You should read the following discussion and analysis together with our consolidated financial information set forth in the Accountants' Report included as Appendix I to this prospectus and our selected historical consolidated financial information and operating data and the notes thereto included elsewhere in this prospectus. Our consolidated financial information has been prepared in accordance with HKFRS.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depend on a number of risks and uncertainties over which we do not have control. See "Risk Factors" and "Forward-looking Statements".

OVERVIEW

We are a leading healthcare company in the PRC with business operations strategically covering multiple important segments in the healthcare industry value chain. We have expanded rapidly through organic growth, acquisitions and strategic investments. Our pharmaceutical manufacturing business has grown rapidly since we entered the segment in 2002. We have gained extensive experience in integrating acquired businesses and assisting our associated companies in strengthening and expanding their operations. Our business segments include pharmaceutical manufacturing, pharmaceutical distribution and retail, healthcare services(1), and diagnostic products and medical devices. We believe we have established competitive advantages in each of these segments. According to IMS(2), we are one of the top five domestic pharmaceutical companies(3) in the PRC by revenue from the pharmaceutical manufacturing segment in 2011 and one of the youngest among such top five companies.

We have the following business segments in the PRC:

- *Pharmaceutical manufacturing.* We engage in the research and development, manufacturing, and sales and marketing of pharmaceutical products. For the year ended 31 December 2011 and the six months ended 30 June 2012, the external revenue generated from our pharmaceutical manufacturing segment was RMB3,830.8 million and RMB2,175.9 million, respectively, representing 59.6% and 62.8%, respectively, of our total revenue.

Notes:

(1) We participated in the healthcare services business through our investment in Chindex prior to October 2011 and through our subsidiaries and our investment in Chindex since October 2011.

(2) IMS data reflects purchases of drugs by hospitals with more than 100 beds, at hospital purchase price (representing approximately 60% of the overall hospital market in terms of revenue according to IMS) instead of consumption by individual patients at retail prices. IMS data is projected for the market based on statistical analysis and actual data from hospitals on its panel.

(3) Includes only companies that are actually controlled by PRC citizens or entities.

- *Pharmaceutical distribution and retail.* We participate in the pharmaceutical distribution industry in the PRC, primarily through our strategic partnership with CNPGC with whom we founded Sinopharm. We also have developed a network of retail pharmacies, which we operate directly or through franchisees mainly in Beijing and Shanghai. As at 30 June 2012, we had a total of 670 retail pharmacies.

- *Healthcare services.* We participate in the premium, specialty and general healthcare services markets in the PRC through the United Family hospitals of Chindex, and operation of healthcare institutions such as Jimin Cancer Hospital and Guangji Hospital.

- *Diagnostic products and medical devices.* We engage in the research and development, manufacturing, and sales and marketing of diagnostic reagents and equipment, blood transfusion equipment and surgical consumables, as well as in the distribution of imported high-end medical equipment.

As at 30 June 2012, we had obtained manufacturing permits for 1,002 pharmaceutical products, including 913 finished products and 89 APIs. Of the 913 manufacturing permits for finished products, we currently produce 625 drugs(4), including 9 biopharmaceutical drugs, 458 chemical drugs and 158 modern Chinese medicines. Our pharmaceutical products with sales of over RMB100 million in 2011 include Atomolan, Wan Su Ping, Wan Su Lin, Mo Luo Dan, Su Ke Nuo, Xi Chang, and anti-tuberculosis series, Ao De Jin and Bang Ting(5). For the year ended 31 December 2011 and the six months ended 30 June 2012, our revenue from exports of finished products, APIs and intermediate products amounted to RMB756.9 million and RMB384.0 million, respectively.

As at 30 June 2012, we beneficially held a 32.1% equity interest in Sinopharm(6). According to published information from Sinopharm, it was the largest distributor and a leading provider of supply chain services for pharmaceutical and healthcare products in China and operated the largest pharmaceutical distribution network in China in 2011. Sinopharm is listed on the Hong Kong Stock Exchange. As at the Latest Practicable Date, Sinopharm's market capitalization was RMB51,669.7 million. We also have a network of retail pharmacies, which we operate directly or by franchise under the names "Golden Elephant Pharmacy", primarily in Beijing, and "For Me Pharmacy" in Shanghai. As at 30 June 2012, our retail pharmacy network included a total of 670 retail pharmacies, of which 146 were directly operated by us and 524 were operated by our franchisees.

Notes:

(4) Due to the difference in dosage and specification, one product may have multiple manufacturing permits.

(5) We completed the acquisition of Aohong Pharma in September 2011. Ao De Jin and Bang Ting subsequently became two of our major products.

(6) Sinopharm's financial accounts are not consolidated into our Group's financial statements, and we have accounted for our equity investments in Sinopharm using the equity method of accounting.

Since 2009, our strategic plans have included entering the premium, specialty and general healthcare services markets in the PRC. As a first step to entering the premium healthcare services market, we acquired an equity interest in Chindex, which focuses on providing premium healthcare services in China. Chindex primarily operates the United Family hospitals, which provide premium healthcare services in Beijing, Shanghai, Tianjin and Guangzhou. As at the Latest Practicable Date, we held an 18.52% equity interest in Chindex, making us its single largest shareholder. As a first step to entering the specialty healthcare services market, we established Jimin Hospital Management in July 2011, in which we hold a 70% equity interest. Through Jimin Hospital Management, we manage Jimin Cancer Hospital, an oncology hospital located in Hefei, Anhui Province. We also acquired a 70% equity interest in Jimin Cancer Hospital in October 2011. Since December 2011, we have further been operating a general hospital, Guangji Hospital, which is located in Yueyang, Hunan Province.

We engage in the research and development, manufacturing, and sales and marketing of diagnostic reagents and equipment, blood transfusion equipment, and surgical consumables, as well as the distribution of imported high-end medical equipment. As at 30 June 2012, we manufactured a total of 130 types of diagnostic reagents and equipment, including those for biological, immune system, molecular and microbiological diagnostic purposes, as well as a total of 23 types of blood transfusion equipment and surgical consumables. As at 30 June 2012, we were the head regional distributor in China for various high-end imported medical equipment, such as the Intuitive Surgical's da Vinci Surgical System.

We are a public company in the PRC with our headquarters located in Shanghai. Our A Shares have been listed on the Shanghai Stock Exchange since August 1998. As at the Latest Practicable Date, our market capitalization was RMB20,834.1 million. Benefiting from the rapidly growing economy in the PRC and our strong capability in business integration, we have strategically expanded our business and significantly improved our financial performance. During the Track Record Period, our revenue increased from RMB3,850.3 million in 2009 to RMB4,528.8 million in 2010, and further to RMB6,432.6 million in 2011. Our net profit, defined as after tax profit attributable to owners of the Company, amounted to RMB2,501.0 million, RMB863.7 million and RMB1,166.2 million in 2009, 2010 and 2011, respectively. For the six months ended 30 June 2012, our revenue was RMB3,464.1 million, representing an increase of 12.5% over the same period in 2011. Our net profit attributable to owners of the Company decreased from RMB867.3 million in the six months ended 30 June 2011 to RMB701.8 million in the six months ended 30 June 2012 primarily due to the decrease in other gains. We recognized other gains of RMB976.3 million and RMB464.7 million in the first half of 2011 and 2012, respectively. Other gains in the first half of 2011 included pre-tax gain of RMB673.1 million from Sinopharm's placing of additional shares to third parties in May 2011.

BASIS OF PRESENTATION

Our Company was established in the PRC in January 1994 by Guangxin Technology Development Company Limited and certain other shareholders. In May 1998, we became a joint stock limited company through a public offering of 50 million A Shares, with Fosun High Tech, Shanghai Guangxin Technology Development Company Limited, Shanghai Yingfu Information Development Company Limited, Shanghai Shenxin Industry (Group) Limited Company and Shanghai Xidatang Science and Technology Investment Company Limited acting as promoters, and we converted, at a ratio of RMB1.00 to one share, our net assets of RMB100.7 million as at 31 December 1997 into shares subscribed by these promoters. As at the Latest Practicable Date, we were owned by Fosun High Tech as to 48.20%.

During the Track Record Period, we acquired and disposed of our interests in a number of subsidiaries and associated companies. Revenue and expenses of subsidiaries acquired or disposed of during a relevant period have been consolidated from or to the date on which control was transferred to or from our Group, as the case may be. Similarly, shares of profits and losses of associates acquired or disposed of during a relevant period have been included from or to the effective date of acquisition or disposal, as the case may be.

Inter-company transactions and unrealized gains on transactions between members of our Group have been eliminated on consolidation of our financial statements. Unrealized losses are also eliminated unless the transaction provides evidence of the impairment of asset transferred. For the purpose of preparing the consolidated financial statements, the accounting policies of our Company's subsidiaries have been changed where necessary to ensure consistency with the policies adopted by our Company.

The financial information in the Accountants' Report included in Appendix I to this prospectus has been prepared under the historical cost convention, except for certain equity investments, which has been measured at fair value.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following are the key factors that affect our results of operations.

Business Environment

Our performance and profitability depend on the growth of the PRC healthcare market. According to Frost & Sullivan, China's healthcare expenditure amounted to US$299.0 billion in 2011, ranking it fifth globally. Nonetheless, China's per capita expenditure on healthcare amounted to only US$222 in 2011, the lowest among the top ten countries by healthcare expenditure. Therefore, we believe that there is significant growth potential in the PRC healthcare market. In particular, the growth is driven by a number of social and macroeconomic factors, including the size of China's population, the growth of the aging population in China, China's fast growing economy and the rising disposable income of the general public. Rising disposable income and other social and economic developments have also brought significant changes to the lifestyles of the general public in China, resulting in the increased prevalence of lifestyle-related diseases, such as diabetes, and the growing demand for relevant drugs, medical products and services in the PRC. In addition, the PRC government has implemented a series of measures to reform the healthcare system in China, including the enhancement of primary care systems, community healthcare services and rural cooperative medical services, with the goal to provide adequate healthcare services and resources to its immense population. These healthcare reform measures are expected to facilitate patients' access to healthcare services and stimulate the growth of the PRC healthcare market. We expect the continuous growth of the PRC healthcare market as well as increasing demand for pharmaceutical products and healthcare services will have a positive effect on our results of operations.

Our results of operations may also be affected by the increasing consolidation in the healthcare industry. Currently, the PRC healthcare industry is highly fragmented and we expect that market competition and PRC governmental policies will accelerate industry consolidation. We believe that we are well-positioned to benefit from such trend of increasing industry consolidation by leveraging our leadership position in the PRC healthcare industry, diversified business scope covering the key areas in the healthcare value chain, scale of operations, broad retail pharmacy network and our extensive experience in acquisitions of or strategic investments in each of our business segments. Accordingly, we intend to continue to actively participate in industry consolidation through selective acquisitions and strategic investments, which we believe could create significant synergies, including expanded product and service offerings, improved cost advantages, operating efficiencies, enlarged scale of business operations and increased market shares.

Policies and Regulation of Our Industries

We operate in highly regulated industries. Policies and regulations promulgated by the PRC government may significantly affect the pricing, marketing, production, delivery and consumption of our products, and therefore, affect our results of operations.

For instance, the PRC government announced in 2009 that it planned to invest a total of RMB850.0 billion between 2009 and 2011 to implement a series of programs under the ongoing healthcare reform plan. These programs include, among others, the expansion of social medical insurance coverage, the promotion of the use of essential drugs and the establishment of more community healthcare facilities, which are expected to contribute to increases in demand for pharmaceutical products and other healthcare products and services. On the other hand, with the introduction of a more centralized statutory tender system and more stringent price controls over essential drugs and other related measures, the PRC government has also brought significant downward pricing pressure on pharmaceutical manufacturers and distributors.

As at 30 June 2012, a substantial portion of our products were included in the National Medical Insurance Drugs Catalog. The implementation of the National Medical Insurance Drugs Catalog has both negative and positive impacts on our pharmaceutical manufacturing segment. On one hand, the pharmaceutical products included in the National and Provincial Medical Insurance Drugs Catalogs are subject to government price controls in the form of fixed retail prices or retail price ceilings and periodic downward adjustments in pricing. See "Regulatory Overview — Price Controls" from page 129 to page 132 in this prospectus. On the other hand, patients purchasing pharmaceutical products that are included in the National and Provincial Medical Insurance Drugs Catalogs are entitled to reimbursement of all or a portion of their purchase costs from the social medical fund, which makes these pharmaceutical products generally more affordable than non-reimbursable products. We expect the PRC government to further lower the retail price ceilings of pharmaceutical products from time to time to make healthcare more affordable to the public. Regulatory controls over and downward adjustments to retail prices of pharmaceutical products, if significant, could have an adverse impact on the revenue and profitability of our pharmaceutical manufacturing business. We seek to mitigate this impact through technological innovation, adjustment of product portfolio and research and development of high-end new products. See "Business — Pharmaceutical Manufacturing — Research and Development" from page 183 to 191 in this prospectus.

According to applicable PRC laws and regulations, the procurement of substantially all pharmaceutical products, including the pharmaceutical products listed in the National and Provincial Medical Insurance Drugs Catalogs, is subject to a collective tender process through which only successful bidders may sell their products to public hospitals and other public healthcare institutions. Therefore, winning the collective tender is crucial to the operation of our pharmaceutical manufacturing segment. In addition, the PRC government is also actively involved in the procurement of medical devices, and public hospitals and healthcare institutions in China are required to purchase high value medical equipment and other supplies at prices determined through the periodic tender process. We participate in such tender processes regularly and the successful bidding prices are the supply prices at which distributors sell the products to the hospitals. The wholesale prices at which we sell to our distributors are determined in part by the successful bidding prices. Our sales volume and market share depend on our ability to win purchase contracts through the collective tender process. If we fail to win bids in the collective tender process, we will lose the revenue associated with the sales of the affected pharmaceutical products or medical devices to the hospitals in the relevant province or city and our results of operations may be adversely affected.

Research and Development Capabilities and Product Pipeline

Our future results of operations depend on our ability to research, develop and commercialize new products. The pharmaceutical markets are characterized by rapid technological developments. Therefore, we must continue to strengthen our research and development capabilities so as to develop pharmaceutical products that are effective in diagnosing and/or treating new diseases and illnesses. Whether a pharmaceutical product may become commercially successful depends on many factors, including the availability of alternative products with similar therapeutic effects or diagnostic or treatment functions and the success of sales and marketing efforts. As at 30 June 2012, we had five pipeline products at various stages of clinical trials and 16 pipeline products pending approval for production. We expect to receive SFDA approval for production of these pipeline products in the next five years and launch them thereafter. See the section headed "Business — Pharmaceutical Manufacturing — Research and Development" from page 183 to page 191 in this prospectus for more details on these pipeline products. If we fail to obtain regulatory approvals for our new products or our new products fail to attain our projected sales levels, our results of operations could be materially and adversely affected.

Product Mix

Our results of operations are also affected by the product mix in our pharmaceutical manufacturing business. As at 30 June 2012, we manufactured and marketed 22 biopharmaceutical products, 503 chemical drugs and 153 modern Chinese medicines. As at the Latest Practicable Date, we had 22 major products(7), which have contributed or are expected to contribute significantly to the revenue and profit margins of our pharmaceutical manufacturing business. See "Business — Our Business Segments — Pharmaceutical Manufacturing — Products" from page 169 to page 183 in this prospectus.

Our strategy is to focus the manufacturing and marketing resources of our pharmaceutical manufacturing business primarily on our major products, while reducing or phasing out products with lower or decreasing market demand or gross profit margins. We generated from these major products, in aggregate, 65.8%, 70.4%, 73.7% and 76.2% of our pharmaceutical manufacturing segment revenue for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively. Going forward, we will continue to evaluate and adjust our product portfolio from time to time to focus on products with higher profit margins, greater market demand and potential, and higher market barriers-to-entry to maintain or increase the overall profit and profitability of our pharmaceutical manufacturing business.

Notes:

(7) We use a set of criteria in selecting our major products, and such criteria include sales contribution, market potential and brand reputation.

Business Acquisitions and Integration

As a leading healthcare company in the PRC, we believe we are well-positioned to achieve significant growth of our business through acquisitions. Historically, business acquisitions and consolidations have been an important driver for the growth of our revenue and profit. For example, we completed acquisitions of Hexin Pharma, Moluodan Pharma, Yaneng Bioscience, Golden Elephant Pharmacy, CML and Shenyang Hongqi Pharma in 2010 and acquisitions of Aohong Pharma and Dalian Aleph in 2011.

Going forward, we plan to continue to seek suitable targets for acquisitions as part of our overall growth strategy. In particular, we aim to acquire domestic pharmaceutical companies with complementary technologies, products and/or business lines, as well as those which have already established leading market positions in relevant therapeutic areas. We also aim to acquire overseas specialized pharmaceutical companies or generic drug manufacturing companies with strong product portfolios, research and development capabilities and significant presence in China. We believe that these platforms will help to boost the sales volume of our products in global markets while enabling us to introduce foreign drugs into the Chinese market. We have also expanded our other businesses, such as our healthcare services segment, through acquisitions or strategic partnership with leading players in relevant sectors.

The success of our strategy to expand through acquisitions depends largely on:

- the ability to identify suitable acquisition targets and complete acquisitions at commercially acceptable terms or prices;

- the availability, terms and costs of any financing required to fund acquisitions or complete expansion plans; and

- the ability to integrate the acquired businesses and capitalize on the expected synergies arising from the integration.

Cost of Manufacturing

Our profitability is affected by our ability to procure principal raw materials at commercially reasonable prices, in particular, with respect to our pharmaceutical manufacturing business. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, raw material costs accounted for approximately 66.5%, 72.9%, 75.3% and 77.2%, respectively, of the total cost of sales for our pharmaceutical manufacturing business. The price of the majority of raw materials for the segment was generally stable throughout the period. Although raw material price fluctuations did not have a material impact on the gross profit margins of our pharmaceutical manufacturing segment during the Track Record Period, if there is a significant increase in prices of any principal raw material and we cannot pass on such increase to customers due to governmental price controls or for any other reasons, the profitability of our pharmaceutical manufacturing business may be materially and adversely affected.

As a result of the growth of our business, the number of our staff has increased. In addition, we have also increased compensation for our staff over the Track Record Period in order to recruit and retain quality staff for our business operations. As a result, our total staff costs have increased over the Track Record Period. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our total staff costs were RMB456.1 million, RMB604.4 million, RMB648.8 million and RMB418.5 million, respectively. Going forward, we may continue to grow the number of our staff and increase their compensation levels, which are expected to increase our staff costs. On the other hand, we believe that our investments in human resource will allow us to increase our revenue and enhance our overall productivity, which in turn would have a positive effect on our results of operations and financial condition.

CRITICAL ACCOUNTING POLICIES

Our results of operations and financial condition are sensitive to accounting policies, assumptions and estimates that underlie the preparation of our consolidated financial information. Some of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By nature, these judgments are subject to an inherent degree of uncertainty and are based on our historical experiences, terms of existing contracts, management's view on trends in our industry and information from outside sources.

We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our consolidated financial information.

Revenue recognition

We recognize revenue when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases: (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; (ii) from the rendering of services, including processing fees, import and export agent fees and consulting fees, when the relevant services have been rendered and it is probable that economic benefits will flow to our Group and the relevant fees can be measured reliably; (iii) interest income on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset; and (iv) dividend income, when the shareholders' right to receive payment has been established. Revenues from sales of goods by our pharmaceutical manufacturing segment, pharmaceutical distribution business, and diagnostic products and medical devices segment, which are net of sales returns, are recognized when any of the following criteria is met, depending on the terms of the contract: (i) we have delivered products to a customer, which can be a distributor or a drug dispenser such as a hospital, (ii) the customer has full discretion over the channel and price to sell the products, and (iii) there is no unfulfilled obligation that could affect the customer's acceptance of the products. Revenue from the sales of goods by our pharmaceutical retail business net of sales returns is recognized when we sell a product to the customer. Retail sales are usually settled in cash or by debit or credit cards.

Impairment of goodwill

We determine whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of non-financial assets (other than goodwill)

We assess whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of available-for-sale investments

We classify certain investments as available for sale and recognises movements of their fair values in other comprehensive income. When the fair value declines, management makes judgements about the decline in value to determine whether there is an impairment that should be recognised in the consolidated income statements.

Provision for bad debts of loans and receivables

We review the recoverability and aging of loans and receivables and provide impairment provisions if the balances are not fully recoverable. The assessments involve estimation of the recoverability of these balances. Any change in the key sources of estimations will affect the carrying amounts of the loans and receivables, and impairment losses in the period in which such estimate is changed.

Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling cost. These estimates are based on the current market conditions and our historical experience in terms of selling products of similar nature. It could change significantly as a result of changes in customers' needs and prices when the products' expiration date is approaching. Our management reassesses these estimates at the end of each reporting period.

Useful lives of property, plant and equipment

We determine the estimated useful lives and related depreciation charges for our property, plant and equipment. This estimate is based on our 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, or competitor actions in response to severe industry cycles. Our 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.

Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences, and carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Research and development costs

Expenditure incurred on projects to develop new products is capitalized and deferred only when we can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, our intention to complete and our ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

SELECTED FINANCIAL DATA

The following table sets forth our selected consolidated income statements data for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
				(unaudited)	
	(in thousands of RMB)				
REVENUE	**3,850,312**	**4,528,773**	**6,432,589**	**3,079,680**	**3,464,107**
Cost of sales	(2,610,665)	(2,984,561)	(3,991,147)	(2,030,534)	(1,934,832)
GROSS PROFIT	**1,239,647**	**1,544,212**	**2,441,442**	**1,049,146**	**1,529,275**
Other income	61,085	70,509	123,318	77,874	45,510
Selling and distribution costs	(636,510)	(798,275)	(1,209,957)	(533,091)	(716,632)
Administrative expenses	(369,631)	(449,759)	(696,707)	(313,899)	(402,480)
Research and development costs	(71,378)	(119,861)	(189,427)	(72,157)	(101,734)
Other gains	2,793,543	680,618	1,101,638	976,343	464,710
Other expenses	(67,152)	(128,309)	(213,649)	(133,782)	(32,532)
Interest income	14,465	19,598	51,579	20,231	20,739
Finance costs	(132,391)	(162,379)	(313,978)	(150,144)	(198,094)
Share of profits and losses of:					
Jointly-controlled entities	(1,034)	(713)	(189)	(173)	(250)
Associates	436,833	546,310	633,168	323,220	378,717
PROFIT BEFORE TAX	**3,267,477**	**1,201,951**	**1,727,238**	**1,243,568**	**987,229**
Income tax	(700,396)	(201,607)	(341,819)	(255,742)	(129,460)
PROFIT FOR THE YEAR/ PERIOD	**2,567,081**	**1,000,344**	**1,385,419**	**987,826**	**857,769**
Attributable to:					
Owners of the parent	2,501,010	863,654	1,166,184	867,279	701,767
Non-controlling interests	66,071	136,690	219,235	120,547	156,002
	2,567,081	**1,000,344**	**1,385,419**	**987,826**	**857,769**

The following table sets forth our selected consolidated balance sheets data as at the dates indicated:

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	(in thousands of RMB)			
ASSETS				
Non-current Assets				
Property, plant and equipment	1,260,024	1,696,551	2,632,165	3,087,740
Prepaid land lease payments	183,200	298,707	458,910	460,410
Goodwill	51,109	338,909	1,585,136	1,585,136
Other intangible assets	25,766	235,167	1,246,188	1,236,567
Investments in jointly-controlled entities	8,086	2,143	1,954	1,704
Investments in associates	5,622,404	6,065,280	7,395,499	7,642,946
Available-for-sale investments	976,626	2,055,131	2,788,504	2,874,837
Deferred tax assets	11,407	18,354	16,727	23,794
Other non-current assets	24,760	185,825	59,742	67,668
	8,163,382	10,896,067	16,184,825	16,980,802
Current Assets				
Inventories	597,993	932,774	1,123,943	1,230,602
Trade and bills receivables	680,333	1,058,407	1,147,700	1,237,591
Prepayments, deposits and other receivables	208,445	292,721	519,448	529,059
Due from related companies	36,399	19,458	132,123	304,776
Equity investments at fair value through profit or loss	11,702	218,760	231,319	238,857
Held-to-maturity investments	—	14,312	—	—
Cash and cash equivalents	1,296,761	3,343,555	2,894,573	1,743,582
Non-current assets held for sale	475,244	—	—	—
	3,306,877	5,879,987	6,049,106	5,284,467
Total Assets	11,470,259	16,776,054	22,233,931	22,265,269

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	(in thousands of RMB)			
LIABILITIES				
Current Liabilities				
Trade and bills payables	489,364	825,254	919,648	887,761
Other payables and accruals	392,097	882,419	1,775,933	1,511,107
Interest-bearing bank and other borrowings	1,582,998	1,830,386	2,177,051	1,488,805
Due to related companies	5,170	23,425	43,588	35,741
Tax payable	28,713	136,209	75,506	71,292
	2,498,342	3,697,693	4,991,726	3,994,706
Non-current Liabilities				
Interest-bearing bank and other borrowings	1,286,265	2,760,063	3,916,817	4,655,037
Deferred tax liabilities	702,065	864,804	1,595,765	1,565,993
Deferred income	25,250	39,370	40,164	44,754
Other long-term liabilities	63,194	59,126	375,518	313,279
	2,076,774	3,723,363	5,928,264	6,579,063
Total Liabilities	4,575,116	7,421,056	10,919,990	10,573,769
EQUITY				
Equity attributable to owners of the parent				
Issued share capital	1,237,775	1,904,392	1,904,392	1,904,392
Reserves	5,058,083	6,271,305	7,620,145	8,179,435
Proposed final dividend	123,777	190,439	190,439	—
	6,419,635	8,366,136	9,714,976	10,083,827
Non-controlling interests	475,508	988,862	1,598,965	1,607,673
Total Equity	6,895,143	9,354,998	11,313,941	11,691,500
Total Liabilities and Equities	11,470,259	16,776,054	22,233,931	22,265,269
Net Current Assets	808,535	2,182,294	1,057,380	1,289,761
Total Assets Less Current Liabilities	8,971,917	13,078,361	17,242,205	18,270,563

The following table sets forth a summary of our key financial ratios during the Track Record Period:

Financial Ratios	Formulae	As at/year ended 31 December 2009	2010	2011	As at/six months ended 30 June 2011 (unaudited)	2012
Profitability ratios:						
1. Growth						
a. Turnover growth		—	17.6%	42.0%	—	12.5%
b. Net profit growth (decrease)		—	(61.0%)	38.5%	—	(13.2%)
2. Profit margins						
a. Gross margin	a. Gross profit/Sales x 100%	32.2%	34.1%	38.0%	34.1%	44.1%
b. Net profit margin before interest expenses and tax	b. Net profit before interest expenses and taxes/Sales x 100%	88.3%	30.1%	31.7%	45.3%	34.2%
c. Net profit margin	c. Net profit after taxes/Sales x 100%	66.7%	22.1%	21.5%	32.1%	24.8%
3. Return on equity						
a. Return on equity	a. Net profit/Average Shareholders' equity x 100%	45.5%	12.3%	13.4%	10.0%	7.5%
b. Return on total assets	b. Net profit/Average total assets x 100%	27.1%	7.1%	7.1%	5.5%	3.9%
Liquidity ratios:						
1. Liquidity ratios						
a. Current ratio	a. Current assets/Current liabilities	1.3	1.6	1.2	1.9	1.3
b. Quick ratio	b. Current assets — Inventories/Current liabilities	1.1	1.3	1.0	1.6	1.0
2. Turnover ratios						
a. Inventories turnover days	a. Average inventories/Cost of sales x 365 days (or the period generating the sales)	78.9	93.6[(i)]	94.0	83.7	111.0
b. Receivables turnover days (average collection period)	b. Average trade and bills receivables/Sales x 365 days	57.7	70.1[(ii)]	62.6	62.3	62.8
c. Payables turnover days (average payment period)	c. Average trade and bills payables/Cost of sales x 365 days	61.9	80.4[(iii)]	79.8	72.9	85.2

Financial Ratios	Formulae	As at/year ended 31 December 2009	2010	2011	As at/six months ended 30 June 2011 (unaudited)	2012
Capital adequacy ratio:						
1. Gearing ratio[iv]	Total debt/Total assets x 100%	25.0%	27.4%	27.4%	30.8%	27.6%
2. Debt to net worth ratio[iv]						
a. Debt to equity ratio	a. Net debt[v]/(Total assets — Total liabilities) x 100%	22.8%	13.3%	28.3%	20.3%	37.6%
b. Interest coverage	b. Profit before interest and tax/interest	25.7	8.4	6.5	9.3	6.0

(i) Our inventory turnover days, excluding the impact of acquisitions, were 82.2 days for 2010. We consolidated Golden Elephant Pharmacy, Shenyang Hongqi Pharma and CML on 31 December 2010 (the "31 December 2010 Transactions"), which contributed to the increase in the average balance of inventories, yet had no impact on the cost of sales for 2010.

(ii) Our turnover days of trade and bills receivables, excluding the impact of the 31 December 2010 Transactions, were 61.1 days for 2010. The 31 December 2010 Transactions contributed to the increase in the average balance of trade and bills receivables, yet had no impact on the revenue for 2010.

(iii) Our turnover days of trade and bills payables, excluding the impact of the 31 December 2010 Transactions, were 66.9 days for 2010. The 31 December 2010 Transactions contributed to the increase in the average balance of trade and bills payables, yet had no impact on the cost of sales for 2010.

(iv) Debts are defined as current and non-current interest-bearing bank and other borrowings.

(v) Net debts are defined to include all borrowings net of cash and cash equivalents.

SELECTED COMPONENTS OF OUR INCOME STATEMENTS

Revenue

We generate our revenue primarily from our four business segments: (i) pharmaceutical manufacturing; (ii) pharmaceutical distribution and retail; (iii) healthcare services and (iv) diagnostic products and medical devices. We also derive a small portion of our revenue from certain other business operations. Our revenue represents the total segment revenue after the elimination of inter-segment revenue. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our revenue was RMB3,850.3 million, RMB4,528.8 million, RMB6,432.6 million and RMB3,464.1 million, respectively.

The following table sets forth our revenue by business segment for the periods indicated:

	Year ended 31 December									Six months ended 30 June					
	2009			2010			2011			2011			2012		
	External revenue	Inter-segment revenue	Segment revenue	External revenue	Inter-segment revenue	Segment revenue	External revenue	Inter-segment revenue	Segment revenue	External revenue	Inter-segment revenue	Segment revenue	External revenue	Inter-segment revenue	Segment revenue
											(unaudited)				
							(in thousands of RMB)								
Segments:															
Pharmaceutical manufacturing	2,307,091	6,642	2,313,733	2,837,930	820	2,838,750	3,830,824	612	3,831,436	1,771,825	1,979	1,773,804	2,175,876	914	2,176,790
Pharmaceutical distribution and retail	1,054,014	—	1,054,014	1,146,340	—	1,146,340	1,436,049	—	1,436,049	738,796	—	738,796	692,689	—	692,689
Healthcare services	—	—	—	—	—	—	11,258	—	11,258	—	—	—	77,895	—	77,895
Diagnostic products and medical devices	315,497	6,611	322,108	392,386	7,750	400,136	1,049,304	—	1,049,304	516,703	1,288	517,991	511,031	411	511,442
Other business operations	173,710	20,241	193,951	152,117	9,624	161,741	105,154	10,244	115,398	52,356	6,682	59,038	6,616	3,597	10,213
Total Revenue	3,850,312	33,494		4,528,773	18,194		6,432,589	10,856		3,079,680	9,949		3,464,107	4,922	

Pharmaceutical Manufacturing

Revenue of our pharmaceutical manufacturing business is generated primarily from sales of our pharmaceutical products to hospitals and retail pharmacies through distributors. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, segment revenue of our pharmaceutical manufacturing business was RMB2,313.7 million, RMB2,838.8 million, RMB3,831.4 million and RMB2,176.8 million, respectively. After the inter-segment elimination, revenue from our pharmaceutical manufacturing segment was RMB2,307.1 million, RMB2,837.9 million, RMB3,830.8 million and RMB2,175.9 million, respectively, in the same periods. The revenue growth during these periods was primarily due to (i) the increase in revenue from our major products, such as Atomolan, Su Ke Nuo and Yi Bao; and (ii) the expansion of our product portfolio through acquisitions and independent research and development.

The following table sets forth a breakdown of the external revenue of our pharmaceutical manufacturing segment by major products and other products for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2009		2010		2011		2011		2012	
	External revenue	% of segment external revenue	External revenue	% of segment external revenue	External revenue	% of segment external revenue	External revenue	% of segment external revenue	External revenue	% of segment external revenue
							(unaudited)			
	(in millions of RMB, except for percentages)									
Major products	1,517.7	65.8	1,998.0	70.4	2,822.1	73.7	1,216.1	68.6	1,657.4	76.2
Non-major products	789.4	34.2	839.9	29.6	1,008.7	26.3	555.7	31.4	518.5	23.8
External segment revenue	2,307.1	100.0	2,837.9	100.0	3,830.8	100.0	1,771.8	100.0	2,175.9	100.0

We had 22 major products in our pharmaceutical manufacturing segment during the Track Record Period. See "Business — Pharmaceutical Manufacturing — Products." For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, external revenue from our major products was RMB1,517.7 million, RMB1,998.0 million, RMB2,822.1 million and RMB1,657.4 million, representing 65.8%, 70.4%, 73.7% and 76.2% of external revenue of our pharmaceutical manufacturing business for the same periods, respectively. The increases in external revenue from our major products during these periods were mainly due to: (i) the expansion of our major product portfolio through acquisitions and independent research and development; (ii) our enhancement of sales capabilities and the expansion of our sales networks; (iii) our strategy to commit increased manufacturing and marketing resources on products with higher sales growth potential; and (iv) the increase in overall market demand for pharmaceutical products in the PRC.

For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, external revenue of our pharmaceutical manufacturing business segment from products other than the 22 major products was RMB789.4 million, RMB839.9 million, RMB1,008.7 million and RMB518.5 million, respectively.

We expect our overall sales volumes of pharmaceutical products to continue to increase due to a variety of favorable factors, including the growth of the PRC pharmaceutical market, our enhanced sales and marketing efforts, and our expansion of product portfolio through acquisitions and launching of new products from our strong pipeline from time to time.

Pharmaceutical Distribution and Retail

Revenue of our pharmaceutical distribution business is generated primarily from sales of pharmaceutical and other healthcare products to hospitals, retail pharmacies and other pharmaceutical distributors. Revenue of our pharmaceutical retail business is generated primarily from (i) sales of pharmaceutical and other healthcare products to individual end customers through directly operated retail pharmacies and franchised pharmacies; and (ii) franchise fees, franchise management fees, charges for uses of our central computerized systems as well as advertising fees from our retail pharmacy operations. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, segment revenue of our pharmaceutical distribution and retail business was RMB1,054.0 million, RMB1,146.3 million, RMB1,436.0 million and RMB692.7 million, respectively. We did not have any inter-segment revenue for our pharmaceutical and distribution business for the same periods.

For the years ended 31 December 2009 and 2010 and the six months ended 30 June 2011, revenue of our pharmaceutical distribution operation included the revenue from Zhejiang Fosun and Fosun Pharmaceutical, both of which engaged in the distribution of pharmaceutical products. We disposed of our equity interests in Zhejiang Fosun to Sinopharm in June 2011. Revenue from our pharmaceutical retail operation increased during the Track Record Period primarily due to the consolidation of Golden Elephant Pharmacy in December 2010 and the opening of new stores under For Me Pharmacy and Golden Elephant Pharmacy.

Healthcare Services

We generate revenue in our healthcare services segment primarily through the operation of our hospitals of which we hold a majority interest since October 2011. We have acquired a 70% equity interest in Jimin Cancer Hospital, and its accounts have been consolidated into our Group's financial statements since October 2011. As at the Latest Practicable Date, we also beneficially held a 55% equity interest in Guangji Hospital, whose accounts have been consolidated into our Group's financial statements since December 2011. For the period from October 2011 to December 2011 and the six months ended 30 June 2012, revenue of our healthcare services segment was RMB11.3 million and RMB77.9 million, respectively. We did not have any inter-segment revenue for our healthcare services segment for the same period.

Diagnostic Products and Medical Devices

We also generate revenue in our diagnostic products and medical devices segment by selling our diagnostic reagents and equipment, blood transfusion equipment and surgical consumables to hospitals and blood centers primarily through independent distributors, as well as distributing imported high-end medical equipment to other distributors. For the years ended 31 December 2009, 2010 and 2011, revenue of this segment was RMB322.1 million, RMB400.1 million and RMB1,049.3 million, respectively. After the elimination of inter-segment revenue, external revenue of this segment was RMB315.5 million, RMB392.4 million and RMB1,049.3 million, respectively, in the same periods. The increases in revenue of this segment during the Track Record Period were primarily due to (i) our expansions of diagnostic products and medical devices business through acquisitions, such as our acquisition of CML in December 2010; and (ii) enhancement of our sales capabilities and expansion of our sales networks for our medical devices and diagnostic products. For the six months ended 30 June 2012, segment revenue of our diagnostic products and medical devices business was RMB511.4 million, which was largely stable as compared to the segment revenue for the same period in 2011. External revenue of this segment for the six months ended 30 June 2012 was RMB511.0 million as compared to RMB516.7 million for the same period in 2011.

Other Business Operations

Revenue from other business operations is mainly generated from our non-core business operations, such as exports of certain non-pharmaceutical products. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, segment revenue of our other business operations was RMB194.0 million, RMB161.7 million, RMB115.4 million and RMB10.2 million, respectively. The external revenue of our other business operations was RMB173.7 million, RMB152.1 million, RMB105.2 million and RMB6.6 million, respectively, in the same periods. The significant decreases in revenue of our other business operations segment were primarily due to our disposal of equity interests unrelated to our core businesses, such as disposal of Science & Technology Imp. & Exp. in November 2011, which is engaged in the export of non-pharmaceutical products.

Cost of Sales, Gross Profit and Gross Profit Margin

For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our cost of sales was RMB2,610.7 million, RMB2,984.6 million, RMB3,991.1 million and RMB1,934.8 million, respectively, and our gross profit, which equals revenue less cost of sales, was RMB1,239.6 million, RMB1,544.2 million, RMB2,441.4 million and RMB1,529.3 million, respectively. Our gross profit margin, which equals gross profit divided by revenue, for the same periods was 32.2%, 34.1%, 38.0% and 44.1% respectively.

	Year ended 31 December						Six months ended 30 June			
	2009		2010		2011		2011		2012	
	RMB	% of segment revenue	RMB	% of segment revenue	RMB	% of segment revenue	RMB	% of segment revenue	RMB	% of segment revenue
							(unaudited)			
	(in thousands, except for percentages)									
Pharmaceutical manufacturing:										
Segment revenue	2,313,733	100.0	2,838,750	100.0	3,831,436	100.0	1,773,804	100.0	2,176,790	100.0
Segment cost of sales	(1,352,543)	(58.5)	(1,603,661)	(56.5)	(2,018,316)	(52.7)	(1,018,294)	(57.4)	(999,392)	(45.9)
Segment gross profit	961,190	41.5	1,235,089	43.5	1,813,120	47.3	755,510	42.6	1,177,398	54.1
Segment results*	215,140	9.3	240,326	8.5	440,793	11.5	171,970	9.7	362,230	16.6
Segment gross margin		41.5		43.5		47.3		42.6		54.1
Pharmaceutical distribution and retail:										
Segment revenue	1,054,014	100.0	1,146,340	100.0	1,436,049	100.0	738,796	100.0	692,689	100.0
Segment cost of sales	(944,097)	(89.6)	(1,030,929)	(89.9)	(1,239,603)	(86.3)	(648,372)	(87.8)	(591,358)	(85.4)
Segment gross profit	109,917	10.4	115,411	10.1	196,446	13.7	90,424	12.2	101,331	14.6
Segment results*	15,095	1.4	23,977	2.1	22,848	1.6	10,001	1.4	11,376	1.6
Segment gross margin		10.4		10.1		13.7		12.2		14.6
Healthcare services:										
Segment revenue	—	—	—	—	11,258	100.0	—	—	77,895	100.0
Segment cost of sales	—	—	—	—	(8,332)	(74.0)	—	—	(57,379)	(73.7)
Segment gross profit	—	—	—	—	2,926	26.0	—	—	20,516	26.3
Segment results*	—	—	—	—	681	6.0	—	—	10,665	13.7
Segment gross margin		—		—		26.0	—	—		26.3
Diagnostic products and medical devices:										
Segment revenue	322,108	100.0	400,136	100.0	1,049,304	100.0	517,991	100.0	511,442	100.0
Segment cost of sales	(176,118)	(54.7)	(220,079)	(55.0)	(634,438)	(60.5)	(325,048)	(62.8)	(284,628)	(55.7)
Segment gross profit	145,990	45.3	180,057	45.0	414,866	39.5	192,943	37.2	226,814	44.3
Segment results*	26,978	8.4	31,104	7.8	52,352	5.0	23,970	4.6	24,943	4.9
Segment gross margin		45.3		45.0		39.5		37.2		44.3
Other business operations:										
Segment revenue	193,951	100.0	161,741	100.0	115,398	100.0	59,038	100.0	10,213	100.0
Segment cost of sales	(170,859)	(88.1)	(142,731)	(88.2)	(98,708)	(85.5)	(48,769)	(82.6)	(6,018)	(58.9)
Segment gross profit	23,092	11.9	19,010	11.8	16,690	14.5	10,269	17.4	4,195	41.1
Segment results*	(685)	—	(299)	—	2,663	2.3	2,511	4.3	1,162	11.4
Segment gross margin		11.9		11.8		14.5		17.4		41.1

	Year ended 31 December						Six months ended 30 June			
	2009		2010		2011		2011		2012	
	RMB	% of segment revenue	RMB	% of segment revenue	RMB	% of segment revenue	RMB	% of segment revenue	RMB	% of segment revenue
							(unaudited)			
	(in thousands, except for percentages)									
Inter-segment eliminations										
Segment revenue	(33,494)	100.0	(18,194)	100.0	(10,856)	100.0	(9,949)	100.0	(4,922)	100.0
Segment cost of sales	32,952	(98.4)	12,839	(70.6)	8,250	(76.0)	9,949	(100.0)	3,943	(80.2)
Segment gross profit	(542)	1.6	(5,355)	29.4	(2,606)	24.0	—	—	(979)	19.8
Segment results*	296	(0.9)	5,324	(29.3)	3,486	(32.1)	1,710	(17.2)	1,708	(34.7)
Total										
Revenue	3,850,312	100.0	4,528,773	100.0	6,432,589	100.0	3,079,680	100.0	3,464,107	100.0
Cost of sales	(2,610,665)	(67.8)	(2,984,561)	(65.9)	(3,991,147)	62.0	(2,030,534)	(65.9)	(1,934,832)	(55.9)
Gross profit	1,239,647	32.2	1,544,212	34.1	2,441,442	38.0	1,049,146	34.1	1,529,275	44.1
Results*	256,824	6.7	300,432	6.6	522,823	8.1	210,162	6.8	412,084	11.9
Gross margin		32.2		34.1		38.0		34.1		44.1

* Segment results equals to segment gross profit less selling and distribution costs, administrative expenses and research and development expenses related to the given business segment.

Pharmaceutical Manufacturing

The principal components of cost of sales of our pharmaceutical manufacturing segment are cost of raw materials, labor expenses and depreciation expenses. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, segment cost of sales of our pharmaceutical manufacturing segment was RMB1,352.5 million, RMB1,603.7 million, RMB2,018.3 million and RMB999.4 million, respectively.

For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, gross profit of our pharmaceutical manufacturing segment, which equals segment revenue less segment cost of sales, was RMB961.2 million, RMB1,235.1 million, RMB1,813.1 million and RMB1,177.4 million, respectively. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, gross profit margin of our pharmaceutical manufacturing segment, which equals segment gross profit divided by segment revenue, was 41.5%, 43.5%, 47.3% and 54.1%, respectively. Increases in such segment gross profit margin during the Track Record Period were mainly due to (i) an increase in sales contribution of our major products, of which the average gross profit margin is higher than that of our other products; and (ii) improved average gross profit margin of the major products as a result of technological improvements and economies of scale.

Pharmaceutical Distribution and Retail

Cost of sales of our pharmaceutical distribution and retail segment mainly includes cost of healthcare products purchased. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, segment cost of sales of our pharmaceutical distribution and retail business was RMB944.1 million, RMB1,030.9 million, RMB1,239.6 million and RMB591.4 million, respectively.

For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, gross profit of our pharmaceutical distribution and retail segment was RMB109.9 million, RMB115.4 million, RMB196.4 million and RMB101.3 million, respectively, and the gross profit margin of this segment was 10.4%, 10.1%, 13.7% and 14.6%, respectively.

The following table shows the breakdown of revenue, gross profit and gross profit margin of our pharmaceutical distribution business and pharmaceutical retail business for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
				(unaudited)	
	(in thousands of RMB)				
Pharmaceutical distribution					
Revenue.	1,002,579	1,092,615	996,328	536,170	459,460
Cost of sales.	940,632	1,030,929	944,368	507,083	434,926
Gross profit	61,947	61,686	51,960	29,087	24,534
Gross profit margin	6.2%	5.6%	5.2%	5.4%	5.3%
Pharmaceutical retail					
Revenue.	199,989	306,315	710,706	335,425	368,202
Cost of sales.	152,019	252,590	566,220	274,088	291,404
Gross profit	47,970	53,725	144,486	61,337	76,798
Gross profit margin	24.0%	17.5%	20.3%	18.3%	20.9%
Inter-Segment Eliminations					
Revenue.	(148,554)	(252,590)	(270,985)	(132,799)	(134,973)
Total					
Revenue.	1,054,014	1,146,340	1,436,049	738,796	692,689
Gross profit	109,917	115,411	196,446	90,424	101,332
Gross profit margin	10.4%	10.1%	13.7%	12.2%	14.6%

During these periods, the gross profit margin of this segment was affected by a number of factors, including our product mix, market competition and changes in the government policies related to our pharmaceutical distribution and retail business. The increases in our segment gross profit and segment gross profit margin since 2011 were primarily due to our consolidation of Golden Elephant Pharmacy in December 2010. The acquisition increased contribution of revenue from pharmaceutical retail business to our pharmaceutical distribution and retail segment, and the gross profit margin of our pharmaceutical retail business was higher than that of our pharmaceutical distribution business.

Healthcare Services

Cost of sales of our healthcare services business mainly includes cost of healthcare products purchased, depreciation and rental of hospital premises and labor expenses. We generate revenue in our healthcare services segment through the operation of our hospitals since October 2011. For the period from October 2011 to December 2011, segment cost of our healthcare services business was RMB8.3 million, segment gross profit was RMB2.9 million and segment gross profit margin was 26.0%. For the six months ended 30 June 2012, segment cost of our healthcare services business was RMB57.4 million, segment gross profit was RMB20.5 million and segment gross profit margin was 26.3%.

Diagnostic Products and Medical Devices

Cost of sales of our diagnostic products and medical devices business mainly consists of the cost of raw materials, labor expenses and depreciation expenses. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, segment cost of sales of our diagnostic products and medical devices business was RMB176.1 million, RMB220.1 million, RMB634.4 million and RMB284.6 million, respectively.

For the years ended 31 December 2009, 2010, 2011 and the six months ended 30 June 2012, segment gross profit of our diagnostic products and medical devices business was RMB146.0 million, RMB180.1 million, RMB414.9 million and RMB226.8 million, respectively, and the gross profit margin of this segment was 45.3%, 45.0%, 39.5% and 44.3%, respectively. The increase in segment gross profit in 2011 was due to our acquisition of Chindex's business of distribution of high-end medical devices in the PRC through acquisition of CML in December 2010. As the gross profit margin for the business of distribution of high-end medical devices was lower than that for the businesses of manufacturing of diagnostic products, medical devices and consumables, our segment gross profit margin decreased from 45.0% in 2010 to 39.5% in 2011. The increase in segment gross profit margin from 37.2% in the first half of 2011 to 44.3% in the first half of 2012 was primarily due to the increased revenue contribution of our diagnostic products, medical devices and consumables manufacturing businesses in this segment, because the gross profit margin for the manufacturing of diagnostic products, medical devices and consumables was higher than that for the distribution of high-end medical devices.

Other Business Operations

Cost of sales of other business operations mainly consists of products procurement costs. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, segment cost of sales of our other business operations was RMB170.9 million, RMB142.7 million, RMB98.7 million and RMB6.0 million, respectively.

For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, gross profit of our other business operations segment was RMB23.1 million, RMB19.0 million, RMB16.7 million and RMB4.2 million, respectively, and segment gross profit margin was 11.9%, 11.8%, 14.5% and 41.1%, respectively.

Other Income

Other income consists of dividends from available-for-sale investments, equity investments at fair value through profit or loss and government grants. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our other income amounted to RMB61.1 million, RMB70.5 million, RMB123.3 million and RMB45.5 million, respectively. Fluctuations in our other income were primarily due to the changes in our dividends from available-for-sale investments, such as those in Henan Lingrui Pharmaceutical Co., Ltd.

Selling and Distribution Costs

Our selling and distribution costs primarily consist of salary and employee benefit expenses for personnel engaged in sales, marketing and distribution activities, sales promotion expenses, travelling expenses, office expenses, transportation expenses and other costs in connection with sales, marketing and distribution activities. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our selling and distribution costs amounted to RMB636.5 million, RMB798.3 million, RMB1,210.0 million and RMB716.6 million, respectively. During the same periods, as a percentage of revenue, our selling and distribution costs was 16.5%, 17.6%, 18.8% and 20.7%, respectively. Increases in our selling and distribution costs during these periods were mainly due to (i) the expansion of our sales network and our efforts to strengthen our sales team, which resulted in larger sales team compensation and benefit expenses; (ii) our efforts to market our pharmaceutical products through our own sales team rather than through third party distributors to increase our sales volume and profitability, which resulted in higher sales promotion expenses, travelling expenses and office expenses; and (iii) our increased investments in advertising and promotional activities for our new products and some of our major products.

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

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
				(unaudited)	
	(in thousands of RMB)				
Salary and employee benefit expenses	134,555	150,406	254,905	124,822	158,700
Sales promotion expenses	129,309	198,657	389,411	164,553	252,244
Travelling expenses	157,343	154,861	181,534	88,316	101,478
Office expenses	115,022	158,106	172,463	72,470	87,460
Transportation expenses	37,080	49,413	74,908	41,135	40,349
Others	63,201	86,832	136,736	41,795	76,401
	636,510	798,275	1,209,957	533,091	716,632

Administrative Expenses

Our administrative expenses primarily consist of salary and employee benefit expenses for administrative staff, office expenses, depreciation and amortization, travelling expenses and professional fees in connection with our business acquisition activities. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our administrative expenses amounted to RMB369.6 million, RMB449.8 million, RMB696.7 million and RMB402.5 million, respectively. During the same periods, as a percentage of revenue, our administrative expenses was 9.6%, 9.9%, 10.8% and 11.6%, respectively. Increases in our administrative expenses were primarily due to (i) the consolidation of acquired businesses; and (ii) the increased staff costs and office expenses as a result of our business growth.

The following table sets out a breakdown of the major components of our administrative expenses for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
				(unaudited)	
	(in thousands of RMB)				
Salary and employee benefit expenses	169,527	226,791	344,284	170,449	213,172
Office expenses	68,716	82,018	120,294	54,867	65,635
Depreciation and amortization	32,766	32,370	64,805	22,854	50,811
Travelling expenses	19,170	22,485	34,508	14,895	18,729
Professional fees	8,905	21,303	17,222	8,166	12,073
Others	70,547	64,791	115,594	42,668	42,060
	369,631	449,758	696,707	313,899	402,480

Research and Development Expenses

Our research and development expenses include the cost of our internal research and development activities, excluding capitalized research and development costs. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our research and development expenses amounted to RMB71.4 million, RMB119.9 million, RMB189.4 million and RMB101.7 million, respectively, which represented 3.1%, 4.2%, 4.9% and 4.7% of total external revenue for our pharmaceutical manufacturing segment for the same periods. The increase in research and development expenses reflects our key focus on and continuous investments in the research and development of pharmaceutical products. For details of our research and development activities, please refer to the section headed "Business — Our Business Segments — Pharmaceutical Manufacturing — Research and Development" from page 183 to page 191 in this prospectus.

Other Gains

Our other gains mainly consist of gains on disposal or deemed disposal of associates and subsidiaries, gains on disposal of available-for-sale investments and gains on disposal of non-current assets held for sale. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our other gains amounted to RMB2,793.5 million, RMB680.6 million, RMB1,101.6 million and RMB464.7 million, respectively.

Other gains in 2009 included a pre-tax gain of RMB2,608.2 million as deemed disposal of equity interest in Sinopharm upon Sinopharm's listing on the Main Board of the Hong Kong Stock Exchange in September 2009. Upon Sinopharm's listing, our equity interest in Sinopharm decreased from 47.0% to 34.0%. Our after tax profit for the deemed disposal of equity interest in Sinopharm upon Sinopharm's listing in 2009 was RMB1,956.1 million.

Other gains in 2010 included a pre-tax gain of RMB327.2 million on disposal of our equity interest in Forte. Our after tax profit for the disposal of our equity interest in Forte in 2010 was RMB209.5 million.

Other gains in 2011 included a pre-tax gain of RMB673.1 million as deemed disposal of equity interest in Sinopharm upon Sinopharm's completion of a share placing in May 2011. Upon Sinopharm's completion of the placing, our beneficial equity interest in Sinopharm decreased from 34.0% to 32.1%. Our after tax profit for our deemed disposal of equity interest in Sinopharm due to Sinopharm's placing in 2011 was RMB504.8 million.

The following table sets forth the components of our other gains for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
				(unaudited)	
	(in thousands of RMB)				
Other Gains					
One-off gains					
Fair value gains on equity investments at fair value through profit or loss	6,029	45,450	—	—	—
Gain on disposal of associates	27,982	157,699	36,554	—	232,681
Gain on deemed disposal of associates	2,622,092	97,848	751,007	730,160	—
Gain on disposal of non-current assets held for sale	28,658	327,233	—	—	—
Gain on bargain purchase of a subsidiary	1,202	—	—	—	—
Gain on bargain purchase of an associate	—	—	90,678	90,678	—
Gain on disposal of subsidiaries	—	—	8,675	11,095	—
Gain on disposal of available-for-sale investments	96,358	36,820	192,750	133,933	228,231
Gain on disposal of equity investments at fair value through profit or loss	1,384	824	2,422	2,422	—
	2,783,705	665,874	1,082,086	968,288	460,912
Others	9,838	14,744	19,552	8,055	3,798
	2,793,543	680,618	1,101,638	976,343	464,710

We generate a portion of our profits before tax from one-off gains. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our profit before tax after adjustment for one-off gains was RMB534.9 million, RMB617.4 million, RMB818.1 million and RMB536.3 million, respectively. The following table sets forth our adjusted profit before tax for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
				(unaudited)	
	(in thousands of RMB)				
Profit before tax	3,267,477	1,201,951	1,727,238	1,243,568	987,229
Adjusted for:					
One-off gains	(2,783,705)	(665,874)	(1,082,086)	(968,288)	(460,912)
One-off other expenses	51,119	81,298	172,990	112,638	10,009
Adjusted profit before tax:	534,891	617,375	818,142	387,918	536,326

As a part of our business strategy, we actively seek to accelerate our growth through acquisitions and strategic investments. We will continue to acquire equity interests in companies in the pharmaceutical and healthcare services industries that had excellent operational track records in order to benefit from their growth and capitalize on opportunities resulting from such business expansions. We also target to dispose of our interests in companies in other industries going forward at suitable times. We may receive one-off gains on disposal or deemed disposal of associates, on disposal of non-current assets held for sale and on disposal of available-for-sale investments from time to time in the future. Nevertheless, we cannot assure you that such one-off gains will recur, or that the sizes of such one-off gains will be comparable to those we recognized during the Track Record Period. See "Risk Factors — Risks Relating to Our Businesses and Industries — We generate a portion of our net profits from one-off gains" on page 58.

Other Expenses

Other expenses consist primarily of provision for impairment of non-current assets, provision for impairment of available-for-sale investments, provision for impairment of property, plant and equipment, provision for inventories and bank charges. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our other expenses amounted to RMB67.2 million, RMB128.3 million, RMB213.6 million and RMB32.5 million, respectively, which represented 1.7%, 2.8%, 3.3% and 0.9% of our total revenue in the same periods. Fluctuations in our other expenses were primarily due to the changes in provision for impairment of non-current assets and the fair value loss on equity investments.

Interest Income

Our interest income represents interest income on bank deposits. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, we recorded interest income of RMB14.5 million, RMB19.6 million, RMB51.6 million and RMB20.7 million, respectively. The increases in our interest income were primarily due to the increase in interest income from bank deposits as we received the proceeds from the RMB1,000.0 million and RMB1,600.0 million offerings of mid-term notes in November 2010 and March 2011, respectively, and the RMB1,500.0 million offering of corporate bonds in April 2012.

Finance Costs

Our finance costs consist of interest payments on interest-bearing obligations and interest expenses on discounted bills. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our finance costs amounted to RMB132.4 million, RMB162.4 million, RMB314.0 million and RMB198.1 million, respectively, which represented 3.4%, 3.6%, 4.9% and 5.7% of our total revenue for the same periods. The following table sets forth the components of our finance income and finance cost for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
				(unaudited)	
	(in thousands of RMB)				
Interest on bank and other borrowings wholly repayable within five years	133,823	158,851	315,759	147,116	200,586
Interest on bank and other borrowings not wholly repayable within five years	1,518	8,030	2,255	5,382	1,293
	135,341	166,881	318,014	152,498	201,879
Less: Interest capitalized	(2,950)	(4,502)	(4,036)	(2,354)	(3,785)
Interest expenses, net	132,391	162,379	313,978	150,144	198,094

The increases in our finance costs during the Track Record Period were primarily due to the RMB1,000.0 million and RMB1,600.0 million offerings of mid-term notes in November 2010 and March 2011, respectively, the RMB1,500.0 million offering of corporate bonds in April 2012, and the increases in bank interest rates.

Share of Profits and Losses of Jointly Controlled Entities and Share of Profits and Losses of Associates

We account for our joint ventures as jointly controlled entities if both we and any of our joint venture partners, pursuant to the relevant joint venture agreements, have unilateral control over the economic activities of such joint ventures. We account for our joint ventures as associates if we have significant influence but no control or joint control over such joint ventures. Investments in jointly controlled entities and associates are accounted for using the equity method. We recognize our share of profits or losses of jointly controlled entities and associates in our income statement. We recorded share of losses of jointly controlled entities of RMB1.0 million, RMB0.7 million, RMB0.2 million and RMB0.3 million for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively. For the same periods, we recorded share of profits of associates of RMB436.8 million, RMB546.3 million, RMB633.2 million and RMB378.7 million, respectively. Of such profits, contributions from the share of profits of Sinopharm Investment, the controlling shareholder of Sinopharm, for the same periods were RMB352.7 million, RMB390.3 million, RMB509.2 million and RMB305.9 million, respectively. As at the Latest Practicable Date, we are the second largest beneficial shareholder of Sinopharm and have four representatives on its board. Three of these directors are on the board's strategy and investment committee, which is primarily responsible for Sinopharm's long-term development strategies and major investment decisions. The committee is also authorized by Sinopharm's board to supervise and monitor the implementation of its annual operational plans and investment proposals. As such, we have assisted Sinopharm in setting and executing its development strategies, and we expect to continue to benefit from Sinopharm's growth. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, Sinopharm's revenue was RMB52,668.2 million, RMB69,233.7 million, RMB102,224.8 million and RMB66,562.3 million, respectively, its gross profit was RMB4,407.3 million, RMB5,835.9 million, RMB8,354.7 million and RMB5,453.4 million, respectively, its gross margin was 8.4%, 8.4%, 8.2% and 8.2%, respectively, and its profit attributable to owners of our Company was RMB967.2 million, RMB1,208.8 million, RMB1,560.6 million and RMB959.1 million, respectively. Key factors affecting Sinopharm's results of operations include (i) business environment of the PRC pharmaceutical industry and healthcare market; (ii) policies and regulations of the PRC pharmaceutical industry; (iii) its distribution network, product offerings and scale of operations; and (iv) its cost of purchasing merchandise. Sinopharm's revenue growth during these periods was primarily due to (i) increase in types and amount of products sold by its existing customers and number of new customers; (ii) expansion of its distribution network through acquisition of the leading companies in China and the relevant regional markets and establishment of new companies and businesses; and (iii) extension of its distribution network coverage to community clinics and other medical institutions.

For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our net profit after adjustment for share of profits and losses of jointly-controlled entities and associates was RMB2,131.3 million, RMB454.7 million, RMB752.4 million and RMB479.3 million, respectively. The following table sets forth our adjusted net profit for the periods indicated:

	Year ended 31 December			**Six months ended 30 June**	
	2009	**2010**	**2011**	**2011**	**2012**
				(unaudited)	
	(in thousands of RMB)				
Net profit	2,567,081	1,000,344	1,385,419	987,826	857,769
Adjusted for:					
Share of profits and losses of:					
Jointly-controlled entities	1,034	713	189	173	250
Associates	(436,833)	(546,310)	(633,168)	(323,220)	(378,717)
Adjusted net profit:	2,131,282	454,747	752,440	664,779	479,302

Income Tax Expense

The following table sets forth the components of our income taxes for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
				(unaudited)	
	(in thousands of RMB, except percentages)				
Profit before tax	3,267,477	1,201,951	1,727,238	1,243,568	987,229
Share of profits and losses from jointly-controlled entities and associates	(435,799)	(545,597)	(632,979)	(323,047)	(378,467)
Deductible temporal differences and tax losses not recognized	61,414	203,683	615,455	253,863	63,215
Profit before tax after adjustment	2,893,092	860,037	1,709,714	1,174,384	671,977
Tax expenses	700,396	201,607	341,819	255,742	129,460
Effective tax rate after adjustment	24.2%	23.4%	20.0%	21.8%	19.3%

Our effective income tax rate fluctuated during the Track Record Period primarily due to changes in (i) the tax rates applicable to our subsidiaries (87% of our profit in 2009 had an applicable tax rate of 25%; 53% of our profit in 2010 had an applicable tax rate of 22%; 46% and 30% of our profit in 2011 had an applicable tax rate of 25% and 15%, respectively; 61% and 15% of our profit in the six months ended 30 June 2011 had an applicable tax rate of 25% and 15%, respectively; and 52% of our profit in the six months ended 30 June 2012 had an applicable tax rate of 15%); (ii) share of profits and losses from jointly controlled entities and associates that are PRC resident enterprises, the income from which is exempt from corporate income tax under the 2008 EIT Law; and (iii) deductible temporal differences and tax losses not recognized, which were unable to be deducted from our taxable income in the periods they were incurred, even though they are allowed to be deducted from taxable income in future periods.

Corporate income tax

Our Company and our PRC subsidiaries are subject to income tax in the PRC. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our income tax expense was RMB700.4 million, RMB201.6 million, RMB341.8 million and RMB129.5 million, respectively.

On 16 March 2007, the National People's Congress enacted the 2008 EIT Law. According to the 2008 EIT Law and its implementation rules, all PRC incorporated companies became subject to the enterprise income tax at a single rate of 25% from 1 January 2008. However, the 2008 EIT Law provided for a transition period to enterprises that had preferential tax treatment prior to the promulgation of the 2008 EIT Law. In particular, enterprises that are entitled to exemptions or reduced income tax rates for fixed terms under the former foreign invested enterprise tax law would continue to enjoy such treatment until the expiry of such fixed terms. A number of our PRC subsidiaries enjoyed such preferential tax treatment during the Track Record Period, mainly including:

- Our subsidiaries that were qualified as high-and-new technology enterprises in any period in the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012 enjoyed a preferential enterprise income tax rate of 15% during such period. Under the 2008 EIT Law and the relevant regulations, the 15% preferential enterprise income tax rate is subject to review and approval by the tax authorities every three years.

- Our subsidiaries that were established in the western development zone of China were entitled to the preferential tax treatment under the PRC government policy in support of the development of western China and enjoyed a preferential enterprise income tax rate of 15%, if they are engaged in the projects listed in the Catalogue for Industries, Products and Technologies Currently and Particularly Encouraged by the State for Development (as amended in 2000 and as substituted by State Council's Interim Provisions on Promoting Industrial Structure Adjustment《國務院關於發佈實施〈促進產業結構調整暫行規定〉的決定》promulgated on 2 December 2005) as their principal business and the revenue from such principal business accounts for over 70% of their total revenue.

- Our subsidiaries that were established in Pudong New Area, Shanghai prior to 16 March 2007 enjoyed preferential enterprise income tax rates of 18%, 20% and 22% in 2009, 2010 and 2011, respectively. Under the 2008 EIT Law and the relevant regulations, enterprise income tax rates applicable to these subsidiaries is 24% for 2011 and 25% thereafter.

In addition to applicable enterprise income tax rates, our effective enterprise income tax rates may also be affected by amounts relating to portions of income not subject to taxation and costs and expenses not deductible for taxation purposes, certain tax benefits on qualified research and development expenses and utilization of tax losses for which no deferred income tax assets were recognized.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of tax assets and tax liabilities in the financial statements and the corresponding tax basis and is accounted for using the liability method. Aside from certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that future taxable profits will be available against which the asset can be recognized. Deferred tax assets and liabilities are determined at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and regulations that have been enacted or substantively enacted at the relevant balance sheet date.

The movements in our deferred tax assets and deferred tax liabilities during the Track Record Period are as follows:

	Year ended 31 December			Six months ended 30 June
	2009	2010	2011	2012
	(in thousands of RMB)			
At beginning of the year/period, net	(40,541)	(690,658)	(846,450)	(1,579,038)
Deferred tax assets of acquired subsidiaries	—	1,791	3,119	—
Deferred tax liabilities arising from acquisition of subsidiaries	—	(42,414)	(259,746)	—
Deferred tax charged to profit or loss during the year/period	(638,527)	(5,864)	(195,949)	(11,929)
Deferred tax charged to reserves during the year/period	(11,590)	(109,305)	(280,012)	48,768
At end of the year/period, net	(690,658)	(846,450)	(1,579,038)	(1,542,199)

Non-controlling Interests

Non-controlling interests represent the interests not held by us in the results of operations and net assets of our non-wholly-owned subsidiaries. We treat transactions with non-controlling interests as transactions with parties external to our Company. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our profit attributable to non-controlling interests amounted to RMB66.1 million, RMB136.7 million, RMB219.2 million and RMB156.0 million, respectively. The increases in our non-controlling interests were mainly due to the growth in profits of our non-wholly-owned subsidiaries.

Profits generated from associated companies and one-off gains

We generate a portion of our profits from our associated companies and one-off gains. The following table illustrates our adjusted net profit attributable to owners of the parent after excluding one-off gains, share of profits and losses of jointly-controlled entities and associates, headquarters finance costs, and one-off other expenses:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
				(unaudited)	
	(in thousands of RMB)				
Net profit attributable to owners of the parent	2,501,010	863,654	1,166,184	867,279	701,767
Finance costs related to one-off gains and share of profits and losses of jointly-controlled entities and associates(i)	24,517	48,996	125,684	55,383	43,187
One-off gains	(2,783,705)	(665,874)	(1,082,086)	(968,288)	(460,912)
One-off other expenses(ii)	51,119	81,298	172,990	112,638	10,009
Share of profits and losses of jointly-controlled entities and associates	(435,799)	(545,597)	(632,979)	(323,047)	(378,467)
Including: share of profits and losses of jointly-controlled entities and associates related to our Group's core business	*(410,084)*	*(525,890)*	*(621,877)*	*(314,067)*	*(377,237)*
Taxation attributable(iii)	687,190	186,423	239,471	214,178	113,844
Amount of adjusted items above attributable to non-controlling interests	4,317	51,486	77,896	68,648	44,028
Adjusted net profit attributable to owners of the parent	48,649	20,386	67,160	26,791	73,456

(i) Finance costs related to one-off gains and share of profits and losses of jointly-controlled entities and associates represent the difference of the total finance costs of our Company and Fosun Industrial subtracting finance costs related to operating activities of these two companies. These costs are mainly attributable to the generation of one-off gains and share of profits and losses of jointly-controlled entities and associates during the Track Record Period.

(ii) One-off other expenses include provision for impairment of available-for-sale investment at cost, provision for impairment of other non-current assets, provision for impairment of other current asset and fair value loss on equity investments at fair value through profit or loss, which are related to one-off gains.

(iii) Taxation attribution is the product of the adjusted items which are subject to income tax and the tax rates applicable to each entity.

The adjusted net profit attributable to owners of the parent above is not adjusted for all expenses related to our Group's investment activities in general. It is only adjusted for the finance costs related to investment activities that directly generated the one-off gains during the Track Record Period, because the majority of the headquarters related expenses, such as headquarters administrative expenses and headquarters finance expenses, cannot be clearly identified as related to investment activities that directly generate one-off gains and share of profit from jointly-controlled entities and associates. The net profit attributable to owners of the parent adjusted for all investment related expenses in the following table is fully adjusted for all expenses related to our Group's general investment activities, which also generated the one-off gains and share of profits and losses of jointly-controlled entities and associates during the Track Record Period.

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
				(unaudited)	
	(in thousands of RMB)				
Adjusted net profit attributable to owners of the parent	48,649	20,386	67,160	26,791	73,456
Other headquarters finance costs[(i)]	78,786	56,719	125,010	63,789	108,753
Headquarters administrative expenses[(ii)]	96,134	124,528	177,850	80,407	103,748
Taxation attributable[(iii)]	(24,525)	(23,063)	(45,996)	(21,636)	(37,276)
Amount of adjusted items above attributable to non-controlling interests	(98)	(300)	(268)	(114)	(150)
Net profit attributable to owners of the parent adjusted for all headquarters related expenses	198,947	178,270	323,756	149,237	248,531

(i) Other headquarters finance costs were headquarters finance costs minus finance costs related to one-off gains and share of profits and losses of jointly-controlled entities and associates, which were mainly attributable to our Group's investment activities.

(ii) Headquarters administrative expenses represent the administrative expenses mainly attributable to our Group's investment activities. However, certain expenses related to investment activities cannot be clearly separated from other general administrative expenses.

(iii) Taxation attribution is the product of the adjusted items which are subject to income tax and the tax rates applicable to each entity.

We cannot assure you that the one-off income and gains will recur in the future, or that the sizes of such one-off income and gains will be comparable to those we recognized during the Track Record Period. In addition, as we do not have adequate control over these associated companies, if their performance deteriorates, our results of operations may be materially and adversely affected as well. See "Risk Factors — Risks Relating to Our Businesses and Industries — We generate a portion of our net profits from our associated companies" on page 59 in this prospectus for additional information.

Acquisitions

During the Track Record Period, we have expanded rapidly through organic growth, acquisitions and strategic investments. We acquired and consolidated Fuji Medical in 2009, Hexin Pharma, Yaneng Bioscience, Moluodan Pharma, Golden Elephant Pharmacy, Shenyang Hongqi Pharma and CML in 2010 and Aohong Pharma, Dalian Aleph, Jimin Cancer Hospital and Guangji Hospital in 2011. Meanwhile, as part of our strategy to streamline our pharmaceutical distribution business, we disposed of our equity interests in Zhejiang Fosun to Sinopharm in June 2011. In order to focus on the healthcare industry, we disposed of our equity interests in Science & Technology Imp. & Exp. to an Independent Third Party in November 2011. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our revenue from the acquired businesses was RMB17.9 million, RMB136.8 million, RMB1,696.6 million and RMB1,049.0 million, respectively. Our gross profit from acquired businesses for the same periods was RMB3.6 million, RMB53.4 million, RMB686.9 million and RMB515.0 million, respectively.

The following table sets forth our revenue, gross profit and gross profit margin from the acquired businesses and our organic growth for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
				(unaudited)	
	(in thousands of RMB, except percentages)				
Revenue*	3,850,312	4,528,773	6,432,589	3,079,680	3,464,107
From organic growth	3,432,947	3,980,259	4,525,012	2,207,651	2,415,109
From acquired businesses	17,863	136,826	1,696,601	707,574	1,048,998
From disposed businesses	399,502	411,688	210,976	164,455	—
Cost of sales	2,610,665	2,984,561	3,991,147	2,030,534	1,934,832
From organic growth	2,224,879	2,521,101	2,785,923	1,390,847	1,400,851
From acquired businesses	14,288	83,395	1,009,739	487,430	533,981
From disposed businesses	371,498	380,065	195,485	152,257	—
Gross profit	1,239,647	1,544,212	2,441,442	1,049,146	1,529,275
From organic growth	1,208,068	1,459,158	1,739,089	816,804	1,014,258
From acquired businesses	3,575	53,431	686,862	220,144	515,017
From disposed businesses	28,004	31,623	15,491	12,198	—
Gross profit margin	32.2	34.1	38.0	34.1	44.1
From organic growth	35.2	36.7	38.4	37.0	42.0
From acquired business	20.0	39.1	40.5	31.1	49.1
From disposed business	7.0	7.7	7.3	7.4	—

* Revenue from acquired businesses included revenue from businesses that we acquired during the Track Record Period, which include Fuji Medical, Hexin Pharma, Yaneng Bioscience, Moluodan Pharma, Golden Elephant Pharmacy, Shenyang Hongqi Pharma, CML, Aohong Pharma, Dalian Aleph, Jimin Cancer Hospital and Guangji Hospital. Revenue from disposed businesses included revenue from businesses that we disposed of during the Track Record Period, which include Zhejiang Fosun and Science & Technology Imp. & Exp. Revenue from organic growth is the revenue from businesses other than those acquired or disposed of by us during the Track Record Period.

RESULTS OF OPERATIONS

Comparison of Six Months Ended 30 June 2012 and 30 June 2011

Revenue

Our total revenue after the elimination of inter-segment sales increased by RMB384.4 million, or 12.5%, from RMB3,079.7 million in the six months ended 30 June 2011 to RMB3,464.1 million in the six months ended 30 June 2012. The increase was mainly attributable to an increase of RMB404.1 million in revenue from our pharmaceutical manufacturing segment, which was partially offset by a decrease of RMB46.1 million from our pharmaceutical distribution and retail segment.

- *Pharmaceutical manufacturing segment.* Segment revenue increased by 22.7% from RMB1,773.8 million in the six months ended 30 June 2011 to RMB2,176.8 million in the six months ended 30 June 2012. This increase was primarily due to (i) the increase in revenue from our major products, such as Atomolan, Yi Bao and artesunate series, reflecting the growth in the overall market demand for pharmaceutical products as well as our strengthened sales and marketing efforts on our major products; and (ii) the expansion of our product portfolio through acquisitions and independent research and development. For example, Ao De Jin and Bang Ting became two of our major products upon the completion of the acquisition of Aohong Pharma in September 2011, and we launched Bang Zhi in October 2011. The overall increase in revenue of our pharmaceutical manufacturing segment was partially offset by the negative impact of the relocation of Shine Star in the first half of 2012, which resulted in a decreased production volume of pharmaceutical products.

- *Pharmaceutical distribution and retail segment.* Segment revenue decreased 6.2% from RMB738.8 million in the six months ended 30 June 2011 to RMB692.7 million in the six months ended 30 June 2012. This decrease was primarily due to our disposal of Zhejiang Fosun in June 2011, partially offset by the increase in revenue from our pharmaceutical retail business. Zhejiang Fosun was engaged in the distribution of pharmaceutical products.

- *Healthcare services segment.* We generate revenue from our healthcare services business through the operation of our hospitals since October 2011. For the six months ended 30 June 2012, segment revenue of our healthcare services business was RMB77.9 million.

- *Diagnostic products and medical devices segment.* For the six months ended 30 June 2012, segment revenue of our diagnostic products and medical devices business was RMB511.4 million, which largely remained stable as compared to our revenue for the same period in 2011.

- *Other business operations segment.* Segment revenue decreased by 82.7% from RMB59.0 million in the six months ended 30 June 2011 to RMB10.2 million in the six months ended 30 June 2012. The decrease was primarily due to the disposal of our equity interests unrelated to our core businesses, such as the disposal of Science & Technology Imp. & Exp. in November 2011.

Our inter-segment sales were RMB9.9 million in the six months ended 30 June 2011 and RMB4.9 million in the six months ended 30 June 2012, respectively, which primarily consisted of the commercial arrangements among our subsidiaries in different business segments.

Cost of Sales, Gross Profit and Gross Profit Margin

Our cost of sales decreased by 4.7% from RMB2,030.5 million in the six months ended 30 June 2011 to RMB1,934.8 million in the six months ended 30 June 2012. The decrease in our cost of sales in the first half of 2012 was primarily due to our disposal of Zhejiang Fosun in June 2011 and Science & Technology Imp. & Exp. in November 2011, which reduced our distribution costs, and also the decreased revenue contribution from our pharmaceutical distribution business, which had lower profit margins than our pharmaceutical manufacturing business and retail business. Our gross profit increased by 45.8% from RMB1,049.1 million in the six months ended 30 June 2011 to RMB1,529.3 million in the six months ended 30 June 2012. Our gross profit margin increased from 34.1% in the six months ended 30 June 2011 to 44.1% in the six months ended 30 June 2012.

- *Pharmaceutical manufacturing segment.* Segment cost of sales of our pharmaceutical manufacturing segment decreased slightly by 1.9% from RMB1,018.3 million in the six months ended 30 June 2011 to RMB999.4 million in the six months ended 30 June 2012.

  Segment gross profit increased by 55.8% from RMB755.5 million in the six months ended 30 June 2011 to RMB1,177.4 million in the six months ended 30 June 2012. Segment gross profit margin increased from 42.6% in the six months ended 30 June 2011 to 54.1% in the six months ended 30 June 2012. The increase in segment gross profit margin was mainly due to (i) an increase in sales contributions from our major products of which the average gross profit margin is higher than that of our other products; and (ii) improved gross margin of our major products as a result of technological improvements and increased scale of production.

- *Pharmaceutical distribution and retail segment.* Segment cost of sales decreased by 8.8% from RMB648.4 million in the six months ended 30 June 2011 to RMB591.4 million in the six months ended 30 June 2012.

  Segment gross profit increased by 12.1% from RMB90.4 million in the six months ended 30 June 2011 to RMB101.3 million in the six months ended 30 June 2012. Segment gross profit margin increased from 12.2% in the six months ended 30 June 2011 to 14.6% in the six months ended 30 June 2012. The increases in segment gross profit and segment gross profit margin were primarily due to the increased revenue contribution of our pharmaceutical retail business, whose gross profit margin was higher than that for our pharmaceutical distribution business.

- *Healthcare services segment.* We generate revenue in our healthcare services segment through the operation of our hospitals since October 2011. For the six months ended 30 June 2012, segment cost of sales of our healthcare services business was RMB57.4 million, segment gross profit was RMB20.5 million and segment gross profit margin was 26.3%. Segment gross profit margin for the six months ended 30 June 2012 remained largely stable as compared to the profit margin for the period from October to December 2011.

- *Diagnostic products and medical devices segment.* Segment cost of sales of our diagnostic products and medical devices segment decreased by 12.4% from RMB325.0 million in the six months ended 30 June 2011 to RMB284.6 million in the six months ended 30 June 2012.

Segment gross profit increased by 17.6% from RMB192.9 million in the six months ended 30 June 2011 to RMB226.8 million in the six months ended 30 June 2012. Segment gross profit margin increased from 37.2% in the six months ended 30 June 2011 to 44.3% in the six months ended 30 June 2012. The increases in segment gross profit and segment gross profit margin in the six months ended 30 June 2012 were primarily due to the increased revenue contribution of our diagnostic products, medical devices and consumables manufacturing businesses in this segment, whose gross profit margin was higher than that for our business of distribution of high-end medical devices.

- *Other business operations segment.* Segment cost of sales of our other business operations segment decreased by 87.7% from RMB48.8 million in the six months ended 30 June 2011 to RMB6.0 million in the six months ended 30 June 2012. The decrease was primarily due to the disposal of our equity interests in Science & Technology Imp. & Exp. in November 2011.

  Segment gross profit decreased by 59.2% from RMB10.3 million in the six months ended 30 June 2011 to RMB4.2 million in the six months ended 30 June 2012. Segment gross profit margin increased from 17.4% in the six months ended 30 June 2011 to 41.1% in the six months ended 30 June 2012.

Other Income

Our other income decreased by 41.6% from RMB77.9 million in the six months ended 30 June 2011 to RMB45.5 million in the six months ended 30 June 2012. This decrease was primarily due to the decrease in our dividends from available-for-sale investments.

Selling and Distribution Costs

Our selling and distribution costs increased by 34.4% from RMB533.1 million in the six months ended 30 June 2011 to RMB716.6 million in the six months ended 30 June 2012. This increase was mainly due to (i) the expansion of our sales network and our efforts to strengthen our sales team, which resulted in increased sales staff compensation and benefit expenses; (ii) more sales and marketing activities were carried out to promote our pharmaceutical products to increase our sales volume and profitability, which resulted in higher sales promotion expenses, travelling expenses and office expenses; and (iii) our increased investments in advertising and promotional activities for our new products and some of our major products.

Administrative Expenses

Our administrative expenses increased by 28.2% from RMB313.9 million in the six months ended 30 June 2011 to RMB402.5 million in the six months ended 30 June 2012. The significant increase was primarily due to (i) the integration of newly acquired businesses in the second half of 2011, such as Aohong Pharma, Dalian Aleph, Jimin Cancer Hospital and Guangji Hospital; and (ii) increases in staff costs and office rental expenses as a result of our business growth.

Research and Development Costs

Our research and development expenses increased by 40.9% from RMB72.2 million in the six months ended 30 June 2011 to RMB101.7 million in the six months ended 30 June 2012, reflecting our increasing investments in research and development.

Other Gains

Our other gains decreased by 52.4% from RMB976.3 million in the six months ended 30 June 2011 to RMB464.7 million in the six months ended 30 June 2012. Other gains in 2011 included a pre-tax gain of RMB673.1 million as deemed disposal of equity interest in Sinopharm because Sinopharm completed a placing of additional shares to third parties in May 2011. Our after tax profit due to Sinopharm's placing was RMB504.8 million.

Other Expenses

Our other expenses decreased by 75.7% from RMB133.8 million in the six months ended 30 June 2011 to RMB32.5 million in the six months ended 30 June 2012. This decrease in our other expenses was primarily due to the impairment of RMB86.0 million accrued in relation to our investment in Huixin Biological Paper Co., Ltd. in the six months ended 30 June 2011.

Interest Income

Our interest income slightly increased by 2.5% from RMB20.2 million in the six months ended 30 June 2011 to RMB20.7 million in the six months ended 30 June 2012 due to the increased cash bank balances resulting from increased borrowings.

Finance Costs

Our finance costs increased by 32.0% from RMB150.1 million in the six months ended 30 June 2011 to RMB198.1 million in the six months ended 30 June 2012. This increase was mainly due to the RMB1,600.0 million offerings of mid-term notes in March 2011.

Share of Profits and Losses of Jointly Controlled Entities

Share of losses of jointly controlled entities increased by 50.0% from approximately RMB0.2 million in the six months ended 30 June 2011 to approximately RMB0.3 million to the six months ended 30 June 2012.

Share of Profits and Losses of Associates

Share of profits of associates increased by 17.2% from RMB323.2 million in the six months ended 30 June 2011 to RMB378.7 million in the six months ended 30 June 2012. This increase mainly reflected an increase in share of profits from Sinopharm during these periods. Our profits from Sinopharm Investment, the controlling Shareholder of Sinopharm, increased by 17.3% from RMB260.8 million in the six months ended 30 June 2011 to RMB305.9 million in the six months ended 30 June 2012.

Profit before Tax

As a result of the foregoing, our profit before tax decreased by 20.6% from RMB1,243.6 million in the six months ended 30 June 2011 to RMB987.2 million in the six months ended 30 June 2012.

Income Tax Expenses

Our income tax expenses decreased by 49.4% from RMB255.7 million in the six months ended 30 June 2011 to RMB129.5 million in the six months ended 30 June 2012. Our effective tax rate after adjustment was 21.8% in the six months ended 30 June 2011 and 19.3% in the six months ended 30 June 2012. Our effective tax rate after adjustment during these periods was lower than the standard 25% PRC enterprise income tax rate primarily due to the preferential tax treatment applicable to some of our subsidiaries. See "Selected Components of Our Income Statements — Income Tax Expenses — Corporate Income Tax".

Profit for the Period

As a result of the foregoing, our net profit decreased by 13.2% from RMB987.8 million in the six months ended 30 June 2011 to RMB857.8 million in the six months ended 30 June 2012.

Profit Attributable to Owners of our Company

Our profit attributable to owners of our Company decreased by 19.1% from RMB867.3 million in the six months ended 30 June 2011 to RMB701.8 million in the six months ended 30 June 2012.

Non-controlling Interests

Non-controlling interests increased by 29.5% from RMB120.5 million in the six months ended 30 June 2011 to RMB156.0 million in the six months ended 30 June 2012. This increase was primarily due to the increases in overall profits of our non-wholly-owned subsidiaries.

Comparison of Years Ended 31 December 2011 and 31 December 2010

Revenue

Our total revenue after the elimination of inter-segment sales increased by RMB1,903.8 million, or 42.0%, from RMB4,528.8 million in 2010 to RMB6,432.6 million 2011. The increase was mainly attributable to an increase of RMB992.9 million in revenue from our pharmaceutical manufacturing segment and an increase of RMB657.0 million from our diagnostic products and medical devices segment.

- *Pharmaceutical manufacturing segment.* Segment revenue increased by 35.0% from RMB2,838.8 million in 2010 to RMB3,831.4 million in 2011. This increase was primarily due to (i) the increase in revenue from our major products, such as Atomolan, Yi Bao and amino acid series, reflecting the growth in the overall market demand for pharmaceutical products as well as our strengthened sales and marketing efforts on our major products; and (ii) the expansion of our product portfolio through independent research and development and acquisitions. For example, the anti-tuberculosis series became one of our major products upon the completion of the acquisition of Shenyang Hongqi Pharma in December 2010 and Ao De Jin and Bang Ting became two of our major products upon the completion of the acquisition of Aohong Pharma in September 2011.

- *Pharmaceutical distribution and retail segment.* Segment revenue increased by 25.3% from RMB1,146.3 million in 2010 to RMB1,436.0 million in 2011. This increase was primarily due to our consolidation of Golden Elephant Pharmacy since December 2010, the largest single brand retail pharmacy in Beijing by number of stores as at 30 June 2012 according to data from Beijing Municipal Drug Administration.

- *Healthcare services segment.* We generate revenue from our healthcare services business through the operation of our hospitals since October 2011. For the period from October 2011 to December 2011, segment revenue of our healthcare business segment was RMB11.3 million.

- *Diagnostic products and medical devices segment.* Segment revenue increased by 162.3% from RMB400.1 million in 2010 to RMB1,049.3 million in 2011. This increase was primarily due to the establishment of CML with the injection of Chindex's distribution business of high-end medical devices in the PRC in December 2010.

- *Other business operations segment.* Segment revenue decreased by 28.6% from RMB161.7 million in 2010 to RMB115.4 million in 2011.

Our inter-segment sales were RMB18.2 million in 2010 and RMB10.9 million in 2011, respectively, which primarily comprised the commercial arrangements among our subsidiaries in different business segments.

Cost of Sales, Gross Profit and Gross Profit Margin

Our cost of sales increased by 33.7% from RMB2,984.6 million in 2010 to RMB3,991.1 million in 2011. Our gross profit increased by 58.1% from RMB1,544.2 million in 2010 to RMB2,441.4 million in 2011. Our gross profit margin increased from 34.1% in 2010 to 38.0% in 2011.

- *Pharmaceutical manufacturing segment.* Segment cost of sales of our pharmaceutical manufacturing segment increased by 25.9% from RMB1,603.7 million in 2010 to RMB2,018.3 million in 2011.

  Segment gross profit increased by 46.8% from RMB1,235.1 million in 2010 to RMB1,813.1 million in 2011. Segment gross profit margin increased from 43.5% in 2010 to 47.3% in 2011. The increase in segment gross profit margin was mainly due to (i) an increase in the contribution from our major products with higher margin to segment revenue; and (ii) improved gross profit margin of our major products as a result of technological improvements and increased scale of production.

- *Pharmaceutical distribution and retail segment.* Segment cost of sales increased by 20.2% from RMB1,030.9 million in 2010 to RMB1,239.6 million in 2011, generally in line with the increase in segment revenue.

  Segment gross profit increased by 70.2% from RMB115.4 million in 2010 to RMB196.4 million in 2011. Segment gross profit margin increased from 10.1% in 2010 to 13.7% in 2011. The increases in gross profit and gross profit margin in 2011 were primarily due to our consolidation of Golden Elephant Pharmacy in December 2010. The consolidation increased the contribution of revenue from our pharmaceutical retail business, whose gross profit margin was higher than that for our pharmaceutical distribution business.

- *Healthcare services segment.* For the period from October 2011 to December 2011, segment cost of sales of our healthcare services business was RMB8.3 million, segment gross profit was RMB2.9 million and segment gross profit margin was 26.0%.

- *Diagnostic products and medical devices segment.* Segment cost of sales of our diagnostic products and medical devices segment increased by 188.2% from RMB220.1 million in 2010 to RMB634.4 million in 2011.

  Segment gross profit increased by 130.4% from RMB180.1 million in 2010 to RMB414.9 million in 2011. The increase in segment gross profit in 2011 was primarily due to our acquisition of Chindex's business of distribution of high-end medical devices in the PRC. As gross profit margin for the business of distribution of high-end medical devices was lower than the overall gross profit margin of the businesses of manufacturing of our diagnostic products, medical devices and consumables, our segment gross profit margin decreased from 45.0% in 2010 to 39.5% in 2011.

- *Other business operations segment.* Segment cost of sales of our other business operations segment decreased by 30.8% from RMB142.7 million in 2010 to RMB98.7 million in 2011.

  Segment gross profit decreased by 12.1% from RMB19.0 million in 2010 to RMB16.7 million in 2011. Segment gross profit margin decreased from 11.8% in 2010 to 14.5% in 2011.

Other Income

Our other income increased by 74.9% from RMB70.5 million in 2010 to RMB123.3 million in 2011. This increase was primarily due to the increase in our dividends received from available-for-sale investments.

Selling and Distribution Costs

Our selling and distribution costs increased by 51.6% from RMB798.3 million in 2010 to RMB1,210.0 million in 2011. This increase was mainly due to (i) the expansion of our sales network; (ii) our efforts to market our pharmaceutical products through our own sales team rather than through third party distributors to increase our sales volume and profitability, which resulted in higher sales promotion expenses, travelling expenses and office expenses; and (iii) our increased investments in advertising and promotional activities for our new products and some of our major products.

Administrative Expenses

Our administrative expenses increased by 54.9% from RMB449.8 million in 2010 to RMB696.7 million in 2011. The significant increase was primarily due to (i) the consolidation of businesses acquired in 2011, which primarily included Aohong Pharma, Dalian Aleph and Jimin Cancer Hospital; and (ii) the increased staff costs and office expenses as a result of our business growth.

Research and Development Costs

Our research and development expenses increased by 58.0% from RMB119.9 million in 2010 to RMB189.4 million in 2011, reflecting our increasing efforts in research and development.

Other Gains

Our other gains increased by 61.9% from RMB680.6 million in 2010 to RMB1,101.6 million in 2011. Other gains in 2011 included a pre-tax gain of RMB673.1 million as deemed disposal of equity interest in Sinopharm upon Sinopharm's completion of a share placing in May 2011. Our after tax profit due to Sinopharm's placing was RMB504.8 million.

Other Expenses

Our other expenses increased by 66.5% from RMB128.3 million in 2010 to RMB213.6 million in 2011. This significant increase in our other expenses was primarily due to (i) the provision of RMB148.0 million for impairment of our investment of 30% equity interest in Huixin Biological Paper Co., Ltd. ("Huixin"). The impairment was due to Huixin's ongoing operational difficulties, which negatively affected the value of its assets and led us to make provisions for impairment of RMB81.3 million in 2010 and RMB148.0 million in 2011; and (ii) the decrease of RMB24.9 million in fair value of equity investments at fair value through profit and loss in Sinovac Biotech Ltd. due to a decrease in its market price.

Interest Income

Our interest income increased by 163.3% from RMB19.6 million in 2010 to RMB51.6 million in 2011. This increase was mainly due to the increase in interest income from bank deposits due to the proceeds we received from the RMB1,000.0 million and RMB1,600.0 million offerings of mid-term notes in November 2010 and March 2011, respectively.

Finance Costs

Our finance costs increased by 93.3% from RMB162.4 million in 2010 to RMB314.0 million in 2011. This increase was mainly due to the RMB1,000.0 million and RMB1,600.0 million offering of mid-term notes in November 2010 and March 2011, respectively, and the increases in interest rates of bank borrowings.

Share of Profits and Losses of Jointly Controlled Entities

Share of losses of jointly controlled entities decreased by 71.4% from RMB0.7 million in 2010 to RMB0.2 million in 2011.

Share of Profits and Losses of Associates

Share of profits of associates increased by 15.9% from RMB546.3 million in 2010 to RMB633.2 million in 2011. This increase mainly reflected an increase in profits from Sinopharm during these periods. Our profits from Sinopharm Investment, the controlling Shareholder of Sinopharm, increased by 30.5% from RMB390.3 million in 2010 to RMB509.2 million in 2011.

Profit before Tax

As a result of the foregoing, our profit before tax increased by 43.7% from RMB1,202.0 million in 2010 to RMB1,727.2 million in 2011.

Income Tax Expenses

Our income tax expenses increased by 69.5% from RMB201.6 million in 2010 to RMB341.8 million in 2011. Our effective tax rate after adjustment was 23.4% in 2010 and 20.0% in 2011. Our effective tax rate after adjustment during these periods was lower than the standard 25% PRC enterprise income tax rate primarily due to the preferential tax treatment applicable to some of our subsidiaries. See "Selected Components of Our Income Statements — Income Tax Expenses — Corporate Income Tax".

Profit for the Period

As a result of the foregoing, our net profit increased by 38.5% from RMB1,000.3 million in 2010 to RMB1,385.4 million in 2011.

Profit Attributable to Owners of our Company

Our profit attributable to owners of our Company increased by 35.0% from RMB863.7 million in 2010 to RMB1,166.2 million in 2011.

Non-controlling Interests

Non-controlling interests increased by 60.4% from RMB136.7 million in 2010 to RMB219.2 million in 2011. This increase was primarily due to the increases in overall profits of our non-wholly-owned subsidiaries.

Comparison of Years Ended 31 December 2010 and 31 December 2009

Revenue

Our total revenue after the elimination of inter-segment sales increased by RMB678.5 million, or 17.6%, from RMB3,850.3 million in 2009 to RMB4,528.8 million in 2010. The increase was mainly attributable to an increase of RMB530.8 million in revenue from our pharmaceutical manufacturing segment.

- *Pharmaceutical manufacturing segment.* Segment revenue increased by 22.7% from RMB2,313.7 million in 2009 to RMB2,838.8 million in 2010. This increase was primarily due to (i) the increase in revenue from our major products, such as Atomolan, Su Ke Nuo and amino acid series, reflecting the growth in the overall market demand for pharmaceutical products as well as our strengthened sales and marketing efforts on our major products; and (ii) the expansion of our product portfolio through independent research and development and acquisitions. For example, Xi Chang became one of our major products upon our completion of the acquisition of Hexin Pharma in February 2010, and Mo Luo Dan became one of our major products upon the completion of the acquisition of Moluodan Pharma in August 2010.

- *Pharmaceutical distribution and retail segment.* Segment revenue increased by 8.8% from RMB1,054.0 million in 2009 to RMB1,146.3 million in 2010. This increase was mainly due to the increase in revenue of our pharmaceutical retail business resulted from the increase in the number of franchised pharmacies of For Me Pharmacy.

- *Diagnostic products and medical devices segment.* Segment revenue increased by 24.2% from RMB322.1 million in 2009 to RMB400.1 million in 2010. This increase was primarily due to our enhancement of sales capabilities, as well as our acquisition of Yaneng Bioscience in September 2010.

- *Other business operations segment.* Segment revenue decreased by 16.6% from RMB194.0 million in 2009 to RMB161.7 million in 2010.

Our inter-segment sales were RMB33.5 million in 2009 and RMB18.2 million in 2010, respectively. Our inter-segment sales represented the commercial arrangements among our subsidiaries in different business segments.

Cost of Sales, Gross Profit and Gross Profit Margin

Our cost of sales increased by 14.3% from RMB2,610.7 million in 2009 to RMB2,984.6 million in 2010. The increase was primarily due to an increase of RMB251.2 million in cost of sales for our pharmaceutical manufacturing segment and an increase of RMB86.8 million in cost of sales for our pharmaceutical distribution and retail segment. Our gross profit increased by 24.6% from RMB1,239.6 million in 2009 to RMB1,544.2 million in 2010. Our gross profit margin increased from 32.2% in 2009 to 34.1% in 2010.

- *Pharmaceutical manufacturing segment.* Segment cost of sales of our pharmaceutical manufacturing segment increased by 18.6% from RMB1,352.5 million in 2009 to RMB1,603.7 million in 2010.

Segment gross profit increased by 28.5% from RMB961.2 million in 2009 to RMB1,235.1 million in 2010. Segment gross profit margin increased from 41.5% in 2009 to 43.5% in 2010. The increase in such segment gross profit margin during these periods was mainly due to (i) an increase in sales of our major products, of which the average gross profit margin was higher than that of other products in our product portfolio, as a percentage of segment revenue; and (ii) improved average gross profit margin on sales of the major products as a result of technological improvements and increased scale of production.

- *Pharmaceutical distribution and retail segment.* Segment cost of sales of our pharmaceutical distribution and retail segment increased by 9.2% from RMB944.1 million in 2009 to RMB1,030.9 million in 2010, generally in line with the increase in segment revenue.

  Segment gross profit increased by 5.0% from RMB109.9 million in 2009 to RMB115.4 million in 2010. Segment gross profit margin slightly decreased from 10.4% in 2009 to 10.1% in 2010.

- *Diagnostic products and medical devices segment.* Segment cost of sales of our diagnostic products and medical devices segment increased by 25.0% from RMB176.1 million in 2009 to RMB220.1 million in 2010, generally in line with the increase in segment revenue.

  Segment gross profit increased by 23.4% from RMB146.0 million in 2009 to RMB180.1 million in 2010. Segment gross profit margin slightly decreased from 45.3% in 2009 to 45.0% in 2010.

- *Other business operations segment.* Segment cost of sales of our other business operations segment decreased by 16.5% from RMB170.9 million in 2009 to RMB142.7 million in 2010.

  Segment gross profit decreased by 17.7% from RMB23.1 million in 2009 to RMB19.0 million in 2010. Segment gross profit margin slightly decreased from 11.9% in 2009 to 11.8% in 2010.

Other Income

Our other income increased by 15.4% from RMB61.1 million in 2009 to RMB70.5 million in 2010.

Selling and Distribution Costs

Our selling and distribution costs increased by 25.4% from RMB636.5 million in 2009 to RMB798.3 million in 2010. This increase was mainly due to (i) the increase in revenue contribution from our pharmaceutical manufacturing business to our total revenue, which requires more sales and marketing resources as compared to our other business segments; (ii) the expansion of our sales network and our efforts to strengthen our sales team, which resulted in larger sales staff compensation and benefit expenses; (iii) our efforts to market our pharmaceutical products through our own sales team rather than through third party distributors to increase our sales volume and profitability, which resulted in higher sales promotion expenses and office expenses; and (iv) our increased investments in advertising and promotional activities for our new products and some of our major products.

Administrative Expenses

Our administrative expenses increased by 21.7% from RMB369.6 million in 2009 to RMB449.8 million in 2010. The significant increase in our administrative expenses from 2009 to 2010 was primarily due to (i) the increased staff costs and office expenses as a result of our business growth; and (ii) the expansion in business consolidation as a result of our business acquisitions in 2010, which primarily included Hexin Pharma, Moluodan Pharma and Yaneng Bioscience.

Research and Development Costs

Our research and development expenses increased by 67.9% from RMB71.4 million in 2009 to RMB119.9 million in 2010, reflecting our increasing efforts in research and development. Particularly, in February 2010, we established Shanghai Henlius as one of our research and development platforms for large molecule biological pharmaceuticals such as monoclonal antibodies.

Other Gains

Our other gains decreased by 75.6% from 2,793.5 million in 2009 to RMB680.6 million in 2010. Other gains in 2009 included a pre-tax gain of RMB2,608.2 million as deemed disposal of equity interest in Sinopharm upon Sinopharm's listing on the Main Board of the Hong Kong Stock Exchange in September 2009. Our after tax profit due to Sinopharm's listing was RMB1,956.1 million. Other gains in 2010 included a pre-tax gain of RMB327.2 million on disposal of our equity interest in Forte. Our after tax profit due to the disposal of our equity interest in Forte was RMB209.5 million.

Other Expenses

Our other expenses increased by 90.9% from RMB67.2 million in 2009 to RMB128.3 million in 2010. This increase mainly reflected increases in provision for impairment of non-current assets. This significant increase in our other expenses was primarily due to the impairment of RMB81.3 million accrued in relation to our investment in Huixin Biological Paper Co., Ltd. in 2010.

Interest Income

Our interest income increased by 35.2% from RMB14.5 million in 2009 to RMB19.6 million in 2010. This increase was mainly due to the increase in interest income from bank deposits as we received the proceeds from the RMB1,000.0 million offering of mid-term notes in November 2010.

Finance Costs

Our finance costs increased by 22.7% from RMB132.4 million in 2009 to RMB162.4 million in 2010. This increase mainly reflected increases in the average balance of interest-bearing obligations during these periods.

Share of Profits and Losses of Jointly Controlled Entities

Share of losses of jointly controlled entities was RMB1.0 million in 2009 and RMB0.7 million in 2010.

Share of Profits and Losses of Associates

Share of profits of associates increased by 25.1%, or RMB109.5 million, from RMB436.8 million in 2009 to RMB546.3 million in 2010. This increase mainly reflected an increase in profits from Sinopharm and Tianjin Pharma during these periods. Our profits from Sinopharm Investment, the controlling Shareholder of Sinopharm, increased by 10.7%, or RMB37.6 million, from RMB352.7 million in 2009 to RMB390.3 million in 2010, and meanwhile, our profits from Tianjin Pharma increased by 1,604.0%, or RMB40.1 million, from RMB2.5 million in 2009 to RMB42.6 million in 2010.

Profit before Tax

As a result of the foregoing, our profit before tax decreased by 63.2%, or RMB2,065.5 million, from RMB3,267.5 million in 2009 to RMB1,202.0 million in 2010.

Income Tax Expenses

Our income tax expenses decreased by 71.2% from RMB700.4 million in 2009 to RMB201.6 million in 2010. Our effective tax rate after adjustment was 24.2% in 2009 and 23.4% in 2010. Our effective tax rate after adjustment during these periods was lower than the standard 25% PRC enterprise income tax rate, primarily due to the preferential tax treatment applicable to some of our subsidiaries. See "Selected Components of Our Income Statements — Income Tax Expenses — Corporate Income Tax."

Profit for the Period

As a result of the foregoing, our net profit decreased by 61.0%, or RMB1,566.8 million, from RMB2,567.1 million in 2009 to RMB1,000.3 million in 2010.

Profit Attributable to Owners of our Company

Our profit attributable to owners of our Company decreased by 65.5%, or RMB1,637.3 million, from RMB2,501.0 million in 2009 to RMB863.7 million in 2010.

Non-controlling Interests

Non-controlling interests increased by 106.8%, or RMB70.6 million, from RMB66.1 million in 2009 to RMB136.7 million in 2010. This increase was primarily due to the increase in overall profits of our non-wholly-owned subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity requirements primarily relate to working capital needs, capital expenditures, debt services and business acquisitions. Our principal sources of liquidity are cash generated from our operations, various short-term and long-term bank borrowings and lines of credit, and debt and equity securities offerings to our shareholders and other investors. We also from time to time generate cash from various investing activities, including dividends from our investments and proceeds from the disposal of properties and investments.

We have historically met our working capital and other liquidity requirements from cash generated by our operations first, while financing the remainder primarily through bank borrowings, and debt and equity securities offerings. Going forward, we expect to continue relying principally on our internally-generated cash flows for our working capital and other liquidity requirements, and will also use the proceeds from the Global Offering and bank and other borrowings to finance a portion of our capital requirements.

As at 31 August 2012, we had RMB9,078.2 million of available banking facilities, of which approximately RMB5,354.8 million was not utilized. Among such unutilized bank facilities, RMB183.3 million were secured by our real properties, land use right, plants and equipment. Certain of these bank facilities are required to be used in specific projects, and the remaining bank facilities were granted without any restrictions. In addition, we obtained CSRC approval on 23 November 2011 for issuing no more than RMB3,000.0 million in aggregate principal amount of corporate bonds in various tranches. In April 2012, we issued the first tranche of corporate bonds of RMB1,500.0 million with a term of five years and an interest rate of 5.53% per annum. In addition, we are in the process of obtaining relevant government approvals for issuing short-term commercial papers not exceeding RMB2,000.0 million, the proceeds of which will be used to fund the operations of our subsidiaries, such as supplementing working capital and repayment of outstanding loan facilities with high interest rates. Subject to government approvals, we expect to issue certain short-term commercial papers before the end of 2012.

Cash Flows

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

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
				(unaudited)	
	(in thousands of RMB)				
Net cash generated from operating activities	261,869	203,363	316,650	32,121	230,908
Net cash used in investing activities	(371,043)	(262,394)	(1,706,175)	(697,186)	(736,884)
Net cash generated from/(used in) financing activities	374,218	1,820,548	852,632	1,132,986	(462,470)
Cash and cash equivalents at beginning of year/period	949,056	1,213,385	2,971,131	2,971,131	2,428,219
Effect of foreign exchange rate changes, net	(715)	(3,771)	(6,019)	(4,200)	3,361
Cash and cash equivalents at end of year/period	1,213,385	2,971,131	2,428,219	3,434,852	1,463,134

Net Cash Generated from Operating Activities

We derive our cash inflow from operating activities primarily from our sales of products and services. Our cash outflow for operating activities is primarily used for purchases of raw materials and merchandise, selling and distribution costs, administrative expenses and taxes. Cash flows from operating activities can be significantly affected by factors such as the timing of collections of trade receivables from customers and payments of trade payables to suppliers during the regular course of business.

For the six months ended 30 June 2012, our net cash generated from operating activities was RMB230.9 million, while our net cash flows from operating activities after adjustment for non-cash items but before changes in working capital was RMB479.3 million. The difference of RMB248.4 million was primarily attributable to an increase in inventories of RMB112.4 million, an increase in trade and bills receivables of RMB89.9 million and an increase in amounts due from related companies of RMB23.1 million, partially offset by an increase in other payables and accruals of RMB79.0 million. The increases in our inventories, and trade and bills receivables and other payables and accruals were primarily due to the increase in our sales. The increase in our amounts due from related companies was primarily due to the increased sales of our pharmaceutical products to Sinopharm, which distributes these products to its customers.

For the year ended 31 December 2011, our net cash generated from operating activities was RMB316.7 million, while our net cash flows from operating activities after adjustment for non-cash items but before changes in working capital was RMB649.6 million. The difference of RMB332.9 million was primarily attributable to an increase in trade and bills receivables of RMB161.3 million, an increase in inventories of RMB99.8 million, a decrease in other payables and accruals of RMB99.6 million and an increase in amounts due from related companies of RMB86.6 million, partially offset by a decrease in prepayments, deposits and other receivables of RMB190.6 million and an increase in trade and bills payables of RMB178.1 million. The increases in our trade and bills receivables, inventories, and trade and bills payables in 2011 were primarily due to the increase in our sales. The increase in our amounts due from related companies was primarily due to the increased sales of our pharmaceutical products to Sinopharm, which distributes these products to its customers.

For the year ended 31 December 2010, our net cash generated from operating activities was RMB203.4 million, while our net cash flows from operating activities after adjustment for non-cash items but before changes in working capital was RMB391.2 million. The difference of RMB187.8 million was primarily attributable to an increase in prepayments, deposits and other receivables of RMB184.7 million, an increase in trade and bills receivables of RMB140.4 million, an increase in inventories of RMB66.2 million and an increase in pledged bank balances to secure bills payables of RMB44.7 million, partially offset by an increase in other payables and accruals of RMB260.0 million and an increase in trade and bills payables of RMB47.6 million. The increases in our trade and bills receivables, prepayments, deposits and other receivables, trade and bills payables, other payables and accruals and inventories from 2009 to 2010 were primarily due to (i) certain major business acquisitions we undertook in 2010, which primarily included Hexin Pharma, Moluodan Pharma and Yaneng Bioscience, and (ii) the increase in our sales.

For the year ended 31 December 2009, our net cash generated from operating activities was RMB261.9 million, while our net cash flows from operating activities after adjustment for non-cash items but before changes in working capital was RMB362.0 million. The difference of RMB100.1 million was primarily attributable to an increase in trade and bills receivables of RMB133.6 million and an increase in inventories of RMB70.1 million, partially offset by an increase in other payables and accruals of RMB95.3 million and an increase in trade and bills payables of RMB92.8 million. The increases in our trade and bills receivables, trade and bills payables, other payables and accruals and inventories from 2008 to 2009 were primarily due to the increase in our sales.

Net Cash Used in Investing Activities

Our cash outflow for investing activities primarily consists of purchases of property, plant and equipment, intangible assets and non-current assets, and purchases of investment. Our cash inflow from investing activities primarily consists of proceeds from disposal of equity investments, settlement of derivative financial instruments, disposal of items of property, plant and equipment, prepaid land lease payments, intangible assets, non-current assets and disposal of subsidiaries.

For the six months ended 30 June 2012, our net cash used in investing activities was RMB736.9 million. Cash used in investing activities in this period was primarily attributable to (i) purchase of items of property, plant and equipment, prepaid land lease payments, intangible assets, and other non-current assets of RMB619.8 million; (ii) net cash for acquisition of subsidiaries of RMB419.5 million, which primarily consisted of the second installment payments of RMB388.6 million and RMB30.9 million, for purchase of equity interests of Aohong Pharma and Guangji Hospital, respectively; (iii) purchase of available-for-sale investments of RMB140.0 million, which mainly included our strategic investment in Shenzhen Haotong Investment Development Company Limited; and (iv) acquisition of interests in associates of RMB104.5 million. Such cash outflows were partially offset by cash inflow from (i) disposal of available-for-sale investments of RMB311.5 million; (ii) disposal of associates of RMB121.2 million; and (iii) dividends from associates of RMB70.9 million.

For the year ended 31 December 2011, our net cash used in investing activities was RMB1,706.2 million. Cash used in investing activities in this period was primarily attributable to (i) net cash for acquisition of subsidiaries of RMB1,114.1 million, which mainly consisted of the payment of RMB630.6 million and RMB420.0 million for purchase of equity interests of Aohong Pharma and Dalian Aleph, respectively; (ii) purchase of items of property, plant and equipment, prepaid land lease payments, intangible assets, non-current assets of RMB796.8 million; (iii) deposit for a potential acquisition of RMB150.0 million; and (iv) purchases of available-for-sale investments of RMB91.0 million. Such cash outflows were partially offset by (i) disposal of available-for-sale investments of RMB218.7 million; (ii) dividends from associates of RMB150.7 million; and (iii) dividends from available-for-sale investments of RMB61.6 million.

For the year ended 31 December 2010, our net cash used in investing activities was RMB262.4 million. Cash used in investing activities in this period was primarily attributable to (i) purchase of available-for-sale investments of RMB607.3 million, which mainly included our strategic investments in Chindex, Xi'an Longji Silicon Materials Company Limited (西安隆基硅材料股份有限公司) and Qingdao Hengda Company Limited (青島亨達集團有限公司); (ii) purchase of items of property, plant and equipment, prepaid land lease payments, intangible assets, non-current assets of RMB339.2 million; (iii) acquisition of interests in associates of RMB231.4 million; (iv) acquisition of subsidiaries (net of cash acquired) of RMB176.1 million; and (v) purchase of equity investment at fair value through profit or loss of RMB173.5 million. Such cash outflows were partially offset by (i) disposal of non-current assets for sale of RMB585.2 million; (ii) disposal of associates of RMB488.7 million; and (iii) dividends from associates of RMB197.1 million.

For the year ended 31 December 2009, our net cash used in investing activities was RMB371.0 million. Cash used in investing activities in this period was primarily attributable to (i) purchase of property, plant and equipment, prepaid land lease payments, intangible assets, non-current assets of RMB348.1 million; (ii) acquisition of interests in associates of RMB376.3 million; and (iii) purchase of available-for-sale investments of RMB361.6 million. Such cash outflows were partially offset by (i) dividends from associates of RMB364.4 million; (ii) RMB199.5 million from the disposal of associates; and (iii) RMB113.2 million from the disposal of available-for-sale investments.

Net Cash Used in/Generated from Financing Activities

Our cash inflow from financing activities primarily consists of proceeds from borrowings and debt securities offerings, proceeds from issuing of new shares and securities and proceeds from investments. Our cash outflow for financing activities primarily consists of repayment of principal and interest for bank and other borrowings, dividends paid to shareholders and cash payments relating to other financing activities.

For the six months ended 30 June 2012, our net cash used in financing activities was RMB462.5 million. Cash outflow items mainly consisted of repayment of bank and other borrowings of RMB2,274.6 million, interest paid of RMB192.3 million, dividends of RMB190.4 million paid to the shareholders of our Company and dividends of RMB166.1 million paid to non-controlling shareholders of our subsidiaries, which were partially offset by cash inflow items of new bank and other borrowings of RMB719.4 million and proceeds from issuance of corporate bonds of RMB1,487.0 million.

For the year ended 31 December 2011, our net cash generated from financing activities was RMB852.6 million. Cash inflow items mainly consisted of new bank and other borrowings of RMB4,006.9 million and proceeds from issuance of medium-term notes of RMB1,576.0 million, which were partially offset by cash outflow items of repayment of bank and other borrowings of RMB4,203.1 million, dividends of RMB190.4 million paid to owners of the parent, interest paid of RMB246.9 million, and dividends of RMB106.0 million paid to non-controlling shareholders.

For the year ended 31 December 2010, our net cash generated from financing activities was RMB1,820.5 million. Cash inflow items mainly consisted of new bank and other borrowings of RMB2,817.1 million, proceeds from issuance of medium-term notes of RMB985.5 million and proceeds from issuing new shares of RMB639.5 million, which were partially offset by cash outflow items of repayment of bank and other borrowings of RMB2,081.7 million, interest paid of RMB170.4 million, pledged deposits of RMB157.5 million and dividends of RMB127.0 million paid to the shareholders of our Company.

For the year ended 31 December 2009, our net cash generated from financing activities was RMB374.2 million. Cash inflow items mainly consisted of new bank and other borrowings of RMB1,756.5 million, which were partially offset by cash outflow items of repayment of bank and other borrowings of RMB1,071.9 million, interest paid of RMB144.8 million and dividends of RMB123.8 million paid to the shareholders of our Company.

Capital Expenditures

Our capital expenditures mainly relate to the acquisition of land use rights, property, plant and equipment, investment properties and intangible assets. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our capital expenditures were RMB275.4 million, RMB426.3 million, RMB871.4 million and RMB590.1 million, respectively. We funded these expenditures primarily using cash generated from our operating activities or proceeds from issuing new shares, medium-term notes and corporate bonds and, to a lesser extent, proceeds from bank borrowings.

During the Track Record Period, we incurred significantly higher capital expenditures on our pharmaceutical manufacturing segment as compared to other business segments. These capital expenditures primarily related to the expansion and upgrade of our manufacturing facilities, including purchasing land use rights for sites, constructing facilities and purchasing equipment. The following table sets forth our capital expenditures by segment for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
				(unaudited)	
	(in thousands of RMB)				
Pharmaceutical manufacturing	229,634	352,264	773,702	281,620	403,657
Pharmaceutical distribution and retail	12,482	8,998	14,685	6,023	5,929
Healthcare services	—	—	2,517	—	14,514
Medical devices and diagnostic products	24,831	60,142	58,197	29,069	29,187
Other business operations	8,420	4,914	22,333	1,013	136,774
Total	275,367	426,318	871,434	317,725	590,061

We estimate that our capital expenditures in 2012 will be RMB1,200.0 million, which is expected to be used mainly for the expansion of production and research and development capacities and relocation and upgrade of our production facilities in our pharmaceutical manufacturing segment. These capital expenditures will be financed by cash flow generated from operating activities, proceeds from the Global Offering and borrowings.

Working Capital

Our working capital is critical to our business and financial performance. We must maintain sufficient liquidity and financial flexibility to continue our daily operations. We fund our working capital requirements primarily from cash generated from operations, bank borrowings, and debt and equity securities offerings. We manage our working capital by implementing inventory control measures, periodically assessing our credit management system and adhering to our internal accounting procedures, as well as utilizing the financial control features of our information management systems.

Net Current Assets

As at 31 December 2009, 2010 and 2011 and 30 June 2012, we had net current assets of RMB808.5 million, RMB2,182.3 million, RMB1,057.4 million and RMB1,289.8 million, respectively. As at 31 August 2012, we had net current assets of RMB1,330.7 million. The following table sets forth our current assets, current liabilities and net current assets as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 August
	2009	2010	2011	2012	2012
					(unaudited)
	(in thousands of RMB)				
Current Assets					
Inventories	597,993	932,774	1,123,943	1,230,602	1,214,606
Trade and bills receivables	680,333	1,058,407	1,147,700	1,237,591	1,149,351
Prepayments, deposits and other receivables	208,445	292,721	519,448	529,059	479,135
Due from related companies	36,399	19,458	132,123	304,776	206,421
Equity investments at fair value through profit or loss	11,702	218,760	231,319	238,857	209,994
Held-to-maturity investments	—	14,312	—	—	—
Other current assets	—	—	—	—	—
Cash and cash equivalents	1,296,761	3,343,555	2,894,573	1,743,582	1,940,200
Non-current assets held for sale	475,244	—	—	—	—
	3,306,877	5,879,987	6,049,106	5,284,467	5,199,707
Current Liabilities					
Trade and bills payables	489,364	825,254	919,648	887,761	781,957
Other payables and accruals	392,097	882,419	1,775,933	1,511,107	1,582,354
Interest-bearing bank and other borrowings	1,582,998	1,830,386	2,177,051	1,488,805	1,384,390
Due to related companies	5,170	23,425	43,588	35,741	52,680
Tax payable	28,713	136,209	75,506	71,292	67,594
	2,498,342	3,697,693	4,991,726	3,994,706	3,868,975
Net Current Assets	808,535	2,182,294	1,057,380	1,289,761	1,330,732

Inventories

We need to maintain reasonable inventory levels to meet our customer demand. We actively monitor our inventory levels and seek to maintain an appropriate level of raw materials, work in progress and finished goods and commodities. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overhead, based on normal operating capacity. Inventories are stated at cost, which is calculated using the weighted average method, or net realizable value, whichever is lower. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling costs. We make provisions for impairment of inventories when the carrying value of inventories declines below the net realizable value.

We review the carrying value of our inventories from time to time and make write-downs charges or write-backs based on conditions of goods, including aging and expiry, and estimated net realizable value of our inventories, which are recorded in other expenses. As at 31 December 2009, 2010 and 2011 and 30 June 2012, our provisions for impairment of inventories were RMB11.4 million, RMB35.8 million, RMB21.8 million and RMB27.6 million, respectively. Net of provision, inventories to their net realizable values amounted to approximately RMB598.0 million, RMB932.8 million, RMB1,123.9 million and RMB1,230.6 million as at 31 December 2009, 2010 and 2011 and 30 June 2012. Our inventories increased significantly during the Track Record Period, primarily reflecting (i) the increase in our sales and (ii) our business consolidation and acquisitions in 2010 and 2011, mainly including Hexin Pharma, Moluodan Pharma, Yaneng Bioscience, Golden Elephant Pharmacy, Shenyang Hongqi Pharma, CML, Aohong Pharma and Dalian Aleph.

The following table sets forth the components of our inventories as at the dates indicated:

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	(in thousands of RMB)			
Raw materials	167,948	244,236	324,339	358,970
Work in progress	103,990	148,399	172,150	202,790
Finished and semi-finished goods	312,092	507,807	596,753	636,614
Spare parts and consumables	16,396	45,171	35,466	36,166
Others	9,002	22,951	17,029	23,625
	609,428	968,564	1,145,737	1,258,165
Less: provision	(11,435)	(35,790)	(21,794)	(27,563)
	597,993	932,774	1,123,943	1,230,602

We manage our inventories for our businesses with a focus on controlling our inventory holding costs, maintaining the variety of products available for our customers and ensuring the prompt delivery of our products to customers. We monitor the inventory levels of our operating subsidiaries by implementing a budgeted inventory turnover day and reviewing our inventory analysis reports. As at 31 August 2012, the latest practicable date for the purpose of the indebtedness statement, approximately RMB854.7 million, or 69.5%, of our inventories as at 30 June 2012 were subsequently utilized and/or sold. Increases in our inventories during these periods mainly reflected the increased purchases of raw materials and expansion of production to support the expansion of our businesses.

The following table sets forth our inventory turnover days for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2009	2010	2011	2012
Inventory turnover days[i]	78.9	93.6	94.0	111.0

(i) Inventory turnover days are based on the average balance of inventories divided by cost of sales for the relevant period multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period.

The increase in our turnover days from 2009 to 2010 was mainly due to our consolidation of Golden Elephant Pharmacy and acquisitions of Shenyang Hongqi Pharma and CML on 31 December 2010 (the "31 December 2010 Transactions"), which contributed to the increase in the average balance of inventories, yet had no impact on the cost of sales for 2010. Our inventory turnover days for 2010, excluding the impact of acquisitions, were 82.2 days. The increase in our inventory turnover days from 2010 to 2011 was mainly due to a larger than normal amount of inventories stocking as Guilin Pharma and Shine Star will reallocate their plants in 2012 to meet our future sales demand. The relatively higher inventory turnover days for the six months ended 30 June 2012 as compared to the year ended 31 December 2011 was mainly due to (i) the increase in our inventories as we increased the storage for medicines that require low temperature storage in the summer to meet the seasonal demand of some of our major subsidiaries such as Aohong Pharma; and (ii) a large storage of inventory stocking to meet our further sales demand as Guilin Pharma and Shine Star will relocate their plants in 2012.

Trade and Bills Receivables

Our trade receivables mainly represent the credit sales of our products to be paid by our customers and consist of trade receivables and bills receivables. The following table sets forth our trade and bills receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	(in thousands of RMB)			
Trade Receivables	529,663	819,047	844,952	977,744
Bills Receivables	150,670	239,360	302,748	259,847
	680,333	1,058,407	1,147,700	1,237,591

Trade Receivables

As at 31 December 2009, 2010 and 2011 and 30 June 2012, our trade receivables amounted to RMB529.7 million, RMB819.0 million, RMB845.0 million and RMB977.7 million, respectively. Our trade receivables increased during the Track Record Period primarily reflecting (i) the increase in our sales and (ii) our business acquisitions, mainly including Hexin Pharma, Moluodan Pharma, Yaneng Bioscience, the 31 December 2010 Transactions in 2010, and Aohong Pharma and Dalian Aleph in 2011.

Bills Receivables

As at 31 December 2009, 2010 and 2011 and 30 June 2012, our bills receivables amounted to RMB150.7 million, RMB239.4 million, RMB302.7 million and RMB259.8 million, respectively. Our bills receivables generally increased during the Track Record Period mainly due to (i) the reduced use of discounted bills in transactions with third parties; (ii) the increase in our sales and (iii) our business acquisitions.

Our management closely monitors the recoverability of our overdue trade receivables on a regular basis and when appropriate, provides for impairment of these trade receivables. We recognize provisions for impairment of trade receivables as other expenses in our consolidated income statement. As at 31 December 2009, 2010 and 2011 and 30 June 2012, we recorded a provision for impairment of trade receivables of RMB38.5 million, RMB47.3 million, RMB35.5 million and RMB35.6 million, respectively, which accounted for 6.8%, 5.5%, 4.0% and 3.5%, respectively, of our total trade receivables as at the same balance sheet dates. Our Directors believe that the provision for impairment of our trade receivables is in line with industry practice.

The following table sets forth an aging analysis of trade receivables, based on the invoice date and net of provisions, as at the dates indicated:

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	(in thousands of RMB)			
Within 1 year	528,005	802,709	837,666	971,305
1 to 2 years	6,888	23,587	16,252	13,477
2 to 3 years	5,893	8,551	4,401	6,198
Over 3 years	27,406	31,468	22,139	22,314
	568,192	866,315	880,458	1,013,294
Less: provision for impairment	(38,529)	(47,268)	(35,506)	(35,550)
	529,663	819,047	844,952	977,744

We typically grant a credit period of no more than 90 days to customers in our business operations. A portion of our customers make payments by bills, with maturities generally under 180 days. For customers with good credit history, in particular hospitals, we usually grant a longer credit period. We generally do not grant credit terms to customers of our retail pharmacy business. We generally receive payments in cash from our customers upon the completion of the retail sales in our retail pharmacies.

We have adopted a series of policies and procedures to achieve prompt recoveries of our overdue trade receivables, such as stringent credit standards for credit analysis of our clients, and close monitoring of the recoverability of our overdue trade receivables. As at 31 August 2012, approximately RMB770.8 million, or 62.3%, of our trade and bills receivables as at 30 June 2012 were subsequently settled. Historically, we have not experienced any significant losses on trade receivables.

The following table sets forth the turnover days of our trade and bills receivables for the periods indicated:

	Year ended 31 December			Six moths ended 30 June
	2009	2010	2011	2012
Turnover days of trade and bills receivables[(i)]	57.7	70.1	62.6	62.8

(i) Turnover days of our trade and bills receivables are based on the average balance of trade and bills receivables divided by revenue for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period.

The increase in our turnover days of trade and bills receivables from 2009 to 2010 was mainly due to the 31 December 2010 Transactions, which contributed to the increase in the average balance of trade and bills receivables, but had no impact on the revenue for 2010. Our turnover days of trade and bills receivables for 2010, excluding the impact of the 31 December 2010 Transactions, were 61.1 days. Our turnover days of trade and bills receivables remained relatively stable afterwards.

Trade and Bills Payables

Our trade payables mainly comprise amounts outstanding for our purchases of merchandise, raw materials and packaging materials and consist of trade payables and bills payables. We recognize our trade payables initially at fair value and subsequently measure them at amortized cost using the effective interest method. The following table sets forth our trade and bills payables as at the dates indicated:

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	(in thousands of RMB)			
Trade Payables	457,235	725,059	735,707	725,810
Bills Payables	32,129	100,195	183,941	161,951
	489,364	825,254	919,648	887,761

Trade Payables

As at 31 December 2009, 2010 and 2011 and 30 June 2012, our trade payables amounted to RMB457.2 million, RMB725.1 million, RMB735.7 million and RMB725.8 million, respectively. Excluding the impact of the 31 December 2010 Transactions, our trade payables amounted to RMB504.6 million as at 31 December 2010. Our trade payables generally increased during the Track Record Period mainly as a result of the expansion of our business.

Bills Payables

As at 31 December 2009, 2010 and 2011 and 30 June 2012, our bills payables amounted to RMB32.1 million, RMB100.2 million, RMB183.9 million and RMB162.0 million, respectively. Our bills payables generally increased during the Track Record Period mainly due to the expansion of our business as well as our increased use of bills payables to settle payments with suppliers.

For purchase of raw materials and other supplies for our businesses, our suppliers generally grant us a credit period of up to 90 days. For purchase of pharmaceutical products for our pharmaceutical distribution business, our suppliers generally grant us a credit period of up to 90 days.

As at 31 August 2012, approximately RMB550.0 million, or 62.0%, of our trade and bills payables as at 30 June 2012 were subsequently settled.

The following table sets forth the turnover days of our trade and bills payables for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2009	2010	2011	2012
Turnover days of trade and bills payables[(i)]	61.9	80.4	79.8	85.2

(i) Turnover days of our trade and bills payables are based on the average balance of trade and bills payables divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period.

The increase in our turnover days of trade and bills payables from 2009 to 2010 was mainly due to the 31 December 2010 Transactions, which contributed to the increase in the average balance of trade and bills payables, but had no impact on the cost of sales for 2010. Our turnover days of trade and bills payables for 2010, excluding the impact of 31 December 2010 Transactions, were 66.9 days. The turnover days of our trade and bills payables increased during the Track Record Period, mainly due to (i) the longer credit period granted by our suppliers to us as a result of our increased purchase scale; and (ii) our increased use of bills payables to settle payments to suppliers, which resulted in longer payment cycles.

Amounts Due From/To Related Parties

As at 31 December 2009, 2010 and 2011 and 30 June 2012, amounts due from related parties were RMB36.4 million, RMB19.5 million, RMB132.1 million and RMB304.8 million, respectively. The amounts due from related parties as at 31 December 2011 and 30 June 2012 included an amount of RMB21.4 million and RMB171.0 million, respectively, which are the dividends receivable from our associated companies. We usually receive the dividends from our associates within one year from the dates of their declaration. The remaining balances due from related companies as at 31 December 2009, 2010 and 2011 and 30 June 2012 were trade in nature and repayable on demand.

As at 31 December 2009, 2010 and 2011 and 30 June 2012, amounts due to related parties were RMB5.2 million, RMB23.4 million, RMB43.6 million and RMB35.7 million, respectively. The amounts due to related companies as at 31 December 2010 included the dividend payable to Jinxiang Fosun of RMB6.3 million, which had been duly settled as at 31 December 2011. We pay dividends to shareholders according to a schedule approved at relevant shareholders meetings. The amounts due to related companies as at 31 December 2011 included an entrusted loan of RMB10.0 million from Chengde Jingfukang Pharmaceutical Co., Ltd., an associated company of our Group, to Dalian Aleph. The entrusted loan bears interest at a rate of 6.94% per annum and its maturity date is 5 May 2012. The entrusted loan was fully repaid by June 2012. The remaining balances due to related parties as at 31 December 2009, 2010 and 2011 and 30 June 2012 were trade in nature and repayable on demand.

Investments in Associates

As at 31 December 2009, 2010 and 2011 and 30 June 2012, investments in associates were RMB5,622.4 million, RMB6,065.3 million, RMB7,395.5 million and RMB7,642.9 million, respectively. The details of investments in associates are set out in Note 22 on pages I-72 to I-75 of the Accountants' Report included as Appendix I to this prospectus. See "Business — Acquisitions and Strategic Investments" from page 229 to page 230 of this prospectus for more detailed discussion of our investments.

Available-for-Sale Investments

As part of our business strategy, we actively seek to accelerate our growth through acquisitions and strategic alliances. While we generally prefer to acquire a majority stake in target companies with an aim to integrate the acquired companies into our own business operations, we also consider acquiring minority stakes in selected companies when circumstances do not permit an immediate taking-over of these companies. While we generally prefer to invest in the healthcare sector to reinforce our core business, we have in the past invested in the companies in other industries that we considered to have sound financial performance and/or attractive valuation. There are a number of investment criteria we would take into consideration in general, including but not limited to: (i) the investment target is in a promising industry with favorable fundamentals, (ii) the investment target is able to demonstrate a sound operating and financial track record or prove its growth potentials, and (iii) the valuation of the investment target is attractive compared with the industry average or meets the minimal internal rate of return as stipulated by our investment management committee. As at 30 June 2012, the market value for our listed equity investments and the net book value for our unlisted equity investments in other industries that are not related to the healthcare industry was RMB1,741.8 million and RMB136.1 million, respectively. We evaluate our market value for listed equity investments at the end of each year, and conform our net book value for listed equity investments to their market value. During the Track Record Period, we have endeavored to dispose of equity investments unrelated to our core businesses, and we currently target to dispose of our interests in companies in other industries over the next five years. Meanwhile, we will continue to focus on investments in the pharmaceutical, healthcare services and other healthcare related industries. As a shift in our business strategies, we no longer intend to make any significant equity investment in companies of unrelated industries and instead focus solely on acquisitions in the healthcare and related industry.

Under our current internal control measures, our investment management committee discusses, reviews, assesses and formulates all proposals relating to our major investment portfolio, such as acquisitions and disposals. The investment management committee is chaired by the general manager of the Company, and the senior deputy general manager in charge of investment is responsible for the daily operation of the committee. Members of the committee include senior officers or their assistants in charge of securities, finance, human resources and legal matters and senior officers or their assistants from each business segment. Members of the committee are nominated by the human resource department and approved by our management executive committee as well as our chief general manager and chairman. Other than reviewing and approving investments, the investment management committee is also responsible for coordinating our investment plans and resources according to our strategies and establishing investment management systems. Each investment proposal is also submitted to the management, the Board or the general meeting for proper review and approval in accordance with the relevant laws, regulations, regulatory documents and our Articles of Association.

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognized, or determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to in the income statement in other expenses and removed from the available-for-sale. When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses. Our available-for-sale investments were RMB976.6 million, RMB2,055.1 million, RMB2,788.5 million and RMB2,874.8 million as at 31 December 2009, 2010 and 2011 and 30 June 2012, respectively. The main reasons for the fluctuation in our equity investment portfolio during the Track Record Period were (i) changes in the value of each company in our investment portfolio at the end of each period; (ii) the acquisition and disposal of the investments in each period; and (iii) the increased value of our investments in the companies that were listed on relevant stock exchanges during the Track Record Period because such investments were recognized at an increased market value in accounting treatment after the related companies became listed. For example, our investments in Henan Billions Chemicals Co., Ltd. were recorded from book value of RMB53.0 million to fair value of RMB810.0 million upon its listing on the Shenzhen Stock Exchange in July 2011. The following table sets forth our available-for-sale investment portfolio during the Track Record Period:

Industries	Available-for-sale Investment Portfolio	Status
Pharmaceutical Manufacturing	Henan Lingrui Pharmaceutical Co., Ltd. (河南羚銳製藥股份有限公司)	Purchased in 2000
	Chongqing Medicines Co., Ltd. (重慶醫藥股份有限公司)	Purchased in 2002
	Zhejiang Hisoar Pharmaceutical Co., Ltd. (浙江海翔藥業股份有限公司)	Purchased in 2003
	Austrialia Xingjia Pharmaceuticals, LLC (澳大利亞星加桂藥生產有限公司)	Purchased in 2004; Disposed of in 2009
	Tongjitang Chinese Medicines Company (中國同濟堂藥業有限公司)	Purchased in 2007; Became one of our associates in 2011
	Dawnrays Pharma (東瑞製藥(控股)有限公司)	Purchased in 2009; Disposed of in 2011
	Handa Pharmaceuticals, LLC (美國漢達藥業有限責任公司)	Purchased in 2009
	D.A.Diagnostics Co., Ltd. (杭州迪安醫療控股有限公司)	Purchased in 2009
	Changchun Dirui Medical Technology Co., Ltd. (長春迪瑞醫療科技股份有限公司)	Purchased in 2010
	Asia Pharmaceutical Group (Hainan) (海南亞洲製藥有限公司)	Purchased in 2010
Healthcare Related Industries		
Healthcare services	Chindex International, Inc.	Purchased in 2009

Industries	Available-for-sale Investment Portfolio	Status
Chain pharmacies	Golden Elephant Pharmacy (北京金象大藥房)	Purchased in 2001; Became one of our subsidiaries in 2010
	Shenzhen Zhonglian Guangshen Pharmaceuticals Co., Ltd. (深圳中聯廣深醫藥(集團)股份有限公司)	Purchased in 2002
	Wuhan Zhonglian Pharmaceuticals Co., Ltd. (武漢中聯大藥房醫藥有限責任公司)	Purchased in 2002; Disposed of in 2009
	Kang Zhizhou Medicine Co., Ltd (康之舟藥品經營有限公司)	Purchased in 2006
Internet drug sales	Screson Network Co., Ltd. (四川執象網絡有限公司)	Purchased in 2009
Medical equipment wholesale	Shanghai Antai Diagnostics Co., Ltd (上海安泰分析儀器有限公司)	Purchased in 2000
Wholesale medical logistics	Hunan Zhongbai Pharmaceutical Investment Co., Ltd. (湖南中百醫藥投資有限公司)	Purchased in 2010
Other Industries		
Venture capital	Shanghai Baoding Investment Co., Ltd (上海寶鼎投資股份有限公司)	Purchased in 2001
	Guilin Innovation Medicine Investment Co., Ltd. (桂林創新醫療投資有限公司)	Purchased in 2004; Disposed of in 2009
	Shenzhen Haotong Investment Development Co., Ltd. (深圳市豪同投資發展有限公司)	Purchased in 2012

Industries	Available-for-sale Investment Portfolio	Status
Finance and insurance . . .	Commercial Bank of Chongqing (重慶市商業銀行)	Purchased in 2002
	Bank of Communications Co., Ltd. (交通銀行)	Purchased in 2005; Disposed of in 2009
	Gong'an County Rural Credit Cooperative Association (公安縣農村信用合作聯社)	Purchased in 2006; Disposed of in 2011
	Gong'An County Minsheng Guarantee Co., Ltd. (公安縣民生擔保有限公司)	Purchased in 2006
	Yong'an Insurance Co., Ltd. (永安財產保險股份有限公司)	Purchased in 2007; Disposed of in 2012
	Fosun Group Finance Corporation Limited (上海復星高科技集團財務有限公司)	Established in 2011
	Shanghai Fosun Grand Fund Limited Partnership Company (上海復星創泓股權投資基金合伙企業)	Established in 2011
Chemicals and chemical products manufacturing .	Jiangxi Sunflex Light Retroreflective Material Co., Ltd. (江西盛福萊定向材料有限公司)	Purchased in 2005; Became one of our subsidiaries in 2011
	Befar Group Co., Ltd. (山東濱化集團股份有限公司)	Purchased in 2007
	Henan Billions Chemicals Co., Ltd. (河南佰利聯化學股份有限公司)	Purchased in 2007
	Xi'an Longgi Silicon Material Co., Ltd. (西安隆基硅材料股份有限公司)	Purchased in 2010
Food manufacturing	Hangzhou Wahaha Group Co., Ltd. (杭州娃哈哈食品集團公司)	Purchased in 2005; Disposed of in 2011
	Jiangxi Guohong Group Co., Ltd. (江西國鴻集團有限公司)	Purchased in 2009; Disposed of in 2009
New energy	Shanghai Shen-li High Tech Co., Ltd. (上海神力科技有限公司)	Purchased in 2006; Disposed of in 2009
Real estate	Shanghai Forte Land Co., Ltd. (復地(集團)股份有限公司)	Purchased in 2008; Disposed of in 2009

Industries	Available-for-sale Investment Portfolio	Status
Special equipment manufacturing industry .	Shanghai Tofflon Science and Technology Co., Ltd. (上海東富龍科技股份有限公司)	Purchased in 2008
Construction machinery . .	Zhejiang Linhai Haihong Group Co., Ltd. Zhejiang (浙江臨海海宏集團有限公司)	Purchased in 2008
Shoe manufacturing	Qingdao HengDa Co., Ltd. (青島亨達集團有限公司)	Purchased in 2010

With respect to changes in fair value of our available-for-sale investments, net of tax, we recorded other comprehensive income of RMB46.9 million, RMB455.2 million and RMB581.3 million for the years of 2009, 2010 and 2011, respectively. We recorded other comprehensive loss of RMB120.8 million for the six months ended 30 June 2012. The fluctuations in the fair value of available-for-sale investment during the Track Record Period were primarily due to changes in market conditions.

On 20 July 2012, we entered into an agreement to dispose of our 3.23% equity interest (86,000,000 shares) in Yong'an Insurance Co., Ltd. (永安財產保險股份有限公司) ("Yong'an Insurance") to a subsidiary of Fosun High Tech, Shanghai Fosun Industrial Technology Development Co., Ltd., for a cash consideration of RMB99,760,000. The consideration was determined based on the fair value of Yong'an Insurance's net assets.

Financial Assets at Fair Value through Profits and Loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the other gains or other expenses in the consolidated income statement. We evaluate our financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, we are unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, we may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial investments or held-to-maturity investments depends on the nature of the assets. Our financial asset at fair value through profits and loss amounted to RMB11.7 million, RMB218.8 million, RMB231.3 million and RMB238.9 million as at 31 December 2009, 2010 and 2011 and 30 June 2012 respectively. The following table sets forth our financial asset investment portfolio during the Track Record Period:

Industries	Financial Asset Investment Portfolio	Status
Pharmaceutical Manufacturing. .	Sinovac Biotech Ltd. (北京科興生物製品有限公司)	Purchased in 2008; Disposed of in 2010
	Tianjin Zhongxin Pharmaceuticals (天津中新藥業集團股份有限公司)	Purchased in 2009; Disposed of in 2010
	Simcere Pharmaceutical Group (先聲藥業集團有限公司)	Purchased in 2010
Finance and Insurance	Minsheng Bank (民生銀行)	Purchased in 2010; Disposed of in 2011

To better coordinate our investment strategy with our overall development strategy, we plan to reduce the proportion of such financial assets in our investment portfolio in the future.

Liquidity Ratios

The following table sets forth our liquidity ratios as at the dates indicated:

	As at 31 December			As at 30 June
	2009	2010	2011	2012
Current ratio(i)	1.3	1.6	1.2	1.3
Quick ratio(ii)	1.1	1.3	1.0	1.0

(i) Current ratio is calculated as current assets divided by current liabilities.

(ii) Quick ratio is calculated as current assets after subtraction of inventories divided by current liabilities.

The increases in our current ratio and quick ratio from 1.3 and 1.1 as at 31 December 2009 to 1.6 and 1.3 as at 31 December 2010, respectively, were mainly due to the increase of cash and cash equivalents as we completed a RMB635.4 million private placement of new A Shares in May 2010. The decreases in our current ratio and quick ratio from 1.6 and 1.3 as at 31 December 2010 to 1.2 and 1.0 as at 31 December 2011, respectively, were mainly due to the unpaid consideration of RMB674.5 million for acquisitions in 2011. Our current ratio and quick ratio remained largely stable at 1.2 and 1.0 as at 31 December 2011 as compared to 1.3 and 1.0 as at 30 June 2012, respectively.

Directors' Opinion on the Sufficiency of Our Working Capital

Taking into account the financial resources available to us, including internally generated funds, available banking facilities and the estimated net proceeds from the Global Offering, our Directors are of the opinion that the working capital available to our Group is sufficient for our present requirements for the next 12 months commencing from the date of the publication of this prospectus.

Non-current Assets in Overseas Countries and Regions

As at 31 December 2009, 2010 and 2011 and 30 June 2012, our non-current assets, excluding available-for-sale investments and deferred tax assets, in overseas countries and regions amounted to RMB16.0 million, RMB62.5 million, RMB347.0 million and RMB414.6 million, respectively. The significant increase in our non-current assets in overseas countries and regions in 2011 was primarily due to our investment of RMB284.7 million in Tongjitang Chinese Medicines Company ("Tongjitang"), which was transferred from available-for-sale investments to investments in associates in our accounts following the privatization of Tongjitang on 9 May 2011.

INDEBTEDNESS

As at 30 June 2012, we had outstanding borrowings of RMB6,143.8 million, out of which RMB5,555.6 million was denominated in Renminbi and RMB588.2 million was denominated in U.S. dollars. As at 31 August 2012, the latest practicable date for the purpose of indebtedness statement, we had outstanding borrowings of RMB6,016.6 million. We had obtained banking facilities of approximately RMB9,078.2 million as at 31 August 2012 mainly from various commercial banks in the PRC, of which approximately RMB5,354.8 million was not utilized. The following table sets forth the components of our borrowings as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 August
	2009	2010	2011	2012	2012
					(Unaudited)
	(in thousands of RMB)				
Bank loans:					
Guaranteed by related parties	1,191,883	988,552	511,018	—	—
Secured [(i)]	527,400	762,603	881,179	749,000	814,000
Unsecured	1,149,980	1,853,190	2,133,615	1,311,023	1,117,208
	2,869,263	3,604,345	3,525,812	2,060,023	1,931,208
Medium-term notes	—	986,104	2,568,056	2,571,442	2,572,638
Corporate bond	—	—	—	1,487,377	1,487,765
Loans from Fosun Finance	—	—	—	25,000	25,000
Total	2,869,263	4,590,449	6,093,868	6,143,842	6,016,611

(i) As at 31 December 2009, 2010 and 2011, 30 June 2012 and 31 August 2012, secured bank loans included RMB420.0 million, RMB420.0 million, RMB320.0 million, RMB320.0 million and RMB320.0 million, respectively, which were both secured by our assets and guaranteed by our Controlling Shareholder, Fosun High Tech.

The significant increases in our borrowings during the Track Record Period were primarily due to our growth and expansion as well as our acquisitions and strategic investments. During the Track Record Period, we borrowed RMB240 million from the Import and Export Bank of China and used that to fund our acquisition of an equity interest in Chindex, and we also borrowed RMB160 million from China Zheshang Bank for the purpose of equity acquisition. We also used proceeds from other loans that were borrowed for general purposes to fund our acquisitions and investments from time to time. Other short-term and medium-term borrowings we incurred during the period were for general working capital purposes to meet our growing needs in various areas, such as the research and development of new products and capacity expansion. We expect to repay the borrowings through our cash flow generated from operating activities, corporate financing activities and the proceeds from the Global Offering.

The following table sets forth the maturity profile of our indebtedness as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 August
	2009	**2010**	**2011**	**2012**	**2012**
					(Unaudited)
	(in thousands of RMB)				
Repayable:					
Within 1 year	1,582,998	1,830,386	2,177,051	1,488,805	1,384,390
1 to 2 years	165,000	566,603	962,114	429,400	355,909
2 to 5 years	1,015,000	1,853,460	2,904,703	4,175,637	4,226,312
Over 5 years	106,265	340,000	50,000	50,000	50,000
	2,869,263	4,590,449	6,093,868	6,143,842	6,016,611

As at 30 June 2012, most of our bank borrowings bore variable interest at rates ranging from 1.9% to 8.5% per annum, calculated based upon the PBOC benchmark rates as of the date. The interest rates of our RMB denominated bank borrowings are reset periodically according to the benchmark rates announced by the PBOC.

During the Track Record Period, in addition to bank borrowings, we also incurred other indebtedness to fund our business, including issuing medium-term notes, corporate bonds and commercial papers in the PRC.

On 8 November 2010, we issued medium-term notes with a maturity of five years in an aggregate amount of RMB1,000.0 million, bearing interest at the one-year term deposit bank interest rate plus 240 basis points per annum. The interest is payable annually in arrears and the maturity date is 10 November 2015.

On 31 March 2011, we issued medium-term notes with a maturity of five years in an aggregate amount of RMB1,600.0 million bearing interest at the one-year term deposit bank interest rate plus 290 basis points per annum, and the maturity date is 31 March 2016. Interest is payable annually in arrears.

On 25 April 2012, we issued corporate bonds with a maturity of five years in an aggregate amount of RMB1,500.0 million bearing interest at 5.53% per annum. The interest is payable annually in arrears and the maturity date is 25 April 2017.

On 6 August 2012, our Shareholders had approved a proposed public issuance of short-term commercial papers not exceeding RMB2,000.0 million. This issuance of commercial papers is pending for approval from the PRC National Association of Financial Market Institutional Investors.

The following table sets forth our capital adequacy ratios as at the dates or for the periods indicated:

	As at/year ended 31 December			As at/six months ended 30 June
	2009	2010	2011	2012
Gearing ratio[(i)]	25.0%	27.4%	27.4%	27.6%
Debt to net worth ratio:				
Debt to equity ratio[(ii)]	22.8%	13.3%	28.3%	37.6%
Interest coverage[(iii)]	25.7	8.4	6.5	6.0

(i) Gearing ratio is calculated as total debt divided by total assets. Debts are defined as current and non-current interest-bearing bank and other borrowings.

(ii) Debt to equity ratio is calculated as net debt divided by total equity. Net debt represents all borrowings less cash and cash equivalents.

(iii) Interest coverage is calculated as profit before interest and tax divided by interest.

The increase in our gearing ratio from 25.0% as at 31 December 2009 to 27.4% as at 31 December 2010 was mainly due to the increase in debt as we issued medium-term notes of RMB1,000.0 million in November 2010. Our gearing ratio remained stable at 27.4%, 27.4% and 27.6% as at 31 December 2010, 2011 and 30 June 2012, respectively.

The decrease in our debt to equity ratio from 22.8% as at 31 December 2009 to 13.3% as at 31 December 2010 was mainly due to the increase in equity as we completed an RMB635.4 million private placement of new A Shares in May 2010. The increase in our debt to equity ratio from 13.3% as at 31 December 2010 to 28.3% as at 31 December 2011 was mainly due to the increase in net debt as we issued medium-term notes of RMB1,600.0 million in March 2011. The increase in our debt to equity ratio from 28.3% as at 31 December 2011 to 37.6% as at 30 June 2012 was mainly due to the increase in net debt as we issued corporate bonds of RMB1,500.0 million in April 2012.

The significant decrease in our interest coverage from 25.7 in 2009 to 8.4 in 2010 was mainly due to the fact that our profit before interest and tax in 2009 included a pre-tax gain of RMB2,608.2 million as deemed disposal of equity interest in Sinopharm upon Sinopharm's listing on the Main Board of the Hong Kong Stock Exchange in September 2009. The decrease in our interest coverage from 8.4 in 2010 to 6.5 in 2011 was mainly due to the increase in interest as we issued medium-term notes of RMB1,000.0 million in November 2010 and medium-term notes of RMB1,600.0 million in March 2011. The decrease in our interest coverage from 6.5 for the first half of 2011 to 6.0 for the first half of 2012 was mainly due to the increase in interest as we issued corporate bonds of RMB1,500.0 million in April 2012.

Save as disclosed, we did not have, as at the date of this prospectus, any outstanding mortgages, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

Our borrowing requirements are not subject to seasonality. Other than as disclosed above, there has been no material change in our indebtedness since 30 June 2012.

CONTINGENT LIABILITIES

As at 31 August 2012, our Company did not have any hire purchase commitments, guarantees or other material contingent liabilities.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Commitments

Operating Leases

We lease certain buildings under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally require us to pay security deposits. The following table sets forth our future aggregate minimum operating lease payments under non-cancelable operating leases as at the dates indicated:

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	(in thousands of RMB)			
Within 1 year	7,542	8,824	22,120	32,938
1 to 3 years	9,502	6,668	33,017	24,360
Over 3 years	760	3,865	14,117	6,650
Total	17,804	19,357	69,254	63,948

Capital Commitments and Investment Commitments

In addition to operating lease commitments, we also had the following capital commitments and investment commitments as at 31 December 2009, 2010 and 2011 and 30 June 2012:

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	(in thousands of RMB)			
Contracted, but not provided for:				
Plant and machinery	213,375	123,244	148,238	154,652
Equity investments in subsidiaries, jointly-controlled entities and associates	184,866	877,428	—	56,219
Investment in an available-for-sale financial asset	—	—	24,000	74,000
	398,241	1,000,672	172,238	284,871
Authorised, but not contracted for:				
Plant and machinery	950,843	13,259	71,115	340,739

The capital commitments described above are mainly with respect to expansion of existing facilities and construction of new production facilities, which primarily consist of (i) Shine Star's expansion of its facility for amino acid series products, which is expected to be completed by the end of 2012; and (ii) Wanbang Pharma's construction of a new facility for the recombinant human insulin products, which is expected to be completed by the end of 2015. The total investment required for Shine Star's expansion project is approximately RMB100 million and the new facility is expected to enhance the annual production capacity of Shine Star's amino acid series products to more than 13,000 tonnes. The total investment required for Wanbang Pharma's new facility is approximately RMB500 million and the new facility is expected to add annual production capacity of 32 million units of recombinant human insulin injection products. Such expansion and construction are to be funded by cash generated from our operations, bank borrowings and the proceeds from the Global Offering.

There has been no material change to our capital commitments and investment commitment since 30 June 2012.

Contractual Obligations

As at 30 June 2012, our contractual obligations amounted to RMB7,928.6 million, arising from debt obligations, operating lease commitments, and capital and investment commitments. The following table sets forth our contractual obligations as at 30 June 2012.

	Payments Due by Period			
	Total	Less than 1 year	1–5 years	More than 5 years
	(in thousands of RMB)			
Debt obligations	7,239,035	1,795,915	5,391,573	51,547
Operating lease commitments	63,948	32,938	31,010	—
Capital commitments	495,391	495,391	—	—
Investment commitments	130,219	130,219	—	—
Total	7,928,593	2,454,463	5,422,583	51,547

OFF-BALANCE SHEET ARRANGEMENTS

As at 30 June 2012, being the date of our most recent financial statements, we did not have any off-balance sheet arrangements.

QUANTITATIVE AND QUALITATIVE ANALYSIS ABOUT FINANCIAL RISK

We are exposed to various types of financial risks in the ordinary course of our business, including market risk (consisting of interest rates and foreign exchange rates), credit risk and liquidity risk. We did not, for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, use derivative financial instruments to hedge our risk exposures on changes in foreign currency exchange rates and interest rates.

Interest Rate Risk

We are exposed to interest rate risk arising primarily from bank borrowings. Bank borrowings issued at variable rates expose us to cash flow interest rate risk. Bank borrowings issued at fixed rates expose us to fair value interest rate risk. In general, we raise bank borrowings at floating rates as well as fixed rates, based upon market conditions and our needs. We currently do not use any interest rate swap contracts or other financial instruments to hedge against interest rate risk exposure. We will, however, continue to monitor interest rate risk exposure and will consider hedging significant interest rate risk exposure should the need arise.

As at 31 December 2009, 2010 and 2011 and 30 June 2012, if the interest rate on bank borrowings had been 100 basis points higher/lower, with all other variables held constant, our profit before income tax for the respective periods then ended would have been lower/higher by RMB18.9 million, RMB22.9 million, RMB50.0 million and RMB13.2 million, respectively, mainly as a result of higher/lower interest expenses on bank borrowings.

Foreign Exchange Risk

We undertake certain transactions denominated in foreign currency and, as a result, we are exposed to exchange rate fluctuation risks. We receive foreign currencies for the sale of pharmaceutical products overseas in our pharmaceuticals business. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our revenues in foreign currencies, derived from sales to overseas customers in our pharmaceutical manufacturing segment, amounted to RMB673.1 million, RMB628.2 million, RMB756.9 million and RMB384.0 million, representing 17.5%, 13.9%, 11.8% and 11.1% of total revenue for the same periods, respectively. Our net foreign exchange losses for the same periods were nil, RMB6.7 million, RMB5.4 million and RMB1.7 million, respectively. We also use foreign currencies to pay for imported equipment and materials. As at 30 June 2012, our cash and cash equivalents denominated in foreign currencies primarily consisted of US$7.4 million, HK$13.3 million and EUR5.3 million and our trade payables denominated in foreign currencies primarily consisted of US$7.0 million and EUR2.3 million.

The Renminbi is not freely convertible into other currencies and conversion of the Renminbi into foreign currencies is subject to foreign exchange control rules and regulations promulgated by the PRC government. Considering the level of our current exposure to foreign exchange risk, we have not used any derivative contracts to hedge against our exposure to foreign currency risk. However, we will continue to monitor closely the foreign currency risk exposure and will consider hedging significant foreign current exposure should the need arise.

We use Renminbi as the reporting and functional currency for our financial statements. All transactions in currencies other than Renminbi during a given period are recorded at the exchange rates prevailing on the respective relevant dates of such transactions. Monetary assets and liabilities existing at the balance sheet date denominated in currencies other than Renminbi are re-measured at the exchange rates prevailing on such date. Exchange differences are recorded in our consolidated income statement. Fluctuations in exchange rates may also affect our balance sheet. For example, to the extent that we need to convert HK dollars received in the Global Offering into Renminbi for our operations, the appreciation of the Renminbi against the HK dollar would have an adverse effect on Renminbi amount that we receive from the conversion. Conversely, if we decide to convert Renminbi into HK dollars for the purpose of making payments for dividends on our ordinary shares or for other business purposes, appreciation of the HK dollar against Renminbi would have a negative effect on the HK dollar amount available to us.

As at 31 December 2009, 2010 and 2011 and 30 June 2012, if the exchange rate of the RMB had strengthened/weakened by 5% against the U.S. dollar, with all other variables held constant, our profit before income tax for the respective periods then ended would have been higher/lower by RMB8.7 million, RMB29.1 million, RMB3.4 million and RMB2.5 million, respectively, mainly as a result of foreign exchange loss or gain on translation of U.S. dollar denominated cash and cash equivalents and trade payables.

Credit Risk

Credit risk primarily arises from cash and cash equivalents, held-to-maturity investment, available-for-sale investments, equity investments at fair value through profit or loss, amounts due from related companies and deposits and other receivables, arises from the default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments. For deposits with banks and financial institutions (including restricted cash and cash and cash equivalents), we have limited our credit exposure by restricting the selection of banks and financial institutions to local joint-stock commercial banks or state-owned banks. With respect to trade receivables, we assess the credit qualities of customers, taking into account their financial positions, past experiences and other factors. Individual risk limits are set and regularly reviewed by our management, the utilization of which is monitored regularly. We have no concentration of credit risk in respect of trade receivables due to our large customer base. Bills receivable are mostly to be settled by banks or state-owned banks, as a result of which our management expects that we will not be exposed to any significant credit risk.

We believe that the provisions for impairment of trade and other receivables as at respective balance sheet dates adequately cover our related credit risk exposures.

Liquidity Risk

Our liquidity is primarily dependent on our ability to maintain adequate cash inflows from our operations to meet our debt obligations as they become due, and our ability to obtain external financing to meet our committed future capital expenditures. We currently finance our working capital requirement mainly through a combination of funds generated from operations and bank borrowings. We had obtained banking facilities of approximately RMB9,078.2 million as at 31 August 2012 mainly from various commercial banks in the PRC, of which an amount of approximately RMB5,354.8 million was not utilized. In addition, we obtained CSRC approval on 23 November 2011 for issuing no more than RMB3,000.0 million in aggregate principal amount of corporate bonds in various tranches. In April 2012, we issued the first tranche of corporate bonds of RMB1,500.0 million with a term of five years and an interest rate of 5.53% per annum. Taking into account these factors and our expected cash generated from operations, and taking into account the planned expansion in our business activities in the coming year, our Directors are of the view that we will not have any difficulty in obtaining sufficient financial resources to meet our liquidity needs within 12 months from the date of this prospectus.

As at the Latest Practicable Date, we had not been subject to any notice of withdrawal, or potential withdrawal, of our existing or committed bank credit facilities, nor have we received any requests by a bank or other creditors to repay outstanding loan facilities or debt securities in advance of their maturity dates or to increase the amount of collateral for any secured bank borrowings or debt securities. However, although we believe we will be able to fund our outstanding commitments and renew our outstanding bank credit facilities, we are subject to various risks and uncertainties in our ability to do so. We believe we are taking all necessary measures to maintain sufficient liquidity reserves to support the sustainability and growth of our business in the current circumstances and to repay our outstanding borrowings when they fall due.

Limitations of Sensitivity Analysis

While we consider sensitivity analysis to provide us with a valid estimation of market risk exposures, we recognize that there are certain limitations in its use. Our sensitivity analysis is an estimate based on a fixed point in the past. Nearly all of our assets and liabilities are subject to market risk from fluctuating interest rates and foreign exchange rates. These fluctuations cannot be foreseen and could occur very suddenly. The quantitative risk measures provided by the sensitivity analysis are a snapshot, describing the potential losses to investments under a particular set of assumptions and parameters, which, though reasonably possible, may differ considerably from actual losses experienced in the future.

PROPERTY VALUE RECONCILIATION

Our property interests were valued at RMB2,735.60 million, with RMB2,129.28 million attributable to our Company, as at 31 July 2012 by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer. Particulars of our property interests are set out in "Appendix IV — Property Valuation" to this prospectus.

The table below sets forth (i) the reconciliation of our property interests from our audited consolidated financial statements as at 30 June 2012; and (ii) the reconciliation of the unaudited net book value of our property interests and the valuation of such property interests as at 31 July 2012:

	RMB in millions (unaudited)
Net book value of our property interests as of 30 June 2012	
Land and buildings	2,199.10
Movements for the one month ended 31 July 2012	
Additions	27.84
Depreciations	(4.36)
Disposals	(2.09)
Net book value of our property interests as at 31 July 2012	2,220.49
Valuation surplus as at 31 July 2012	515.11
Valuation as at 31 July 2012 as set forth in "Appendix IV — Property Valuation" to this prospectus	2,735.60

DIVIDEND POLICY

We declared and paid approximately RMB123.8 million, RMB190.4 million and RMB190.4 million as dividends for the years ended 31 December 2009, 2010 and 2011, respectively. The declared dividends for 2011 were settled in June 2012. The payment of any dividend by us must be approved by our Shareholders in a Shareholders' meeting. While our Board generally intends to recommend the declaration of dividends to our Shareholders in general Shareholders' meeting, the decision to make a recommendation for the payment of any dividend and the amount of the dividend will depend on, among other things:

- our financial results;

- our Shareholders' interests;
- general business conditions and strategies;
- our capital requirements;
- contractual restrictions on the payment of dividends by us to our Shareholders or by our subsidiaries to us;
- taxation considerations;
- possible effects on our creditworthiness;
- statutory and regulatory restrictions; and
- any other factors our Board of Directors may deem relevant.

Our Board will propose dividends, if any, in Renminbi with respect to our H Shares on a per Share basis for Shareholders' approval. We will pay such dividends in Hong Kong dollars. Under the PRC Company Law and our Articles of Association, all of our Shareholders have equal rights to dividends and distributions. Holders of our H Shares will share proportionately on a per Share basis in all dividends and other distributions.

In accordance with applicable requirements of the PRC Company Law, we may only distribute dividends after we have made an allowance for:

- recovery of accumulated losses, if any;
- allocations to a statutory surplus reserve fund; and
- allocations to a discretionary surplus reserve fund if approved by our shareholders and after allocation is made to the statutory reserve fund.

The allocations to the statutory surplus reserve fund is currently 10% of our after-tax profit attributable to owners of our Company for the fiscal year determined in accordance with PRC accounting rules and regulations. When the accumulated allocations to the statutory surplus reserve fund reach 50% of our Company's registered capital, we will no longer be required to make allowances for allocation to the statutory surplus reserve fund. As at 30 June 2012, the required deductions attributable to our statutory surplus reserve fund amounted to RMB1,184.6 million.

Under PRC law, dividends may be paid only out of distributable profits, which are our retained earnings, as determined in accordance with PRC accounting rules and regulations and HKFRS, whichever is lower, less allocations to the statutory and discretionary common reserve fund. We will not ordinarily pay any dividends in a year in which we do not have any distributable profits.

Subject to the factors discussed above, we may distribute dividend in cash or in stocks for the 2012 financial year. If in cash, the dividend will be no less than 10% of the distributable profits attributable to shareholders of our Company for the financial year. The specific plan of dividend distribution will be determined at the general meeting of our Shareholders based on our actual operating results.

DISTRIBUTABLE RESERVES

The calculation of distributable profits for a company under PRC GAAP differs in a few respects from the calculation under HKFRS. As a result, we may not be able to pay any dividends in a given year if we do not have distributable profits as determined under PRC GAAP, even if we have profits for that year as determined under HKFRS, or vice versa.

Pursuant to our Articles of Association, following the Listing of our H Shares on the Hong Kong Stock Exchange, the amount of retained profits available for distribution to our shareholders shall be the lower of the amount determined in accordance with PRC GAAP and that determined in accordance with HKFRS. As at 30 June 2012, our distributable reserves determined on this basis were the retained earnings of our Company under HKFRS, which were RMB4,785.5 million.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of our Company have been prepared based on the audited consolidated net tangible assets of our Company attributable to the owners of our Company as at 30 June 2012 as extracted from the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and is adjusted as described below.

The unaudited pro forma adjusted consolidated net tangible assets of our Company have been prepared for illustrative purposes only and, because of their hypothetical nature, they may not give a true picture of the financial position of our Company had the Global Offering been completed as at 1 July 2012 or at any future date.

The following unaudited pro forma adjusted consolidated net tangible assets of our Company have been prepared to show the effect on the consolidated net tangible assets of our Company as at 30 June 2012 as if the Global Offering had occurred on 30 June 2012.

	Audited consolidated net tangible assets attributable to owners of our Company as at 30 June 2012	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	RMB in million(1)	RMB in million(2)	RMB in million	RMB(3)	HK$(4)
Based on Offer Price of HK$12.74 per Offer Share	7,262.1	3,329.2	10,591.3	4.73	5.78

Notes:

(1) The consolidated net tangible assets attributable to owners of our Company as at 30 June 2012, was determined as follows:

	RMB in million
Audited consolidated net assets of our Group as set out in Appendix I	11,691.5
Less: Non-controlling interests as set out in Appendix I	1,607.7
Less: Goodwill as set out in Appendix I	1,585.1
Less: Other intangible assets as set out in Appendix I.	1,236.6
Consolidated net tangible assets attributable to owners of our Company	7,262.1

(2) The estimated net proceeds from the Global Offering are based on the offer price of HK$12.74 per share after deduction of the underwriting fees and other related expenses payable by our Company, and do not take into account of any shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted at the PBOC Rate from Hong Kong dollars into Renminbi at an exchange rate of HK$1.00 to RMB0.8177 prevailing on the Latest Practicable Date.

(3) The unaudited pro forma adjusted consolidated net tangible assets per share are determined after the adjustments as described in note 2 above and on the basis that 2,240,462,364 Shares (being the number of shares expected to be in issue immediately after completion of the Global Offering, without taking into account of any shares which may be issued upon the exercise of the Over-allotment Option) are issued and outstanding.

(4) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.8177 to HK$1.00, the PBOC Rate prevailing on the Latest Practicable Date. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

PROFIT FORECAST

We believe that on the basis and assumptions as set out in "Appendix III — Profit Forecast" to this prospectus and in the absence of unforeseen circumstances, our forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2012 is expected to be not less than RMB1,490.0 million under HKFRS. Our forecast is based on the following key assumptions:

- Revenue and profit from our core pharmaceutical manufacturing business continue to grow.
- The two subsidiaries we acquired in the second half of 2011, namely Aohong Pharma and Dalian Aleph will make more contributions to our revenue and gross profits in 2012.
- The contribution of profits from Sinopharm will also increase in 2012 due to the continued growth of Sinopharm's business.
- We will continue to derive a portion of our profit from gains from the disposal of available-for-sale investments, the amount of which is forecasted based on disposals of our listed available-for-sale investments at their lowest trading prices in the last five years.

On a pro forma basis, and on the assumption that a total of 2,240,462,364 Shares were issued and outstanding (and not taking into account any H Shares that may be issued pursuant to exercise of the Over-allotment Option) during the entire year, the forecast basic earnings per Share for 2012 on a pro forma basis would be RMB0.67 (HK$0.81).

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since 30 June 2012 and there is no event since 30 June 2012 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

We confirm that as at the Latest Practicable Date, we are not aware of any circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of Chapter 13 of the Hong Kong Listing Rules.

We are subject to periodic financial reporting requirements under the Shanghai Listing Rules. We are required to publish our quarterly (for the first and third quarters of each year), interim (for the first six months of each year) and annual reports with respect to our A Shares on the Shanghai Stock Exchange within one month, two months and four months, respectively, of the end of the relevant reporting periods. We will disclose the same information in both English and Chinese in Hong Kong simultaneously under Rule 13.09(2) of the Hong Kong Listing Rules. Our annual and interim financial statements for A Shares and H Shares will be prepared based on PRC GAAP and HKFRS, respectively. Our quarterly financial statements will be prepared based on PRC GAAP for A Shares.

Our reporting accountants for the Global Offering are Ernst & Young. We have not determined which accounting firm will be retained post-Listing as, in accordance with the Articles of Association, the engagement and replacement of an accounting firm are subject to Shareholders' resolutions. Our Company will carefully consider and select a qualified, reputable accounting firm as our external auditors post-Listing.