	—	—	—	—	—	51,967	(51,967)	—
	(62)	(26,852)	—	62	3,742	—	3,731	51,967	(89,570)	(56,982)
At December 31, 2011	9,867	1,214,992	459,745	62	13,657	2,124	(21,159)	158,639	1,039,014	2,876,941

Notes:

(a) Special reserve represents the aggregate of:

(i) the difference between the considerations paid by Jet Bright International Holdings Limited, a wholly-owned subsidiary of the Company, for the acquisition of the entire interest in 無錫瑞年實業有限公司 (Wuxi Ruinian Industry & Commerce Co., Limited) ("Ruinian Industry") and the nominal value of paid-in capital of Ruinian Industry in August 2006;

(ii) the difference between the nominal value of paid-in capital of 無錫瑞年營銷有限公司 (Wuxi Ruinian Sales Co., Ltd.) ("Ruinian Sales") and the distribution of Ruinian Sales' net assets upon its dissolution in October 2007; and

(iii) the difference between the nominal amount of the shares issued by the Company and the aggregate amount of share capital and share premium of the Group's former holding company, Tongrui Holdings Limited, acquired pursuant to a group reorganisation in preparation for the listing of the Company's shares in 2010.

(b) Capital redemption reserve arose from repurchase of shares. The amount represent the nominal amount of the share repurchased.

(c) Non-distributable reserve represents the aggregate of:

(i) capital contributions from and distributions to the beneficial controlling shareholder of the Company, Mr. Wang Fucai, in respect of the interest on trade finance arrangement with related companies;

(ii) deemed distributions to the controlling shareholder in respect of the acquisition of a subsidiary;

(iii) deemed distributions to the shareholders in respect of the listing expenses borne by the Company; and

(iv) capital contributions from Strong Ally Limited ("Strong Ally"), a wholly-owned subsidiary of the former ultimate holding company, in relation to share options granted by Strong Ally to qualifying participants of the Group.

(d) As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial information of the PRC subsidiaries while the amounts and allocation basis are decided by their board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

	2011 **RMB'000**	2010 RMB'000
Operating activities		
Profit before taxation	**774,559**	528,067
Adjustments for:		
Interest income	**(25,670)**	(3,038)
Interest expenses	**19,484**	10,582
Depreciation of property, plant and equipment	**33,563**	21,432
Amortisation of intangible assets	**9,577**	9,283
Operating lease rentals in respect of land use rights	**2,449**	1,585
Equity-settled share based payments	**7,473**	19,731
Operating cash flows before movements in working capital	**821,435**	587,642
(Increase) decrease in inventories	**(40,297)**	3,808
(Increase) decrease in trade and other receivables	**(128,285)**	34,295
(Decrease) increase in trade and other payables	**(13,531)**	61,109
Cash from operations	**639,322**	686,854
Taxation paid	**(214,760)**	(150,684)
Net cash from operating activities	**424,562**	536,170
Investing activities		
Interest received	**25,670**	3,038
Purchase of property, plant and equipment	**(329,825)**	(203,430)
Purchase of land use rights	**(16,692)**	(8,467)
Purchase of intangible assets	**—**	(1,130)
Deposits paid on acquisition of property, plant and equipment	**(44,170)**	(31,442)
Advance payments paid for acquisition of technical knowhow	**(118,150)**	(39,219)
Decrease (increase) in pledged bank deposits	**1,500**	(1,500)
Net cash used in investing activities	**(481,667)**	(282,150)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

	2011 RMB'000	2010 RMB'000
Financing activities		
Interest paid	**(19,484)**	(10,582)
Dividends paid	**(37,541)**	(18,233)
Proceeds from issue of shares	**—**	1,306,848
Expenses paid in connection with the issue of shares	**—**	(61,668)
Expenses paid in connection with the sales of shares held by certain shareholders	**—**	(11,440)
Payment on repurchase of shares	**(26,914)**	—
Repayment to former ultimate holding company	**—**	(51,728)
Bank loans raised	**655,000**	376,000
Repayment of bank loans	**(593,000)**	(537,000)
Net cash (used in) from financing activities	**(21,939)**	992,197
Net (decrease) increase in cash and cash equivalents	**(79,044)**	1,246,217
Cash and cash equivalents at January 1	**1,462,045**	215,216
Effect of foreign exchange rate changes	**1,326**	612
Cash and cash equivalents at December 31	**1,384,327**	1,462,045
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,384,327**	1,462,045

1. GENERAL

The Company was incorporated in the Cayman Islands and registered as an exempted company with limited liability. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The name of the Company was changed from Ruinian International Limited to Real Nutriceutical Group Limited on May 6, 2011.

The Company acts as an investment holding company while the Group is principally engaged in the manufacture and sales of health and nutritional supplements and pharmaceutical products. The address of the registered office of the Company and the address of the principal place of business are disclosed in the section headed "Corporate Information" in the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

In preparation for the listing of the Company's shares on the Stock Exchange, the Company underwent the group reorganisation (the "Group Reorganisation") which include the following steps:

(a) Prior to August 11, 2006, the businesses of the Group carried out by 無錫瑞年實業有限公司 (Wuxi Ruinian Industry & Commerce Co., Ltd.) ("Ruinian Industry") and 無錫瑞年營銷有限公司 (Wuxi Ruinian Sales Company Limited) were owned and controlled by Mr. Wang Fucai (the "Controlling Shareholder"). Subsequent to this date, Tongrui Holdings Limited ("Tongrui") was incorporated in the British Virgin Islands and controlled by the Controlling Shareholder and Jet Bright International Holdings Limited ("Jet Bright") was incorporated in Hong Kong as a subsidiary of Tongrui.

(b) Pursuant to a sales and purchase agreement dated August 22, 2006, Jet Bright acquired the entire interests in Ruinian Industry from companies controlled by the Controlling Shareholder for a cash consideration of RMB20,220,000 and the issue of 1 share of Jet Bright which was subsequently transferred to Tongrui at nil consideration.

(c) Pursuant to a sales and purchase agreement dated February 1, 2010, the Company acquired the entire interests in Tongrui by issuing and allotting 749,999,900 shares of the Company of HK$0.01 each to the Controlling Shareholder and other shareholders of Tongrui. Thereafter, the Company has become the holding company of the Group since February 1, 2010.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated statements of comprehensive income and cash flows for the year ended December 31, 2010 include the results and cash flows of the companies now comprising the Group which have been prepared by applying the principles of merger accounting, as if the group structure upon the completion of the Group Reorganisation had been in existence throughout the year ended December 31, 2010, or since their respective dates of incorporation/establishment where this is a shorter period.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Company and its subsidiaries (collectively referred as the "Group") have applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on January 1, 2011.

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related party disclosures
Amendment to HKAS 32	Classification of rights issues
Amendment to HK(IFRIC*)-INT 14	Prepayments of a minimum funding requirement
HK(IFRIC*)-INT 19	Extinguishing financial liabilities with equity instruments

* IFRIC represents the IFRS Interpretations Committee.

The application of the above new or revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")-CONTINUED

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures — Transfers of financial assets[1]
Amendments to HKFRS 7	Disclosures — Offsetting financial assets and financial liabilities[4]
Amendments to HKFRS 7 and HKFRS 9	Mandatory effective date of HKFRS 9 and transition disclosures[6]
HKFRS 9	Financial instruments[6]
HKFRS 10	Consolidated financial statements[4]
HKFRS 11	Joint arrangements[4]
HKFRS 12	Disclosures of interests in other entities[4]
HKFRS 13	Fair value measurements[4]
Amendments to HKAS 1	Presentation of financial statements — Presentation of items of other comprehensive income[3]
Amendments to HKAS 12	Deferred tax: Recovery of underlying assets[2]
HKAS 19 (as revised in 2011)	Employee benefits[4]
HKAS 27 (as revised in 2011)	Separate financial statements[4]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[5]
HK(IFRIC)-INT 20	Stripping costs in the production phase of a surface mine[4]

1 Effective for annual periods beginning on or after July 1, 2011.
2 Effective for annual periods beginning on or after January 1, 2012.
3 Effective for annual periods beginning on or after July 1, 2012.
4 Effective for annual periods beginning on or after January 1, 2013.
5 Effective for annual periods beginning on or after January 1, 2014.
6 Effective for annual periods beginning on or after January 1, 2015.

Amendments to HKAS 1 "Presentation of items of other comprehensive income"

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after July 1, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")-CONTINUED

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with HKFRSs issued by HKICPA. Historical cost is generally based on the fair value of the consideration given in exchange for goods. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Business combination under common control

The consolidated financial statements incorporates the financial statement items of the combining entities in which the common control combination occurs as if they had been consolidated from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control combination, where there is a shorter period, regardless of the date of the common control combination.

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

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.

Revenue from the sale of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income 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 on initial recognition.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Property, plant and equipment-continued

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 any recognised impairment loss. 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 recognised so as to write off the cost of property, plant and equipment (other than construction in progress) 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%

The estimated useful lives, residual value and depreciation method are reviewed at each reporting period, with the effect of any change in estimate accounted for a prospective basis.

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 that are accounted for as operating leases are presented as “land use rights” in the statement of financial position.

When buildings are in the course of development for production or for administrative purposes, the amortisation of land use rights provided during the construction period is included as part of costs 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.

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Borrowing costs

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

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

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and 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. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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 profit or loss in the period when the assets 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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Intangible assets-continued

Research and development costs-continued

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. 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. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Inventories

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

Advertising expenses and prepayment for media airtime

Advertising expenses on supply of goods are recognised as and included in selling expenses in the profit or loss in the period in which the Group has a right to access those goods.

Advertising expenses on supply of services are recognised as and included in selling expenses in the profit or loss in the period in which the Group receives the services.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when a group 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. Transaction costs directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Financial instruments-continued

Financial assets

The Group's financial assets are mainly classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis of debt instrument.

Loans and receivables

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

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are considered to be 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 estimated 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
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Financial instruments-continued

Impairment of financial assets-continued

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's 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 of 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 instruments

Financial liabilities and equity instruments issued by a group entity 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 the Group 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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Financial instruments-continued

Financial liabilities and equity instruments-continued

Financial liability

Financial liability including trade and other payables and short-term bank loans is subsequently measured at amortised cost, using the effective interest method.

Equity instrument

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. 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 the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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.

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Impairment-continued

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 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. 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. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Taxation-continued

The carrying amount of deferred tax assets is reviewed at the end of the 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

The financial statements of each group entity are prepared in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Leases

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the term of relevant lease. Benefits received or receivables as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease term on a straight line basis.

Retirement benefits costs

Payments to defined contribution retirement benefit plans, government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF") are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share based payment transactions

Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Share-based payment transactions-continued

Equity-settled share based payment transactions-continued

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to owners of the Company through the optimisation of the debt and equity balance.

The capital structure of the Group consists of bank loans, cash and cash equivalents and equity attributable to equity holders of the Company, comprising share capital, reserves and retained profits as disclosed in the consolidated financial statements.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues of the Company as well as the raising of bank loans.

6. 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 4.

Categories of financial instruments

	2011 RMB'000	2010 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,833,328**	1,786,640
Financial liabilities		
Amortised cost	**187,049**	150,686

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables and short-term bank loans. Details of the 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 exposure to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

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

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

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

The Group has no significant concentration of credit risk. Trade receivables consist of a large number of customers which spread across diverse industries.

6. FINANCIAL INSTRUMENTS-CONTINUED

Foreign currency risk

At the end of the reporting period, the carrying amounts of the Group's foreign currency denominated monetary assets which consists of bank balances and cash (see note 20) amounted to RMB50,278,000 (2010: RMB71,300,000).

The sensitivity analysis below has been determined based on the exposure to exchange rates of RMB against HK$. For a 5% weakening of RMB against HK$ and all other variables were held constant, the Group's profit before taxation are as follows:

	2011	2010
	RMB'000	RMB'000
Increase in profit before taxation	**2,435**	3,566

There would be an equal and opposite impact on the profit before taxation where the RMB strengthens against HK$.

Liquidity risk management

The directors of the Company has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows and the maturity profiles of its financial liabilities.

The following table details the Group'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 the Group 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 the prevailing interest rate at the end of each reporting period.

6. FINANCIAL INSTRUMENTS-CONTINUED

Liquidity risk management-continued

	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	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities						
At December 31, 2011						
Trade and other payables	**—**	**60,049**	**—**	**—**	**60,049**	**60,049**
Short-term bank loans						
— variable rate	**6.4**	**895**	**30,767**	**27,024**	**58,686**	**57,000**
— fixed rate	**6.3**	**20,856**	**777**	**50,302**	**71,935**	**70,000**
		81,800	**31,544**	**77,326**	**190,670**	**187,049**
Financial liabilities						
At December 31, 2010						
Trade and other payables	—	85,686	—	—	85,686	85,686
Short-term bank loans						
— variable rate	5.0	809	809	65,137	66,755	65,000
		86,495	809	65,137	152,441	150,686

Interest rate risk management

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly interest bearing pledged bank deposits, bank balances and short-term bank loans at variable interest rates. Bank loans at fixed interest rates expose the Group to fair value interest rate risk. The Group 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 interest bearing pledged bank deposits, bank balances and variable rate bank loans at the end of the reporting period and assumed that the amount of assets and liabilities outstanding at the end of the reporting period was outstanding for the whole year.

6. FINANCIAL INSTRUMENTS-CONTINUED

Interest rate risk management-continued

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 before taxation is as follows:

	2011	2010
	RMB'000	RMB'000
Decrease in profit before taxation	**(4,714)**	(5,244)

There would be an equal and opposite impact on the profit before taxation where they had been 50 basis points higher.

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

7. TURNOVER AND SEGMENT INFORMATION

Segment information has been identified on the basis of internal management reports which are reviewed by the Chief Executive Officer in order to allocate resources to the reportable segments and to assess their performance.

The Group's reportable segments under HKFRS 8 are as follows:

Health and nutritional supplements	—	manufacture and sales of health and nutritional supplements
Health drinks	—	manufacture and sales of health drinks
Pharmaceutical products	—	manufacture and sales of pharmaceutical products

Each reportable segment derives its turnover from the sale of products. They are managed separately because each product requires different production and marketing strategies.

7. TURNOVER AND SEGMENT INFORMATION-CONTINUED

Turnover represents the fair value of the consideration received or receivable for goods sold to outside customers during the year.

Segment results represent the gross profits earned by each segment.

The following is an analysis of the Group's revenue and results by reportable segment:

	Turnover		Results	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Health and nutritional supplements	**1,280,069**	982,329	**1,034,916**	797,548
Health drinks	**410,351**	293,519	**157,657**	118,383
Pharmaceutical products	**99,474**	81,398	**86,411**	69,917
	1,789,894	1,357,246	**1,278,984**	985,848
Advertising and promotional expenses			**(349,028)**	(317,463)
Other operating expenses			**(162,639)**	(133,235)
Other income			**1,056**	461
Interest income			**25,670**	3,038
Interest expenses			**(19,484)**	(10,582)
Profit before taxation			**774,559**	528,067

7. TURNOVER AND SEGMENT INFORMATION-CONTINUED

Information of segment assets and segment liabilities are as follows:

Segment assets represent property, plant and equipment, land use rights, intangible assets, deposits made on acquisition of property, plant and equipment, advance payments for acquisition of technical knowhow, inventories and trade and other receivables which are directly attributable to the relevant reportable segment. Segment liabilities represent trade and other payables which are directly attributable to the relevant reportable segment. These are the measures reported to the Chief Executive Officer for the purpose of resource allocation and assessment of segment performance.

	2011	2010
	RMB'000	RMB'000
Assets		
Segment assets		
— health and nutritional supplements	**1,156,829**	796,372
— health drinks	**403,148**	199,240
— pharmaceutical products	**287,459**	212,878
	1,847,436	1,208,490
Deferred tax assets	**5,200**	4,363
Unallocated corporate assets (note a)	**1,384,327**	1,471,976
Consolidated total assets	**3,236,963**	2,684,829
Liabilities		
Segment liabilities		
— health and nutritional supplements	**118,451**	127,752
— health drinks	**33,209**	38,175
— pharmaceutical products	**7,456**	8,035
	159,116	173,962
Taxation	**62,783**	54,869
Deferred tax liabilities	**11,123**	10,039
Unallocated corporate liabilities (note b)	**127,000**	65,000
Consolidated total liabilities	**360,022**	303,870

7. TURNOVER AND SEGMENT INFORMATION-CONTINUED

Notes:

(a) Unallocated corporate assets represent pledged bank deposits, bank balances and cash, property rental deposits and other prepayments and deposits.

(b) Unallocated corporate liabilities represent short-term bank loans.

Other information

	2011	2010
	RMB'000	RMB'000
Amounts included in the measure of segment result or segment assets:		
Additions to non-current assets other than deferred tax assets		
— health and nutritional supplements	**271,529**	211,951
— health drinks	**168,035**	68,967
— pharmaceutical products	**69,273**	2,770
	508,837	283,688
Depreciation of property, plant and equipment		
— health and nutritional supplements	**26,729**	14,596
— pharmaceutical products	**6,834**	6,836
	33,563	21,432
Amortisation of intangible assets		
— health and nutritional supplements	**3,112**	2,875
— pharmaceutical products	**6,465**	6,408
	9,577	9,283
Operating lease rentals in respect of land use rights		
— health and nutritional supplements	**647**	646
— health drinks	**863**	—
— pharmaceutical products	**939**	939
	2,449	1,585

7. TURNOVER AND SEGMENT INFORMATION-CONTINUED

Other information-continued

Turnover from external customers attributed to the Group by location of operations, other than the Company's country of domicile, is presented as follows:

	2011 **RMB'000**	2010 RMB'000
Turnover		
— Mainland China (the "PRC")	**1,789,488**	1,348,843
— Hong Kong	**406**	8,403
	1,789,894	1,357,246

Total non-current assets other than deferred tax assets by location of assets, other than the Company's country of domicile is presented as follows:

	2011 **RMB'000**	2010 RMB'000
Total non-current assets other than deferred tax assets		
— PRC	**1,276,765**	814,745
— Hong Kong	**181**	268
	1,276,946	815,013

7. TURNOVER AND SEGMENT INFORMATION-CONTINUED

Information about major customers

For the year ended December 31, 2011 and December 31, 2010, there was no customer which accounted for more than 10% of total turnover.

Revenues by products are as follows:

	2011 RMB'000	2010 RMB'000
Health and nutritional supplements		
Nutritional supplements		
Ruinian-branded amino acid-based tablets	**566,386**	418,271
Linger-branded amino acid-based tablets	**114,405**	99,975
Liquid amino acid	**320,465**	256,399
Ruinian-branded royal jelly tablets	**40,866**	42,003
Ruinian-branded osteoid sachet powder	**95,068**	75,935
Ruinian-branded blood lipid capsules	**4,857**	4,647
Subtotal	**1,142,047**	897,230
General Health Food Products		
Ruinian-branded protein powder	**109,063**	82,121
Ruinian-branded collagen tablets	**10,559**	1,224
Ruinian-branded Polypeptide tablets	**—**	88
Sane-branded dietary fiber	**9,129**	1,326
Others	**9,271**	340
Subtotal	**138,022**	85,099
Subtotal of health and nutritional supplements	**1,280,069**	982,329
Health drinks		
Herbal tea	**390,356**	292,735
Amino acid drinks	**19,995**	784
Subtotal	**410,351**	293,519
Pharmaceutical products		
Topotecan hydrochloride capsules	**91,594**	72,884
Ofloxacin eye drops	**7,797**	8,514
Proparacaine hydrochloride eye drops	**83**	—
Subtotal	**99,474**	81,398
Total	**1,789,894**	1,357,246

8. PROFIT BEFORE TAXATION

	2011 RMB'000	2010 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration (note 9)	**8,278**	9,497
Other staff's retirement benefits scheme contributions	**2,484**	1,371
Other staff's equity-settled share based payments	**2,360**	6,230
Other staff costs	**18,995**	12,443
	32,117	29,541
Amortisation of intangible assets included in		
— costs of goods sold	**6,781**	6,668
— administrative expenses	**2,796**	2,615
	9,577	9,283
Operating lease rentals in respect of		
— land use rights	**4,025**	3,691
Less: capitalised under construction in progress	**(1,576)**	(2,106)
	2,449	1,585
— rented premises	**9,509**	2,485
Advertising and promotional expenses	**349,028**	317,463
Auditor's remuneration	**2,227**	1,732
Cost of inventories recognised as expenses	**504,129**	364,730
Depreciation of property, plant and equipment	**33,563**	21,432
Equity-settled share based payments to other participants	**3,860**	10,191
Net exchange losses	**5,068**	8,236
Research and development costs included in administrative expenses	**—**	2,000
and after crediting:		
Interest income	**25,670**	3,038

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of directors during the year are analysed as follows:

	2011					2010				
	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Equity-settled share based payments RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Equity-settled share based payments RMB'000	Total RMB'000
Executive directors										
— Mr. Wang Fucai	3,788	68	23	—	3,879	3,620	46	16	—	3,682
— Mr. Yu Yan	199	37	13	280	529	191	17	6	740	954
— Mr. Li Lin	199	20	7	280	506	191	17	6	740	954
— Mr. Yi Lin	199	20	7	280	506	191	17	6	740	954
— Mr. Zhang Yan	199	54	19	280	552	191	41	14	740	986
— Ms. Au-Yeung Kam Ling Celeste	798	465	10	133	1,406	762	87	10	350	1,209
Non-executive directors										
— Mr. Ip Tak Chuen, Edmond	150	—	—	—	150	143	—	—	—	143
— Mr. Tsang Sze Wai Claudius	150	—	—	—	150	93	—	—	—	93
Independent non-executive directors										
— Mr. Wong Lung Tak, Patrick	150	—	—	—	150	143	—	—	—	143
— Mr. Fong Chi Wah, Felix	150	—	—	—	150	143	—	—	—	143
— Mr. Bernard Ban-yew Yaw	150	—	—	—	150	143	—	—	—	143
— Mr. Chan Kee Ming	150	—	—	—	150	93	—	—	—	93
	6,282	664	79	1,253	8,278	5,904	225	58	3,310	9,497

For the year ended December 31, 2011, the five highest paid individuals included two directors (2010: four directors), details of whose emoluments are set out above. The emoluments of the remaining highest paid employees were as follows:

	2011 RMB'000	2010 RMB'000
Employees		
— basic salaries and allowances	3,885	2,173
— equity-settled share based payments	1,046	2,762
— retirement benefits scheme contributions	30	10
	4,961	4,945

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS-CONTINUED

The emoluments were within the following bands:

	Number of employees	
	2011	2010
Up to RMB1,000,000	**2**	—
RMB3,000,001 to RMB3,500,000	**1**	—
RMB4,500,001 to RMB5,000,000	**—**	1

During the year, no emoluments were paid by the Group to the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

10. TAXATION

	2011 **RMB'000**	2010 RMB'000
The charge comprises:		
PRC income tax	**(222,674)**	(166,510)
Deferred taxation	**(247)**	(9,292)
	(222,921)	(175,802)

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 ("EIT") Law and regulations, prevailed when 南京瑞年百思特製藥有限公司 (Nanjing Ruinian Best Pharmaceutical Co., Ltd.) ("Nanjing Ruinian") was set up, it 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 March 16, 2007, the new EIT Law was passed by the National People's Congress of the PRC, the income tax rate for both domestic and foreign investment enterprise was unified at 25% effective from January 1, 2008 (Order of the President [2007] No. 63). The tax holiday aforementioned was grandfathered and the first profit making year deemed to be triggered off on January 1, 2008, according to Guo Fa [2007] No. 39.

10. TAXATION-CONTINUED

According to a joint circular of Ministry of Finance and the State Administration of Taxation, Cai Shui [2009] No. 1, only the profits earned by foreign-investment enterprise prior to January 1, 2008, when distributed to foreign investors, can be grandfathered and exempted from PRC withholding tax. Whereas, dividend distributed out of the profit generated thereafter, shall be subject to EIT at 10% and withheld by the PRC entity, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Details Implementation Rules. By the Tax Arrangement for Avoidance of Double Taxation between China and Hong Kong (China — HK TA), a Hong Kong resident company should be entitled to preferential tax rate of 5% when receiving dividend from its PRC subsidiary. The immediate holding company of Ruinian Industry, which is incorporated in Hong Kong and has been holding Ruinian Industry for more than a year, should be able to enjoy the preferential tax rate aforementioned. Deferred tax liability on the undistributed profits earned during the year ended December 31, 2011 have been accrued at the tax rate of 5% (2010: 5%) on the expected dividend stream of 30% (2010: 30%) which is determined by the directors of the Company.

Nanjing Ruinian is wholly-owned by the same Hong Kong company, though 75% of which is held indirectly via Ruinian Industry. According to Article 26 of the EIT Law, dividend income receives by Ruinian Industry should be exempted from EIT. However, if Ruinian Industry pays the dividend received from Nanjing Ruinian to its holding company, it will be subject to the 5% withholding tax as mentioned above. For the direct interest of 25% held by the Hong Kong company, the preferential tax rate of 5% on dividend also applies as the Hong Kong company has been holding Nanjing Ruinian for more than a year. Deferred tax liability on the undistributed profits earned for the year ended December 31, 2011 have been accrued at the tax rate of 5% on the expected dividend stream of 30% (2010: 30%) which is determined by the directors of the Company (2010: after setting off the deficit incurred in prior periods).

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's operations in Hong Kong had no assessable profit for the year.

10. TAXATION-CONTINUED

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

	2011		2010	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**774,559**		528,067	
Tax at the applicable income tax rate	**(193,640)**	**(25.0)**	(132,017)	(25.0)
Tax effect of expenses not deductible for tax purposes	**(43,319)**	**(5.6)**	(45,283)	(8.6)
Tax effect of 50% tax relief granted to the PRC subsidiary	**10,079**	**1.3**	8,061	1.5
Tax effect of deductible temporary differences not recognised	**—**	**—**	(2,968)	(0.6)
Tax effect of previous deductible temporary differences recognised in current year	**5,043**	**0.6**	—	—
Utilisation of tax losses previously not recognised	**—**	**—**	1,862	0.4
PRC withholding tax on undistributed earnings	**(1,084)**	**(0.1)**	(5,457)	(1.0)
Tax charge and effective tax rate for the year	**(222,921)**	**(28.8)**	(175,802)	(33.3)

11. DIVIDENDS

	2011	2010
	RMB'000	RMB'000
Dividends recognised as distribution during the year		
— 2010 final dividend of HK2.0 cents per share	**19,077**	—
— 2011 interim dividend of HK2.0 cents (2010: HK2.0 cents) per share	**18,464**	18,233
	37,541	18,233

11. DIVIDENDS-CONTINUED

The final dividend of HK3.0 cents per share (2010: HK2.0 cents per share) which was proposed by the directors of the Company for the year is subject to approval by the shareholders of the Company at the annual general meeting and is calculated on the basis of 1,124,122,000 shares in issue as at the date of this announcement.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2011	2010
	RMB'000	RMB'000
Earnings:		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**551,638**	352,265

	2011	2010
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share on the assumption that the Group Reorganisation has been effective on January 1, 2010	**1,127,937**	1,015,680
Effect of dilutive potential ordinary shares on share options	**5,993**	9,085
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,133,930**	1,024,765

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At January 1, 2010	147,475	2,349	2,368	147,863	40,122	340,177
Additions	2,656	3,389	5,429	429	206,013	217,916
Transfers	31,500	24,765	—	14,600	(70,865)	—
At December 31, 2010	181,631	30,503	7,797	162,892	175,270	558,093
Additions	162	3,020	9,418	1,830	347,098	361,528
Transfers	77,731	73,517	—	35,000	(186,248)	—
At December 31, 2011	259,524	107,040	17,215	199,722	336,120	919,621
DEPRECIATION						
At January 1, 2010	13,619	828	1,878	24,284	—	40,609
Provided for the year	6,755	826	251	13,600	—	21,432
At December 31, 2010	20,374	1,654	2,129	37,884	—	62,041
Provided for the year	9,988	7,001	1,809	14,765	—	33,563
At December 31, 2011	30,362	8,655	3,938	52,649	—	95,604
CARRYING VALUES						
At December 31, 2011	229,162	98,385	13,277	147,073	336,120	824,017
At December 31, 2010	161,257	28,849	5,668	125,008	175,270	496,052

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

At the end of the reporting period, there were accumulated operating lease rentals in respect of land use rights amounting to RMB5,804,000 (2010: RMB4,228,000) capitalised under construction in progress.

14. LAND USE RIGHTS

	2011 **RMB'000**	2010 RMB'000
CARRYING VALUE		
At January 1	**171,601**	166,825
Additions	**16,692**	8,467
Operating lease rentals capitalised under construction in progress	**(1,576)**	(2,106)
Released to profit or loss during the year	**(2,449)**	(1,585)
At December 31	**184,268**	171,601

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

At the end of the reporting period, there were land use rights with carrying amount of RMB77,394,000 (2010: RMB57,879,000) in connection with the rights to the use of land in the PRC in which the relevant government authorities have not granted formal title. In the opinion of the directors, the lack of formal title for these land use rights does not impair the value of the relevant properties to the Group. The directors also believe that the formal title to these land use rights will be granted to the Group in due course.

15. INTANGIBLE ASSETS

	Product development costs RMB'000	**Technical knowhow** RMB'000	**GMP* certifications** RMB'000	**Total** RMB'000
CARRYING VALUE				
At January 1, 2010	9,993	41,719	6,300	58,012
Additions	—	1,130	—	1,130
Charged to profit or loss during the year	(1,775)	(5,828)	(1,680)	(9,283)
At December 31, 2010	8,218	37,021	4,620	49,859
Additions	—	9,500	—	9,500
Charged to profit or loss during the year	(1,775)	(6,122)	(1,680)	(9,577)
At December 31, 2011	6,443	40,399	2,940	49,782

* GMP represents Good Manufacturing Practices.

15. INTANGIBLE ASSETS-CONTINUED

Product development costs represent the development costs in connection with certain products. Technical knowhow represents the acquired knowhow in connection with certain products. Both product development costs and technical knowhow are amortised on a straight line basis over their estimated useful life of 10 years. GMP certificates are amortised on straight line basis over their estimated useful life of 50 months.

16. ADVANCE PAYMENTS FOR ACQUISITION OF TECHNICAL KNOWHOW

The balance represents the substantial payments made in connection with the acquisition of technical knowhow for certain products of which the completion is subject to the license expected to be granted by the relevant PRC government authorities by the end of 2012 and 2013.

17. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Product development costs	**PRC withholding tax on undistributed earnings**	**Total**
	RMB'000	RMB'000	RMB'000
At January 1, 2010	8,198	(4,582)	3,616
Charged to profit or loss during the year	(3,835)	(5,457)	(9,292)
At December 31, 2010	4,363	(10,039)	(5,676)
Credited (charged) to profit or loss during the year	837	(1,084)	(247)
At December 31, 2011	5,200	(11,123)	(5,923)

17. DEFERRED TAXATION-CONTINUED

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2011	2010
	RMB'000	RMB'000
Deferred tax assets	**5,200**	4,363
Deferred tax liabilities	**(11,123)**	(10,039)
	(5,923)	(5,676)

At the end of the reporting period, the Group has unrecognised deferred tax liability of RMB37,448,000 (2010: RMB26,478,000) in relation to PRC withholding tax on undistributed earnings of RMB748,950,000 (2010: RMB529,560,000) due to the retention of undistributed earnings by the subsidiaries in the PRC determined by the directors of the Company.

Also, at the end of the reporting period, the Group has deductible temporary differences of RMB25,948,000 (2010: RMB46,118,000) not recognised as deferred tax asset as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

18. INVENTORIES

	2011	2010
	RMB'000	RMB'000
Raw materials	**20,757**	7,244
Work in progress	**9,695**	1,771
Finished goods	**9,860**	4,647
Merchandise for resale	**3,943**	761
Packaging materials	**14,861**	4,396
	59,116	18,819

19. TRADE AND OTHER RECEIVABLES

	2011 RMB'000	2010 RMB'000
Trade receivables	**448,621**	322,959
Bills receivables	**380**	136
	449,001	323,095
Deposits paid to suppliers	**20,348**	15,122
Property rental deposits	**8,859**	6,303
Prepayments for research and development	**3,700**	3,700
Prepayments for media airtime	**5,683**	18,082
Other receivables, prepayments and deposits	**23,783**	16,787
	511,374	383,089

Payment terms with customers are mainly on credit. Invoices are normally payable 90 days from date of issuance. The following is an aged analysis of trade and bills receivables based on invoice date at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
Age		
0–90 days	**440,392**	316,704
91–180 days	**8,517**	3,752
181 to 365 days	**23**	2,639
Over 1 year	**69**	—
	449,001	323,095

The Group does not hold any collateral over these balances. The average age of these receivables at the end of the reporting period is 62 days (2010: 63 days).

At the end of the reporting period, included in the Group's trade receivable balances are trade debtors with aggregate carrying amount of RMB8,609,000 (2010: RMB6,391,000), which are past due at the reporting date for which the Group has not provided for impairment loss as 100% of these past due debts was subsequently collected as of the date of issue of these financial statements.

19. TRADE AND OTHER RECEIVABLES-CONTINUED

Aging of trade receivables which are past due but not impaired is as follows:

	2011 RMB'000	2010 RMB'000
Age		
91–180 days	**8,517**	3,752
181 to 365 days	**23**	2,639
Over 1 year	**69**	—
	8,609	6,391

In determining the recoverability of the trade receivables, the Group monitors change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. The directors considered that the concentration of credit risk is limited due to the customer base being large and unrelated.

No interest is charged on trade receivables. Allowances on trade receivables are made based on estimated irrecoverable amounts from the sales of goods by reference to past default experience and objective evidences of impairment determined by the difference between the carrying amount and the present value of the estimate future cash flow discounted at the original effective interest rate.

20. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. Bank balances carry interest at the prevailing market interest rate ranging from 1.5% to 3.3% per annum at the end of the reporting period (2010: 0.4% to 1.9%).

Included in bank balances and cash is an amount of RMB50,278,000 (2010: RMB71,300,000) denominated in Hong Kong dollars other than the functional currency of the relevant group companies.

21. TRADE AND OTHER PAYABLES

	2011 RMB'000	2010 RMB'000
Trade payables	**52,599**	75,277
Bills payables	**205**	2,028
	52,804	77,305
Customers' deposits	**14,442**	6,894
Payroll and welfare payables	**12,243**	11,863
Other tax payables	**49,641**	38,416
Construction payables	**3,862**	5,177
Other payables	**3,383**	3,204
Advertising accruals	**11,993**	26,088
Other accruals	**10,748**	5,015
	159,116	173,962

The Group normally receives credit terms of 90 days from its suppliers. The following is an aged analysis of trade and bills payables based on the invoice date at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
Age		
0 to 90 days	**45,976**	74,974
91 to 180 days	**4,940**	1,293
181 to 365 days	**906**	1,022
Over 1 year	**982**	16
	52,804	77,305

22. SHORT-TERM BANK LOANS

	2011 RMB'000	2010 RMB'000
Unsecured short-term bank loans		
— variable rate bank loans	**57,000**	65,000
— fixed rate bank loans	**70,000**	—
	127,000	65,000

All the variable rate bank loans carry interests at the prime rate offered by the People's Bank of China which were repriced monthly to every three months. At the end of the reporting period, the Group has variable rate bank loans carrying interest at 5.8% to 6.7% (2010: 4.8% to 5.8%) per annum and fixed rate bank loans carrying interest at 5.8% to 6.5% (2010: Nil) per annum.

At the end of the reporting period, the Group has unutilised available credit facilities amounting to RMB203,000,000 (2010: RMB388,000,000).

All the short-term bank loans are denominated in RMB.

23. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount	Number of shares	Amount
		HK$'000		HK$'000
Ordinary shares of HK$0.01 each				
— at January 1, 2010	35,000,000	350	100	—
— increase in authorised share capital	1,965,000,000	19,650	—	—
— issue pursuant to Group Reorganisation	—	—	749,999,900	7,500
— issue of shares on global offering	—	—	250,000,000	2,500
— exercise of over-allotment option	—	—	45,000,000	450
— exercise of Pre-IPO Share Option	—	—	1,587,000	16
— issue of new shares	—	—	85,000,000	850
— at December 31, 2010	2,000,000,000	20,000	1,131,587,000	11,316
— shares repurchased and cancelled	—	—	(7,465,000)	(75)
— at December 31, 2011	2,000,000,000	20,000	1,124,122,000	11,241

	RMB'000
Shown in the consolidated statement of financial position	
— at December 31, 2011 as	9,867
— at December 31, 2010 as	9,929

23. SHARE CAPITAL-CONTINUED

During the year, the Company repurchased its own shares on the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Highest price per share	Lowest price per share	Aggregate price paid	Equivalent aggregate price paid
		HK$	HK$	HK$'000	RMB'000
June 2011	4,509,000	4.66	4.13	19,956	16,633
July 2011	2,956,000	5.04	3.69	12,402	10,281
	7,465,000			32,358	26,914

The shares repurchased by the Company during the year were cancelled.

24. SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Schemes

According to an ordinary resolution passed on January 29, 2010, the Company adopted two share option schemes (the "Pre-IPO Share Option Schemes"), which will expire on February 18, 2013. Options to subscribe for an aggregate of 20,000,000 shares of the Company, and options to purchase for an aggregate of 20,000,000 shares of the Company had been granted by Strong Ally. A nominal consideration of HK$1 is payable on acceptance of the grant of options. The maximum number of shares in respect of which options may be granted under the Pre-IPO Share Option Schemes may not exceed 4% of the issued number of share capital of the Company at the listing date.

On February 3, 2010, a total of 40,000,000 share options were granted to 104 qualified participants, including the directors of the Company, at an exercise price of HK$3 per share option under the terms of the Pre-IPO Share Option Schemes. Total consideration received from the participants for taking up the options granted by the Company was insignificant.

At December 31, 2011, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Schemes was 34,972,359 (2010: 35,607,664), representing approximately 3.1% (2010: 3.1%) of the shares of the Company in issue at that date.

24. SHARE OPTION SCHEMES-CONTINUED

(a) Pre-IPO Share Option Schemes-continued

A summary of the movements of the outstanding options during the year under the Pre-IPO Share Option Schemes is as follows:

					Number of share options					
Type of participants	Date of grant	Vesting period	Exercisable period*	Exercisable price per share HK$	Outstanding at 1.1.2010	Granted during the year	Exercised during the year	Outstanding at 12.31.2010	Exercised during the year	Outstanding at 12.31.2011
Directors	2.3.2010	2.3.2010–8.19.2010	8.20.2010–2.18.2013	3	—	2,236,667	(1,035,000)	1,201,667	(365,000)	836,667
	2.3.2010	2.3.2010–1.31.2013	3.1.2011–2.18.2013	3	—	4,473,333	—	4,473,333	—	4,473,333
Employees	2.3.2010	2.3.2010–8.19.2010	8.20.2010–2.18.2013	3	—	4,209,667	(1,914,668)	2,294,999	(88,006)	2,206,993
	2.3.2010	2.3.2010–1.31.2013	3.1.2011–2.18.2013	3	—	8,419,333	—	8,419,333	—	8,419,333
Others#	2.3.2010	2.3.2010–8.19.2010	8.20.2010–2.18.2013	3	—	6,887,000	(1,442,668)	5,444,332	(182,299)	5,262,033
	2.3.2010	2.3.2010–1.31.2013	3.1.2011–2.18.2013	3	—	13,774,000	—	13,774,000	—	13,774,000
					—	40,000,000	(4,392,336)	35,607,664	(635,305)	34,972,359

* One-third of the options granted are exercisable six months after the listing date and 1/36th of the options are exercisable at one year after the listing date in 24 tranches until the expiry date.

The Company's share options granted to other participants are measured by reference to the fair value of options granted to directors/employees of the Group since the fair value of the services provided by such other participants to the Group cannot be estimated accurately.

Number of share options exercisable at the end of the reporting period	20,527,925

At December 31, 2011, the number of options outstanding under the scheme in respect of which options to subscribe share of the Company was 18,413,000 (2010: 18,413,000) and the number of options outstanding under the scheme in respect of which options to purchase shares of the Company had been granted by Strong Ally was 16,559,359 (2010: 17,194,664).

24. SHARE OPTION SCHEMES-CONTINUED

(a) Pre-IPO Share Option Schemes-continued

In respect of share options exercised during the year, the weighted average share price at the dates of exercise is HK$5.29 (2010: HK$6.31).

The number of share options exercised during the year represent the options to purchase for shares that had been granted by Strong Ally.

The total fair value of the options determined at the dates of grant using the Binomial model was HK$34,550,000.

The following assumptions were used to calculate the fair values of share options:

	At February 3, 2010
Number of share options	40,000,000
Vesting period	Based on the terms stipulated in the Pre-IPO Share Option Schemes
Spot price	HK$3.0
Exercise price	HK$3.0
Expected life	3 years
Expected volatility	45.50 %
Dividend yield	1.55 %
Risk-free interest rate	1.058 %
Suboptimal exercise factor	2.2
Exercise period	August 20, 2010 to February 18, 2013

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

As the Company's shares were newly listed since February 2010, there were no sufficient trading records to make reference of its share price volatility. Based on the historical volatility of comparable companies in similar industries over the past 3 years, a volatility of 45.50% was assumed.

The Group recognised the total expenses of RMB7,473,000 for the year ended December 31, 2011 (2010: RMB19,731,000) in relation to the Pre-IPO Share Option Schemes.

24. SHARE OPTION SCHEMES-CONTINUED

(b) Share Option Scheme

Pursuant to the written resolutions passed by the then sole shareholder on February 1, 2010, the Company adopted the share option scheme (the "Share Option Scheme") to provide incentive for qualified participants as defined in the Share Option Scheme to subscribe the shares in the Company. A nominal consideration of HK$1 is payable on acceptance of the grant of options. The maximum number of shares in respect of which options may be granted under the Share Option Scheme may not exceed 10% of the issued number of share capital of the Company at the listing date. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

During the year, no options have been granted or agreed to be granted under the Share Option Scheme.

25. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group was committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	2011 **RMB'000**	2010 RMB'000
Within one year	**11,483**	8,498
In the second to fifth year inclusive	**16,176**	14,461
	27,659	22,959

Leases are negotiated and rentals are fixed for lease terms of three years.

26. CAPITAL COMMITMENTS

	2011 **RMB'000**	2010 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of		
— property, plant and equipment	**167,741**	185,799
— technical knowhow	**54,500**	47,650
	222,241	233,449

27. RETIREMENT BENEFITS SCHEME

The Group's qualifying employees in Hong Kong participate in the MPF in Hong Kong. The assets of the MPF are held separately from those of the Group in fund under the control of trustee. The Group and each of the employees make monthly mandatory contributions to the MPF Scheme.

The employees of the Group's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The subsidiary is required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

28. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2011 **RMB'000**	2010 RMB'000
Salaries and other benefits	**11,109**	9,766
Equity-settled share based payments	**2,309**	7,577
Retirement benefits scheme contributions	**117**	99
	13,535	17,442

29. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the report period includes:

	2011 RMB'000	2010 RMB'000
Investment in subsidiary	6,593	6,593
Amounts due from subsidiaries	1,112,124	1,125,617
Other assets	51,348	71,460
Total assets	1,170,065	1,203,670
Total liabilities	12,175	2,186
Net assets	1,157,890	1,201,484
Share capital (see note 23)	9,867	9,929
Reserves	1,148,023	1,191,555
Total equity	1,157,890	1,201,484

30. PRINCIPAL SUBSIDIARIES

Details of Company's principal subsidiaries, all of which are wholly-owned by the Company indirectly, at the end of the reporting period are as follows:

Name of subsidiary	Country of establishment/operations	Fully paid registered capital	Principal activity
Ruinian Industry	PRC as a wholly foreign owned enterprise for a term until June 9, 2036 commencing August 22, 2006	RMB530,000,000	Manufacture and sales of health and nutritional supplements
Nanjing Ruinian	PRC as a sino-foreign equity joint venture for a term of 20 years commencing January 5, 2004	US$20,000,000	Manufacture and sales of pharmaceutical products
無錫正乾生物科技有限公司 (Wuxi Zhenqian Bio-technology Company Limited)	PRC as a wholly foreign owned enterprise for a term of 50 years commencing June 22, 2010	US$35,000,000	Property holding for construction of production facilities
無錫銀乾生物科技有限公司 (Wuxi Yinqian Bioscience Company Limited)	PRC as a wholly foreign owned enterprise for a term of 50 years commencing October 27, 2010	US$38,000,000	Property holding for construction of production facilities

The above table lists the principal subsidiaries of Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the consolidated net assets. To give details of all the subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

FINANCIAL SUMMARY

	Year ended December 31,				
	2007	2008	2009	2010	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Turnover	405,523	623,357	850,622	1,357,246	**1,789,894**
Profit before taxation	154,529	156,815	313,112	528,067	**774,559**
Taxation	(19,321)	(36,836)	(103,410)	(175,802)	**(222,921)**
Profit for the year	135,208	119,979	209,702	352,265	**551,638**

	As at December 31,				
	2007	2008	2009	2010	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	789,556	915,539	1,227,050	2,684,829	**3,236,963**
Total liabilities	(478,305)	(301,743)	(434,206)	(303,870)	**(360,022)**
Net assets	311,251	613,796	792,844	2,380,959	**2,876,941**

The results and summary of assets and liabilities for each of the two years ended December 31, 2008 which were extracted from the Company's prospectus dated February 8, 2010 have been prepared on a combined basis to indicate the results and summary of assets and liabilities of the Group as if the group structure, at the time when the Company's shares were listed on The Stock Exchange of Hong Kong Limited, had been in existence throughout those years.