1. GENERAL INFORMATION

Lijun International Pharmaceutical (Holding) Co., Ltd. ("the Company") and its subsidiaries (together "the Group") are principally engaged in the research, development, manufacture and sale of a wide range of finished medicines and bulk pharmaceuticals through a network of independent retailers. The Group has manufacturing plants in the Shaanxi Province, the People's Republic of China ("PRC") and sells to customers mainly in the PRC.

The Company is a limited liability company incorporated in the Cayman Islands on 28 September 2004. The address of its registered office is Century Yard, Cricket Square Hutchins Drive, P.O. Box 2681 GT George Town, Grand Cayman British West Indies.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited since 20 December 2005.

These consolidated financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 20 March 2006.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION

(a) Reorganisation

The Company undertook a group reorganisation ("the Reorganisation"), mainly comprised the following:

(i) Pursuant to agreements dated 28 December 2004 entered into between the Company and certain former shareholders of Xi'an Lijun Pharmaceutical Co., Ltd., the Company acquired an aggregate of 51.49% equity interest in Xi'an Lijun Pharmaceutical Co., Ltd. for an aggregate cash consideration of RMB152,040,000, which was financed by shareholders' loans. On the same date, the shareholders waived their entitlement to these shareholders' loans.

(ii) Pursuant to an agreement dated 28 December 2004 entered into between the Company and a former shareholder of Xi'an Lijun Pharmaceutical Co. Ltd., the Company acquired 28.51% equity interest in Xi'an Lijun Pharmaceutical Co., Ltd., by the allotment and issue of 3,564 shares of the Company to the former shareholder.

Upon completion of the Reorganisation, Xi'an Lijun Pharmaceutical Co., Ltd. had 51% equity interest in Shaanxi Rejoy Heng Xin Tang Pharmaceutical Co., Ltd., which was acquired by Xi'an Lijun Pharmaceutical Co., Ltd. in July 2003.

After the above group reorganisation, the Company became the holding company of following subsidiaries as set out in Note 17.

(b) Basis of presentation

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared on the merger basis as if the Company had been the holding company of the companies comprising the Group throughout the years, or from their respective dates of incorporation/establishment of effective acquisition by the Group, where this is a shorter period.

(Amounts in Renminbi)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, except for fair value adjustments on available-for-sale investments.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparatives of prior years have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transaction and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 15	Operating Leases — Incentives
HKFRS 3	Business Combinations

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation *(Continued)*

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33 and HKAS-Int15 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest, share of net results of associates and other disclosures.

— HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and HKAS-Int 15 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights was treated as property, plant and equipment and therefore accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

— Amortised on a straight line basis over a period of 10 years; and

— Assessed for an indication of impairment at each balance sheet date.

In accordance with the provision of HKFRS 3 (see Note 3.5 of this section):

— The Group ceased amortisation of goodwill from 1 January 2005;

— Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

— From the period ended 30 June 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

(Amounts in Renminbi)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation *(Continued)*

All changes in the accounting policies have been retrospectively made in accordance with the respective transitional provisions, wherever required or allowed. The accounting policies set out below have been consistently applied throughout the Relevant Periods, other than:

HKAS 39	—	generally does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis.
HKFRS 3	—	prospectively after 1 January 2005.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

HKAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and looses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Group will apply this amendment from annual periods beginning 1 January 2006.

HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2005 and 2004.

HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1 January 2006.

HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to HKAS 39 and concluded that it is not relevant to the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation *(Continued)*

HKFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). These amendments are not relevant to the Group's operations, as the Group is not a first-time adopter and does not carry out exploration for and evaluation of mineral resources.

HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). IFRS 6 is not relevant to the Group's operations

HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). HKFRS-Int 5 is not relevant to the Group's operations.

HK (IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment (effective from 1 December 2005). HK (IFRIC)-Int 6 is not relevant to the Group's operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Except for the merger accounting for group reorganisation as mentioned in Note 2(b), the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

In the Company's balance sheet, the investment in a subsidiary is stated at cost less accumulated impairment losses, if any. The results of subsidiary are accounted by the Company on the basis of dividend received and receivable.

All significant intra-group transactions and balances within the Group have been eliminated upon consolidation.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associated company is accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format and geographical as the secondary reporting format.

3.4 Translation of foreign currencies

(i) Functional and presentation currency

Items included in the account of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information are presented in Chinese Renminbi ("RMB"), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

3.5 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Effective from 1 January 2005, goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less accumulated impairment loss of each asset to its residual value over its estimated useful life, as follows:

Buildings	20 — 40 years
Plant and machinery	8 — 18 years
Furniture and fixtures	8 — 10 years
Vehicles	5 — 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

3.7 Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the use terms of 50 years using the straight-line method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.8 Available-for-sale financial assets

Effective from 1 January 2005, available-for-sale financial assets are non-derivatives that are designated in this category upon initial recognition and reassessment at every reporting date. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

They are initially recognised at fair value plus transaction costs and subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

3.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.10 Inventories

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value to the original invoice amounts, and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy financial reorganisation, and default or delinquency in payments are considered indicators that trade receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

3.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

3.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are expensed as incurred.

3.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.15 Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of service rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes on a monthly basis to defined contribution plans organised by provincial government in the PRC based on a percentage of the relevant employee's monthly salaries. The Group's contributions to defined contributions plans are expensed as incurred. The Group has no legal or constructive obligations to pay further contributions even if the schemes do not hold sufficient assets to pay all employees the benefits relating to employee in the current and prior periods.

Compensations for employee termination and early retirement are recognised in the earlier of the periods in which the Group established a constructive obligation and created a valid expectation on the employee, entered into an agreement with the employee specifying the terms, or after the individual employee has been advised of the specific terms.

3.16 Provisions

Provisions recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one items included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.17 Government grants

A government grant in the form of subsidy or financial refund is recognised when there is a reasonable assurance that the Group will comply with the conditions attached to the grant and that the grant will be received.

Grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Grants relating to the purchase of property, plant and equipment are deducted from the carrying amount of the asset. The grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

3.18 Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods, net of value-added tax, rebates and discounts.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Processing income is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time-proportion basis using the effective interest rate.

3.19 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the lease periods.

3.20 Research and development costs

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit.

3.21 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: interest rate risk, credit risk, liquidity risk and foreign exchange risk. The Group's overall risk management program focuses on the unpredictability of financial market and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its bank loans. Bank loans at variable rates expose the Group to cash flow interest-rate risk. Details of the Group's bank borrowings have been disclosed in Note 28 of this section.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(ii) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of bank and cash balances, trade and bills receivables, and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies that limit the amount of credit exposure to any financial institutions. The Group has also policies in place to ensure that the sales of products are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

(iv) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, foreign currencies, mainly United States Dollars ("USD"), are required to settle the Group's sales of bulk pharmaceuticals to overseas customers and the relative expenses. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Details of the Group's bank and cash balances as at 31 December 2004 and 2005 are disclosed in Note 24 of this section.

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. RMB against USD was relatively stable during the years and as a result, the Group considers it has no material foreign exchange risk.

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.2 Fair value estimation

The carrying amounts of the Group's financial assets which mainly include bank and cash balances, trade and bills receivables, other receivables; and financial liabilities, which mainly include trade and bills payables, short-term bank loans, approximate their fair values due to their short maturities.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values of non-current borrowings are disclosed in Note 28 in this section.

5. CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(ii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations by the balance sheet date.

(iii) Impairment of trade and bills receivable

The Group's management determines the provision for impairment of trade and bills receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassess the provision on each of the balance sheet date.

5. CRITICAL ACCOUNTING ESTIMATES *(Continued)*

(iv) Impairment of property, plant and equipment

The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 3.9 of this section. The recoverable amounts have been determined based on fair value less costs to sell, which is based on the best information available to reflect the amount that obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal.

6. SALES, OTHER GAINS AND SEGMENT INFORMATION — GROUP

(a) Sales and other gains

The Group is principally engaged in the manufacturing and sale of pharmaceutical products. Revenue recognised is as follows:

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Sales:		
— Sales of pharmaceutical products	**880,452**	897,029
— Sales of raw materials and by products	**847**	1,473
— Processing income	**3,410**	4,504
	884,709	903,006
Other gains — net:		
— Interest income	**1,569**	1,735
— Subsidy income*	**—**	100
— Gain of investment disposal**	**—**	265
— Gain on disposal of a land use right***	**508**	—
	2,077	2,100
	886,786	905,106

* Subsidy was received from local government.

** Gain of investment disposal represents the net income relates to the disposal of the interest in an associated company in 2004.

*** Gain on disposal of a land use right represents that net income relates to the disposal of a land use right of a subsidiary in 2005.

(b) Segment information

The Group primarily operates in one business segment — manufacturing and sale of pharmaceutical products. It operates principally in one geographical segment — the PRC. Substantially all of the Group's assets were located in the PRC. Accordingly, no analysis of segment information is presented.

7. OPERATING PROFIT — GROUP

Operating profit is stated after charging/crediting the following items:

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Crediting		
Reversal of inventory write-down	**(2,764)**	(4,556)
Reversal of impairment of receivables	**(3,508)**	—
Gain on disposal of property, plant and equipment	**(39)**	—
Charging		
Cost of inventories	**319,704**	309,058
Staff costs including directors' emoluments		
— wages and salaries	**66,635**	51,893
— pension costs *(Note 11)*	**9,912**	9,523
— welfare expenses	**10,861**	17,013
Depreciation of property, plant and equipment	**35,044**	36,398
Impairment loss of property, plant and equipment	**—**	865
Loss on disposal of property, plant and equipment	**—**	80
Amortisation of land use rights (charged to general and administrative expenses)	**82**	133
Amortisation of goodwill (charged to general and administrative expenses)	**—**	75
Impairment of goodwill	**601**	—
Provision for impairment of receivables	**—**	1,404
Operating leases-rental expenses in respect of land use rights in the PRC	**5,461**	6,826
Advertising expenses	**37,781**	79,854
Research and development costs	**7,429**	6,166
Auditors' remuneration	**1,768**	829

8. FINANCE COSTS — GROUP

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Interest expense		
— On bank borrowings wholly repayable within five years	**7,069**	7,111

9. TAXATION — GROUP

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and, accordingly, is exempted from payment of the Cayman Islands income tax.

No Hong Kong profits tax was provided as the Group had no assessable profit in Hong Kong during the years.

According to relevant PRC rules and regulations, Xi'an Lijun Pharmaceutical Co., Ltd., being qualified as an encouraged domestic enterprise in the western region of the PRC, is entitled to preferential PRC Enterprise Income Tax ("EIT") rate of 15% from 2002 to 2004, on an annual approval basis.

In December 2004, Xi'an Lijun Pharmaceutical Co., Ltd. has obtained approval to be designated as a sino-foreign joint venture enterprise and therefore ceased to be entitled to the preferential EIT rate of 15%. In May 2005, the EIT rate of Xi'an Lijun Pharmaceutical Co., Ltd. has been approved to be 24%, which was effective from 1 January 2005. Being incorporated as foreign investment enterprise in PRC, Xi'an Lijun Pharmaceutical Co., Ltd. has obtained approvals in May 2005 from the relevant tax authorities in Xi'an, which is also effective from 1 January 2005, for their entitlement to exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in PRC.

Shaanxi Rejoy Hengxintang Pharmaceutical Co., Ltd. is subject to EIT levied at an approved rate of taxable income based on its audited accounts prepared in accordance with the laws and regulations in the PRC. As at 31 December 2005, Shaanxi Rejoy Hengxintang Pharmaceutical Co., Ltd. has accumulated net losses brought forward and has submitted application for its applicable tax rate and is still awaiting approval from tax authority.

The amounts of taxation charged to the income statement represent:

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Current taxation — EIT	**—**	19,808
Deferred taxation *(Note 20)*	**15,122**	2,523
	15,122	22,331

9. TAXATION — GROUP *(Continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using EIT rate as follows:

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Profit before income tax	**131,668**	131,392
Weighted average EIT rates in PRC	**24%**	15%
Tax calculated at the weighted average EIT rate	**31,600**	19,709
Tax exemption	**(28,259)**	—
Additional deductible expense allowance granted by tax authorities	**—**	(1,617)
Expenses not deductible for tax purposes	**345**	3,912
Effect of change of tax rate for the calculation of deferred taxation	**11,436**	—
Others	**—**	327
Tax charge	**15,122**	22,331

10. PROFIT ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS

The consolidated profit attributable to the Company's equity holders includes profit of RMB54,426,000 (2004: Nil) dealt with in the financial statements of the Company.

11. RETIREMENT BENEFITS — GROUP

(a) Pension obligations

As stipulated by the rules and regulations in the PRC, the Group has participated in state-sponsored defined contribution retirement plans for its employees in the PRC. The Group and the eligible employees are required to contribute 20% and 7%, respectively, of the employees' basic salary. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. Moreover, the Group would pay monthly allowance to old retirement persons. The Group has no further pension obligation beyond the above contributions.

(b) Early retirement benefits

Compensation for early retirement is recognised in the earlier of the periods in which the Group established a constructive obligation and created a valid expectation on the employee, entered into an agreement with the employee specifying the terms, or after the individual employee has been advised of the specific terms.

12. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS — GROUP

(a) Directors' emoluments

The emoluments of all executive directors and non-executive directors during the years, on a named basis, are set out as below:

Name of Director	Fees	Salary	Other benefits	Contribution to state-sponsored retirement plans	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2004					
Executive Directors					
Mr. Wu Qin	—	516	4	7	527
Mr. Wu Zhihong	—	486	4	7	497
Mr. Huang Chao	—	447	3	7	457
Mr. Xie Yunfeng	—	247	3	7	257
Ms. Sun Xinglai	—	247	3	6	256
	—	1,943	17	34	1,994
2005					
Executive Directors					
Mr. Wu Qin	874	145	29	8	1,056
Mr. Wu Zhihong	625	143	29	8	805
Mr. Huang Chao	624	143	29	8	804
Mr. Xie Yunfeng	375	75	27	8	485
Ms. Sun Xinglai	374	80	28	7	489
	2,872	586	142	39	3,639
Non-executive Directors					
Mr. Chow Kwok Wai	39	—	—	—	39
Mr. Leung Chong Shun	39	—	—	—	39
Mr. Qu Jiguang	39	—	—	—	39
Mr. Liu Zhiyong	14	—	—	—	14
	131	—	—	—	131
	3,003	586	142	39	3,770

No Directors of the Company waived any emoluments during the years.

12. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS — GROUP *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the years are also directors of the Company and their emoluments are detailed in (a) above.

(c) During the years, no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDENDS

A dividend in respect of 2005 of HK$0.16 per share, amounting to a total dividend of RMB48,367,000 is to be proposed at the annual general meeting on 18 April 2006. These financial statements do not reflect this dividend payable.

	2005	2004
	RMB'000	*RMB'000*
Proposed final dividend of HK$0.16 (2004:Nil) per ordinary share	**48,367**	—

14. EARNINGS PER SHARE — GROUP

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB93,311,000 by the weighted average number of 212,426,000 ordinary shares in issue during the year.

The comparative basic earnings per share is calculated by dividing the profit attributable to equity shareholders of the Company of RMB 88,632,000 by an aggregate of 210,000,000 shares, comprising 1 share issued after incorporation of the Company and 209,999,999 shares issued after the Capitalisation Issue completed, which were deemed to have been in issue since 1 January 2004.

No diluted earnings per share is presented, as the Company has no dilutive potential shares.

15. PROPERTY, PLANT AND EQUIPMENT — GROUP

	Buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
At 1 January 2004						
Cost	165,656	237,472	15,005	23,693	43,194	485,020
Accumulated depreciation and impairment losses	(37,574)	(121,341)	(5,127)	(7,104)	—	(171,146)
Net book amount	128,082	116,131	9,878	16,589	43,194	313,874
Year ended 31 December 2004						
Opening net book amount	128,082	116,131	9,878	16,589	43,194	313,874
Additions	663	2,426	3,308	1,960	52,056	60,413
Transfer	41,498	31,461	107	—	(73,066)	—
Disposals	(1,226)	(31)	(441)	(13)	—	(1,711)
Depreciation charge	(7,848)	(23,606)	(2,404)	(2,540)	—	(36,398)
Impairment charge	(804)	—	—	(61)	—	(865)
Closing net book amount	160,365	126,381	10,448	15,935	22,184	335,313
At 31 December 2004						
Cost	201,291	256,893	17,054	24,694	22,184	522,116
Accumulated depreciation and impairment losses	(40,926)	(130,512)	(6,606)	(8,759)	—	(186,803)
Net book amount	160,365	126,381	10,448	15,935	22,184	335,313

15. PROPERTY, PLANT AND EQUIPMENT — GROUP *(Continued)*

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Furniture and fixtures *RMB'000*	Vehicles *RMB'000*	Construction-in-progress *RMB'000*	Total *RMB'000*
Year ended 31 December 2005						
Opening net book amount	160,365	126,381	10,448	15,935	22,184	335,313
Additions	—	—	1,260	1,912	34,744	37,916
Transfer	10,124	17,257	398	—	(27,779)	—
Disposal	(1,420)	(39)	—	—	—	(1,459)
Charge for the period	(6,690)	(23,497)	(2,417)	(2,440)	—	(35,044)
Closing net book amount	162,379	120,102	9,689	15,407	29,149	336,726
At 31 December 2005						
Cost	209,407	273,872	18,688	26,349	29,149	557,465
Accumulated depreciation and impairment losses	(47,028)	(153,770)	(8,999)	(10,942)	—	(220,739)
Net book amount	162,379	120,102	9,689	15,407	29,149	336,726

The buildings are located in Xi'an and Weinan, Shaanxi Province, the PRC.

The impairment for property, plant and equipment is recognised in accordance with the accounting policy and estimates stated in Note 3.6 and Note 5(iv) respectively.

Company

	Furniture and fixtures *RMB'000*
Year ended 31 December 2005	
Additions	1,076
Charge for the period	(36)
Closing net book amount	1,040
At 31 December 2005	
Cost	1,076
Accumulated depreciation and impairment losses	(36)
Net book amount	1,040

16. LAND USE RIGHTS — GROUP

	RMB'000
At 1 January 2004	
Cost	10,455
Accumulated amortisation	(308)
Net book amount	10,147
Year ended 31 December 2004	
Opening net book amount	10,147
Amortisation charge	(133)
Closing net book amount	10,014
At 31 December 2004	
Cost	10,455
Accumulated amortisation	(441)
Net book amount	10,014
Year ended 31 December 2005	
Opening net book amount	10,014
Disposals	(2,918)
Amortisation charge for the year	(82)
Closing net book amount	7,014
At 31 December 2005	
Cost	7,425
Accumulated amortisation	(411)
Net book amount	7,014

All of the Group's land use rights are located in Xi'an and Weinan, Shaanxi Province, the PRC and are held on leases of 50 years from the dates of acquisition.

As at 31 December 2004 and 2005, the net book amount of the Group's land use rights of approximately RMB4,000,000 was pledged as collateral for the Group's bank loans *(Note 28(d))*.

17. INVESTMENT IN A SUBSIDIARY — COMPANY

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Unlisted shares	**152,040**	152,040

The following is a list of the principal subsidiaries as at 31 December 2005:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Paid in, issued and fully paid share capital	Interest held
Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun")	Limited liability company incorporated in PRC	Manufacturing and sale of pharmaceutical products in PRC	RMB210,900,000	81% (Directly held)
Shaanxi Rejoy Hengxintang Pharmaceutical Co., Ltd. ("Hengxintang")	Limited liability company incorporated in PRC	Manufacturing and sale of traditional Chinese medicine in PRC	RMB10,000,000	41%* (Indirectly held)

* 51% interest was held by an 80% subsidiary

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS/OTHER INVESTMENTS — GROUP

Available-for-sale financial assets (effective from 1 January 2005)/Other investments (for the year ended 31 December 2004) represent unlisted and listed shares in certain limited liability companies in the PRC.

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Equity securities:		
Xi'an Lijun Transportation Co., Ltd. — unlisted	**129**	129
Sichuan Quanxing Co., Ltd. — listed	**480**	480
	609	609

The Group's investment in unlisted shares represents the 14.37% share of a joint venture in the PRC, Xi'an Lijun Transportation Co., Ltd..

The Directors are of the opinion that the carrying amounts approximate their fair values and there is no significant impairment to these available-for-sale financial assets.

19. GOODWILL — GROUP

	RMB'000
At 1 January 2004	
Cost	751
Accumulated amortisation	(75)
Net book amount	676
Year ended 31 December 2004	
Opening net book amount	676
Amortisation expenses charged	(75)
Closing net book amount	601
At 31 December 2004	
Cost	751
Accumulated amortisation	(150)
Net book amount	601
Year ended 31 December 2005	
Opening net book amount	601
Impairment expense	(601)
Closing net book amount	—
At 31 December 2005	
Cost	751
Accumulated amortisation and impairment	(751)
Net book amount	—

20. DEFERRED INCOME TAX ASSET — GROUP

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Deferred tax assets:		
— Deferred tax asset to be recovered after more than 12 months	**7,436**	13,995
— Deferred tax asset to be recovered within 12 months	**—**	8,563
	7,436	22,558

20. DEFERRED INCOME TAX ASSET — GROUP *(Continued)*

The movements in deferred tax assets are as follows:

	Accrual of sales commission and others	Provisions for impairment of trade receivables	Inventory write-down	Timing difference in expense recognition	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	8,622	6,874	2,562	7,023	25,081
Recognised in the income statement *(Note 9)*	(59)	119	(683)	(1,900)	(2,523)
At 31 December 2004	8,563	6,993	1,879	5,123	22,558
Recognised in the income statement *(Note 9)*	(8,563)	(4,086)	(708)	(1,765)	(15,122)
At 31 December 2005	—	2,907	1,171	3,358	7,436

21. INVENTORIES — GROUP

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Raw materials	**37,801**	30,552
Work in progress	**12,802**	12,513
Finished goods	**42,782**	37,994
	93,385	81,059

22. TRADE AND BILLS RECEIVABLES — GROUP

The Group generally required its customers to settle sales invoices within 3 months. Ageing analysis of trade and bills receivables is as follows:

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Within 3 months	**127,698**	144,032
4 to 6 months	**18,525**	11,172
7 to 12 months	**9,534**	2,654
1 to 2 years	**2,204**	2,774
2 to 3 years	**2,234**	3,827
More than 3 years	**13,638**	16,798
	173,833	181,257
Less: Provision for impairment of receivables	**(22,507)**	(27,273)
	151,326	153,984

The Group has written off approximately RMB982,627 (2004: RMB1,404,000) and written back RMB3,783,620 (2004: Nil) for impairment of its trade receivables during the year ended 31 December 2005. The loss has been included in general and administrative expenses.

There is no concentration of credit risk with respect to trade and bills receivables, as the Group has a large number of customers, nationally dispersed. The carrying amounts of the trade and bills receivables approximate their fair value.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group As at 31 December		Company As at 31 December	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Proceeds from new issue of shares retained by the underwriter	**30,606**	—	**30,606**	—
Receivables related to disposal of staff quarters	**12,916**	9,770	**—**	—
Prepayments to suppliers	**9,633**	25,935	**—**	—
Prepaid advertising expenses	**3,067**	3,068	**—**	—
Receivables related to disposal of land use right	**2,940**	—	**—**	—
Other receivables	**6,838**	5,029	**1,475**	—
	66,000	43,802	**32,801**	—

24. BANK AND CASH BALANCES — GROUP

Bank and cash balances were denominated in currencies as follows:

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
RMB	**145,107**	136,484
USD	**271**	2,190
HKD	**129,744**	—
	275,122	138,674

Cash and cash equivalents represented bank and cash balances. RMB is not a freely convertible currency in the international market. The remittance of these RMB funds out of the PRC is subject to the exchange control restrictions imposed by the PRC Government.

The weighted average effective interest rate per annum on cash at bank was approximately 1.08% (2004: 0.72%).

25. TRADE AND BILLS PAYABLES — GROUP

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Accounts payable	**56,264**	48,282
Bills payable	**4,000**	—
	60,264	48,282

The carrying amounts of the trade and bills payables approximate their fair value.

Ageing analysis of accounts and bills payable at respective balance sheet dates are as follows:

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Within 3 months	**55,037**	42,843
4 to 6 months	**1,003**	579
7 to 12 months	**897**	2,323
1 to 3 years	**1,709**	1,112
More than 3 years	**1,618**	1,425
	60,264	48,282

26. DEPOSITS AND ADVANCE RECEIPTS FROM CUSTOMERS — GROUP

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Advance receipts from customers	**14,516**	32,235

27. ACCRUALS AND OTHER PAYABLES

	Group As at 31 December		Company As at 31 December	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accrued distribution expenses	**27,016**	27,566	**—**	—
Accrued advertising expenses	**1,940**	10,251	**—**	—
Advertising expense payables	**2,871**	12,546	**—**	—
Accrued management bonus	**3,000**	4,218	**—**	—
Welfare payables	**23,271**	25,343	**—**	—
Taxation payables, other than income tax	**10,527**	11,865	**—**	—
Salary and wages payable	**11,148**	13,632	**—**	—
Payable for property, plant and equipment	**9,367**	1,479	**—**	—
Loan from employees	**5,407**	1,717	**—**	—
Professional fee payables	**6,592**	1,100	**6,592**	—
Others	**7,692**	8,001	**9,432**	—
	108,831	117,718	**16,024**	—

28. BANK LOANS — GROUP

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Non-current		
— Due within one year	**5,000**	12,000
— Due over one year	**—**	3,000
Current	**108,000**	122,000
Total borrowings	**113,000**	137,000
Representing:		
Unsecured	**108,000**	70,000
Secured*	**5,000**	5,000
Guaranteed**	**—**	62,000
	113,000	137,000

28. BANK LOANS — GROUP *(Continued)*

* As at 31 December 2004 and 2005, the net book amount of the Group's land use rights *(Note 16)* of approximately RMB4,000,000 was pledged as collateral for the Group's bank loans.

** The guaranteed bank loan as at 31 December 2004 was guaranteed by the Rejoy Group Limited Liability Company.

(a) An analysis of the carrying amounts of the Group's bank borrowings by type and currency is as follows:

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
RMB		
— at floating rates	**113,000**	137,000

The carrying amounts of the Group's bank borrowings approximate their fair values.

(b) The weighted average effective interest rates per annum for bank loans was approximately 6.40% (2004: 5.90%).

(c) The maturity of the Group's non-current bank borrowings at respective balance sheet dates is as follows:

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Within 1 year	**5,000**	12,000
Between 1 to 2 years	**—**	3,000
	5,000	15,000

(d) The collaterals of the Group's borrowings are analysed as follows:

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Net book amount of land use right *(Note 16)*	**4,000**	4,000

(e) The Group has the following undrawn borrowing facilities at the respective balance sheet dates:

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Floating rate and expiring within one year	**214,000**	80,000

29. LONG-TERM PAYABLES — GROUP

Long term payables mainly represent retirement benefits and early retirement allowance payable to the employees of Xi'an Lijun Pharmaceutical Co., Ltd..

The maturity profile of the long-term payable is as follows:

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Within 1 year	**732**	903
Between 1 to 2 years	**659**	832
Between 2 to 5 years	**1,680**	2,123
More than 5 years	**14,173**	12,387
	17,244	16,245
Less: Current portion included in current liabilities	**(732)**	(903)
	16,512	15,342

30. SHARE CAPITAL

	Number of shares	Amount	Share premium	Total
	(thousands)	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	—	—	—	—
Share issue and alloted	10	1	—	1
At 31 December 2004	10	1	—	1
Capitalisation issue	209,990	21,851	—	21,851
	210,000	21,852	—	21,852
New share issue	80,500	8,377	121,239	129,616
At 31 December 2005	**290,500**	**30,229**	**121,239**	**151,468**

The total authorised number of ordinary share is 1,000,000,000 (2004: 3,900,000) with a par value of HK$0.10 per share (2004: HK$0.10 per share).

On 18 October 2004, one share was allotted and issued at par.

On 28 December 2004, 9,999 shares were allotted, issued and fully paid at par.

In December 2005, the Company issued 80,500,000 shares at HK$2.15 per share for cash (including 70,000,000 new shares on 19 December 2005 and over-allotment of 10,500,000 shares on 21 December 2005) in connection with the listing of the Company's share on the SEHK, and raised proceeds of approximately RMB151,467,000. In addition, 209,990,000 shares are credited as fully paid pursuant to the capitalisation issue immediately following the issue of new shares.

31. OTHER RESERVES

Group

	Merger reserve *RMB'000* *(Note a)*	Capital surplus *RMB'000*	Statutory reserves *RMB'000* *(Note b)*	Retained earnings *RMB'000*	Total *RMB'000*
At 1 January 2004	168,720	32	32,654	41,099	242,505
Profit for the year	—	—	—	88,632	88,632
Transfer to statutory reserves	—	—	13,295	(13,295)	—
Dividends	—	—	—	(71,819)	(71,819)
At 31 December 2004	168,720	32	45,949	44,617	259,318
Profit for the year	—	—	—	93,311	93,311
Transfer to statutory reserve	—	—	13,804	(13,804)	—
Dividends	—	—	—	(3,372)	(3,372)
At 31 December 2005	168,720	32	59,753	120,752	349,257

Company

	Capital surplus *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At 1 January 2004	—	—	—
Loan from shareholders waived	152,040	—	152,040
At 31 December 2004	—	—	152,040
Profit for the year	—	54,426	54,426
At 31 December 2005	**152,040**	**54,426**	**206,466**

(a) Merger reserve

Merger reserve of the Company represents the difference between the Company's 80% share in paid-up capital of Xi'an Lijun Pharmaceutical Co., Ltd. and the nominal value of the share capital issued by the Company upon the Reorganisation.

(b) Statutory reserves

In accordance with the PRC regulations and the Articles of the Association of the Group's subsidiaries established in the PRC, each of the Group's subsidiaries is required to set aside 10% of its statutory net profit for the year after offsetting any prior years' accumulative losses as determined under the PRC accounting regulations to the statutory surplus reserve fund before distributing their net profit. When the balance of such reserve reaches 50% of each PRC subsidiary's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares. However, such statutory surplus reserve fund must be maintained at a minimum of 25% of the PRC subsidiary's share capital after such issuance.

In addition, each of the PRC subsidiaries is required to set aside 5% to 10% of its statutory net profit for the year to the statutory public welfare fund. The statutory public welfare fund is to be utilised to build or acquire capital items for the subsidiary's employees and cannot be used to pay off staff welfare expenses.

32. CONSOLIDATED CASH FLOW STATEMENT — GROUP

(a) Reconciliation of profit before income tax to net cash inflow generated from operations

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Profit before income tax	**131,668**	131,392
(Reversal of)/Provision for impairment of receivables	**(3,508)**	1,404
Reversal of inventory write-downs	**(2,764)**	(4,556)
Impairment losses of property, plant and equipment	**—**	865
Depreciation of property, plant and equipment	**35,044**	36,398
(Gain)/loss on disposals of property, plant and equipment	**(39)**	80
Gain on disposal of a land use right	**(508)**	—
Amortisation of land use rights	**82**	133
Amortisation of goodwill	**—**	75
Impairment loss of goodwill	**601**	—
Interest income	**(1,569)**	(1,735)
Interest expense	**7,069**	7,111
Operating profit before working capital changes	**166,076**	171,167
(Increase)/decrease in inventories	**(9,562)**	16,058
Increase in trade and bills receivables	**(21,076)**	(99,464)
Decrease/(increase) in prepayments, deposits and other receivables	**10,835**	(22,119)
Decrease in amounts due from related parties	**27,518**	3,299
(Decrease)/increase in trade and bills payables and deposits and advance receipts from customers	**(5,737)**	16,495
Decrease in taxation payable, accruals, and other payables	**(12,538)**	(28,637)
Decrease in amounts due to related parties	**(3,236)**	(3,052)
Net cash inflow generated from operations	**152,280**	53,747

(b) Disposal of an associated company

On 24 December 2004, the Group disposed its entire 30% equity interest in Xi'an Rejoy Real Estate Co., Ltd. to Xi'an Rejoy Technology Investment Co., Ltd. for a consideration of RMB2,400,000 and recognised a gain on disposal of RMB265,000.

(c) Proceeds from disposal of property, plant and equipment

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Net book amount disposed *(Note 15)*	**1,459**	1,711
Gain/(loss) on disposal of property, plant and equipment	**39**	(80)
Proceeds from disposal of property, plant and equipment	**1,498**	1,631

32. CONSOLIDATED CASH FLOW STATEMENT — GROUP *(Continued)*

(d) Proceeds from issue of new shares

	Year ended 31 December 2005 *RMB'000*	2004 *RMB'000*
Issue of new shares (including share premium)	**151,467**	1
Proceeds retained by the underwriters *(Note 23)*	**(30,606)**	—
Proceeds from share issue	**120,861**	1

33. RELATED PARTY TRANSACTIONS AND BALANCES — GROUP

(a) During the years, the directors are of the view that the following companies are related parties of the Group:

Name	**Relationship**
Rejoy Group Limited Liability Company ("Rejoy Group")	Shareholder of Xi'an Lijun Pharmaceutical Co., Ltd.
Xi'an Rejoy Technology Investment Co., Ltd. ("Rejoy Technology")	Shareholder of Xi'an Lijun Pharmaceutical Co., Ltd. before 28 December 2004
Shaanxi Xi'an Pharmaceutical Factory ("Xi'an Pharmacy Factory")	Wholly-owned subsidiary of Rejoy Group
Xi'an Rejoy Packaging Materials Co., Ltd. ("Rejoy Packaging")	Subsidiary of Rejoy Technology
Rejoy Baichuan Medicines Chemical Engineering Co., Ltd. ("Rejoy Baichuan")	Subsidiary of Rejoy Technology
Liaoning Huabang Pharmaceutical Co., Ltd. ("Huabang Pharmaceutical")	Shareholder of Xi'an Lijun Pharmaceutical Co., Ltd. before 28 December 2004
Xi'an Rejoy Medicine Co., Ltd. ("Rejoy Medicine")	Subsidiary of Rejoy Group
Rejoy Group Zhenjiang Pharmaceutical Co., Ltd. ("Zhenjiang Pharmaceutical")	Subsidiary of Rejoy Group before October 2005
Xiyao Construction and Installation Co., Ltd. ("Xiyao Construction")	Joint venture of Xi'an Pharmacy Factory after March 2005 (wholly-owned subsidiary of Xi'an Pharmacy Factory before March 2005)
Xi'an Rejoy Real Estate Co., Ltd. ("Rejoy Real Estate")	Subsidiary of Rejoy Technology after November 2004 (Joint venture of Xi'an Lijun Pharmaceutical Co., Ltd. before November 2004)
Global Printing Co., Ltd. ("Global Printing")	Controlled by the same ultimate parent company of Rejoy Group

33. RELATED PARTY TRANSACTIONS AND BALANCES — GROUP *(Continued)*

(b) In addition to the disposal of investment in an associated company as disclosed in Note 32(b) during the year, the Group had the following significant transactions with related parties:

Nature of transactions	Name of related party	Year ended 31 December 2005 RMB'000	2004 RMB'000
Continuing:			
Purchasing of raw materials and packaging materials	Zhenjiang Pharmaceutical	**5,143**	11,900
	Rejoy Baichuan	**68**	6,816
	Rejoy Packaging	**717**	674
	Global Printing	**6,883**	6,854
		12,811	26,244
Sales of finished goods	Rejoy Medicine	**20,886**	26,663
	Rejoy Baichuan	**9,043**	27,079
	Huabang Pharmaceutical	**4,526**	5,953
		34,455	59,695
Provision of utilities from	Xi'an Pharmacy Factory	**50,973**	41,603
Sharing of administrative costs from	Xi'an Pharmacy Factory	**12,926**	13,105
Lease of land use rights from	Rejoy Group	**5,461**	6,826
Lease of office premises to	Rejoy Group	**200**	200
Discontinued:			
Provision of assets management services by	Xi'an Pharmacy Factory	**—**	280
Provision of building construction services by	Xiyao Construction	**1,809**	7,403
Disposal of property, plant and equipment to	Rejoy Group	**—**	946
	Xi'an Pharmacy Factory	**—**	165
		—	1,111
Guarantee:			
Guarantee of loans by a related party	Rejoy Group	**—**	62,000

33. RELATED PARTY TRANSACTIONS AND BALANCES — GROUP *(Continued)*

(c) The Group had the following significant balances with related parties:

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Amounts due from related parties included in trade receivables		
— Rejoy Medicine	**4,879**	16,900
— Rejoy Baichuan	**1,627**	17,712
— Huabang Pharmaceutical	**1,733**	1,128
— Xi'an Pharmacy Factory	**—**	17
	8,239	35,757
Amounts due from related parties included in prepayments, deposits and other receivable		
— Rejoy Real Estate	**30**	320
— Rejoy Group	**60**	—
— Rejoy Technology	**59**	99
— Xi'an Pharmacy Factory	**404**	223
— Xiyao Construction	**—**	147
	553	789
Amounts due to related parties included in trade payables		
— Zhenjiang Pharmaceutical	**—**	200
— Rejoy Baichuan	**5**	45
— Rejoy Packaging	**177**	—
— Global printing	**1,656**	1,733
	1,838	1,978
Amounts due to related parties included in accruals and other payables		
— Xi'an Pharmacy Factory	**—**	3,217
— Xiyao Construction	**—**	19
	—	3,236
Amounts due to shareholders		
— Dividend payable	**14,763**	24,743
— Shareholders' loan*	**—**	47,594
	14,763	72,337

33. RELATED PARTY TRANSACTIONS AND BALANCES — GROUP *(Continued)*

(c) The Group had the following significant balances with related parties: *(Continued)*

* The shareholders' loan had been settled in September 2005.

Except for the shareholders' loan as stated above, the related party balances are all unsecured, interest-free and have no pre-determined terms of repayment.

34. COMMITMENTS — GROUP

(a) Capital commitments

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Purchase of property, plant and equipment		
— Contracted but not provided for	**10,158**	25,203

(b) Operating lease commitments

The future aggregate minimum lease rental expenses in respect of office premises in the PRC and Hong Kong under non-cancellable operating leases are payable as follows:

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Not later than one year	**6,821**	5,461
Later than one year and not later than five years	**6,824**	13,337
	13,645	18,798

35. CONTINGENT LIABILITIES

The Group did not have significant contingent liabilities as at 31 December 2005.

36. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 20 March 2006.