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## INDUSTRY OVERVIEW

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*This and other sections of this prospectus contain information relating to the PRC economy and the industry in which we operate. The information and statistics contained in this section have been derived partly from publicly available government and official sources. Certain information and statistics set forth in this section have been extracted from a market research report by NFS, an independent market research agency, which we commissioned. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information or statistics is false or misleading in any material respect or that any fact has been omitted that would render such information or statistics false or misleading in any material respect. Such information and statistics have not been independently verified by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, any of the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to their correctness or accuracy. Accordingly, you should not place undue reliance on such information or statistics.*

### SOURCES OF INFORMATION

#### About NFS

NFS, a research institute affiliated with the CFDA, conducts research and studies on the retail pharmaceutical industry and retail pharmacies in China. The information disclosed in this prospectus from NFS is extracted from a research study commissioned by us for a fee of RMB350,000 and is disclosed with the consent of NFS. The NFS study is conducted through extrapolation of data automatically collected through point-of-sale terminals that are covered by NFS's on-line monitoring system and verification from site visits.

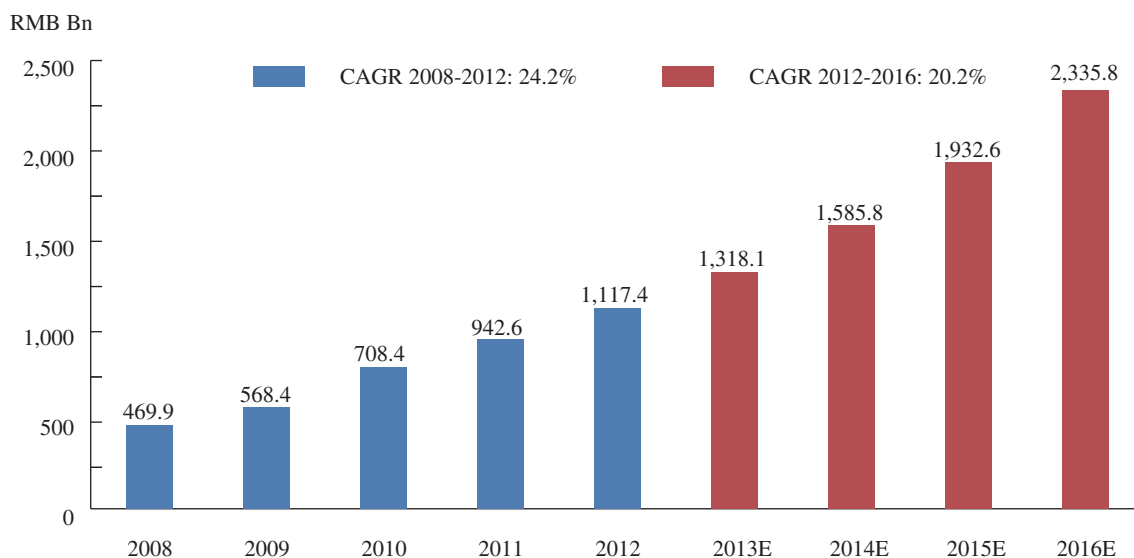
### THE PHARMACEUTICAL INDUSTRY IN CHINA

We operate in China's large and fast growing pharmaceutical industry. We believe that the continual growth of the pharmaceutical industry in China is driven by a combination of favourable socioeconomic factors, including increased disposable income and healthcare spending in China, support from the PRC government regarding healthcare spending and policy reform, the ageing population and urbanisation progress in China.

#### Industry Overview

China's pharmaceutical industry has experienced rapid growth during the past five years. According to NFS, the total sales of the pharmaceuticals, which includes sales of pharmaceuticals from hospitals, clinics, health centres and retail pharmacies to consumers, increased from RMB470 billion in 2008 to RMB1,117 billion in 2012, representing a CAGR of 24.2%. Further, the market is expected to maintain a CAGR of 20.2% from 2012 to 2016 and reach RMB2,336 billion in 2016. The chart below sets forth the historical and projected size of the PRC pharmaceutical market from 2008 to 2016.

## INDUSTRY OVERVIEW

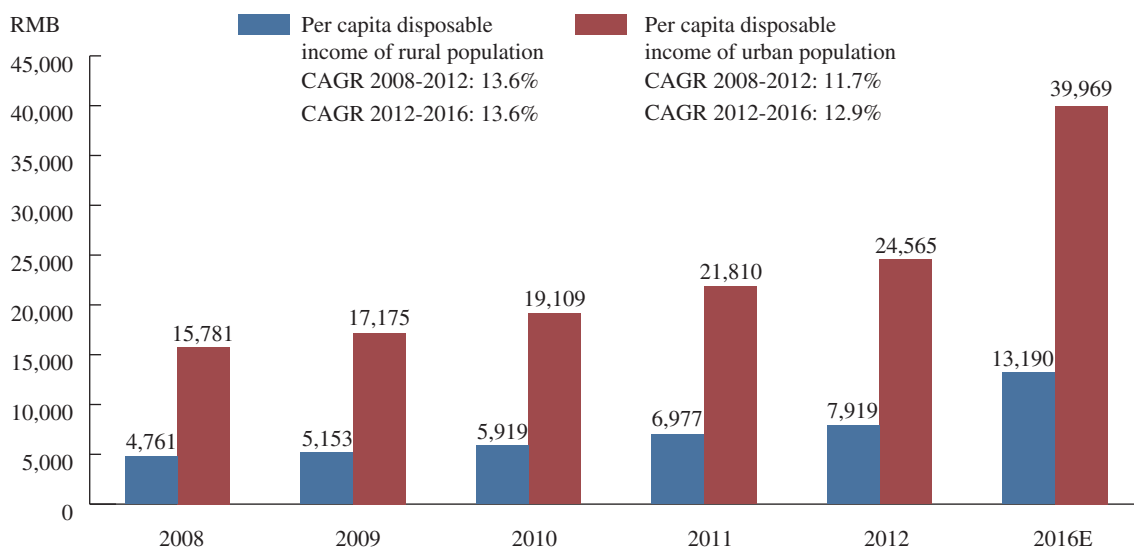


Source: NFS

### Key Growth Drivers for the PRC Pharmaceutical Industry

#### Fast Growing GDP and Disposable Income

China is one of the fastest-growing economies in the world. According to the National Bureau of Statistics of China, China has surpassed Japan in 2012 to become the second largest economy in the world with a GDP reaching RMB51.9 trillion. Furthermore, per capita annual disposable income of urban residents in China increased from RMB15,781 in 2008 to RMB24,565 in 2012, representing a CAGR of approximately 11.7%, while per capita annual disposable income of rural residents in China increased from approximately RMB4,761 in 2008 to RMB7,919 in 2012, representing a CAGR of approximately 13.6%. NFS projects that the per capita disposable income of urban and rural populations in the PRC will reach RMB39,969 and RMB13,190, respectively, in 2016, representing CAGRs of 12.9% and 13.6%, respectively, from 2012 to 2016. Details of the historical and projected per capita annual disposable income are set forth in the following chart:



Source:

(1) 2008-2012: National Statistics Bureau of China

(2) 2013E-2016E: NFS

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## INDUSTRY OVERVIEW

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### *Rising Healthcare Spending*

#### *Total Healthcare Expenditure Growth*

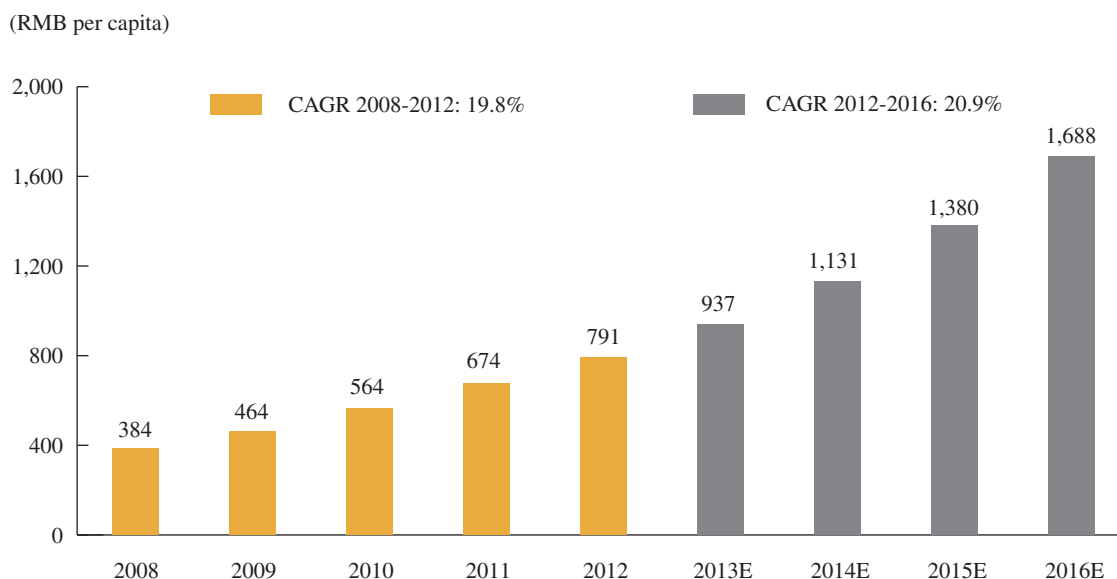
According to NFS, China's total healthcare expenditure increased from RMB1,454 billion in 2008 to RMB2,891 billion in 2012, representing a CAGR of 18.8%. China's total healthcare expenditure has been growing rapidly in conjunction with the nation's ongoing healthcare reform, and is expected to continue to grow in the next several years. According to the World Bank report, healthcare spending in most developed countries accounted for approximately 7.0% to 18.0% of GDP in 2011, while China's expenditure on healthcare was approximately 5.2% of GDP in 2011. According to NFS, China's healthcare spending is expected to continue to grow from 2012 to 2016 at a CAGR of 19.4% and reach RMB5,883 billion in 2016.

#### *Per Capita Healthcare Spending*

According to the World Bank report, China's per capita healthcare spending grew from US\$114 in 2007 to US\$278 in 2011, representing a CAGR of 25.0%. This growth exceeded that of many other countries, including the US, Japan and South Korea. However, China's per capita healthcare spending of US\$278 in 2011 represents only 3.2% of per capita healthcare spending in US, 7.0% of Japan and 17.2% of South Korea and is expected to continue to grow rapidly in the future according to NFS.

#### *Per Capita Spending on Medicine*

China's per capita spending on medicine increased from RMB384 in 2008 to RMB791 in 2012, representing a CAGR of 19.8%. According to NFS, China's per capita spending on medicine is expected to grow at a CAGR of approximately 20.9% from 2012 to 2016. The chart below sets out the historical and projected China's per capita spending on medicine for the periods shown.



Source: NFS

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## INDUSTRY OVERVIEW

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### *Government-sponsored Medical Insurance Reform*

The ongoing healthcare reform led by Chinese government aims to build a nationwide insurance system to provide substantially all of China's population with affordable medical services. At present, such system consists of three types of essential medical insurance: (i) the Urban Employee Basic Medical Insurance Scheme which is a mandatory health insurance programme for urban employees and retirees, (ii) the Urban Resident Basic Medical Insurance Scheme, which is a voluntary programme for other urban residents, and (iii) the New Rural Cooperative Medical Scheme or NRCMS, which is a voluntary programme for all rural residents. According to 2012 China Health Statistics Yearbook, the two urban insurance schemes covered 536 million urban residents, accounting for approximately 75.3% of the total registered urban population by the end of 2012. In the meantime, the NRCMS covered approximately 805 million rural residents, accounting for approximately 98.3% of the total registered rural population. For certain illnesses that require expensive medical procedures, a supplemental medical reimbursement system is in place, which provides a minimum of 50% reimbursement in addition to the basic medical insurance coverage.

### *Other Key Factors*

According to NFS, several other factors, including the ageing population and increasing urbanisation, are also contributing to the high growth of China's pharmaceutical industry. According to the 2010 census released by National Bureau of Statistics of China, there were 178 million individuals in China aged 60 years old or above, representing 13.3% of the population. The number of individuals in this age category is growing at a fairly fast pace and is expected to reach 356 million by the end of 2030 according to China National Commission on Ageing Populations. In addition, the prevalence of chronic health diseases, such as hypertension, diabetes and hyperglycemia, grew rapidly over the last decade and is expected to continue to grow significantly in the future due to the increasing number of ageing population according to NFS. Furthermore, China's rapid economic growth has coincided with its unprecedented urbanisation beginning in the 1990s. Furthermore, cities often offer better employment prospects, educational opportunities and better living environment. Accordingly, there has been an increasing number of individuals moving to cities, which offer better healthcare services and have higher per capita healthcare spending than rural area. China's urbanisation trend is expected to further support the growth of the healthcare sector in China.

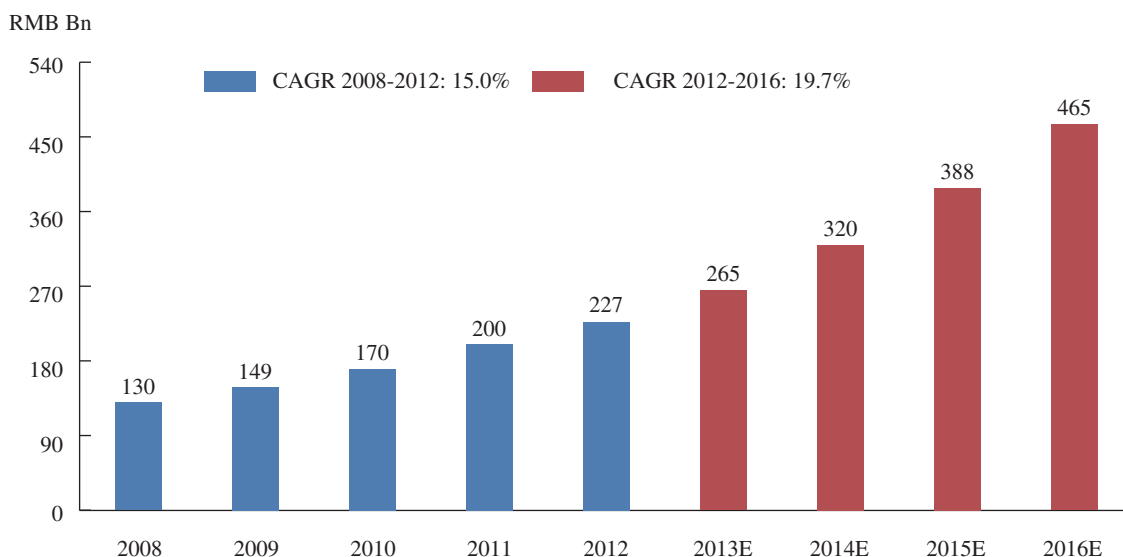
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## INDUSTRY OVERVIEW

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### Pharmaceutical Retail Industry Overview

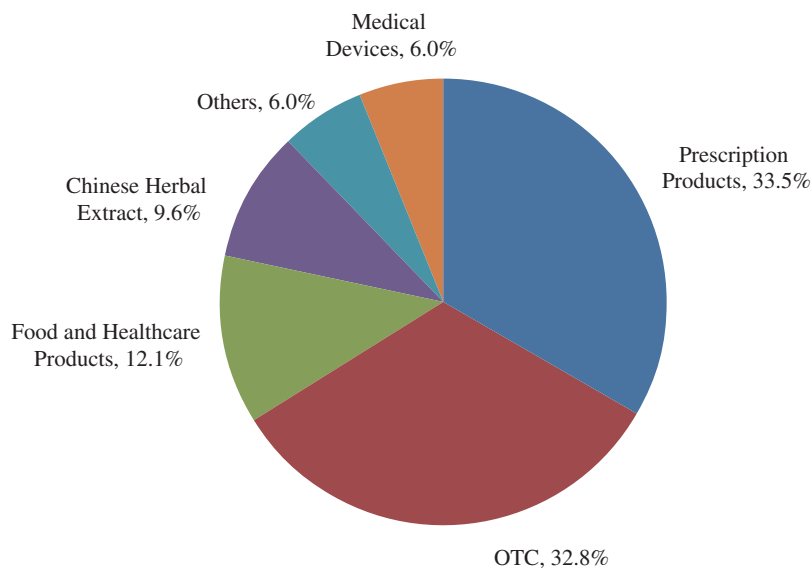
According to NFS, total sales of pharmaceuticals to consumers through retail pharmacies in China grew from RMB129.5 billion in 2008 to RMB226.8 billion in 2012, representing a CAGR of 15.0%. The retail market is expected to reach RMB465.1 billion sales in 2016. The following chart sets out the historical and expected growth of the PRC pharmaceutical retail industry for the periods indicated.



Source: NFS

### Breakdown of the Pharmaceutical Retail Market by Product Categories

According to NFS, the top two categories of pharmaceuticals sold in China during 2012 were prescription products and OTC products which accounted for 34% and 33%, of the whole pharmaceutical retail market, respectively. The following graph sets out the main pharmaceutical product categories for the PRC pharmaceutical retail market in 2012.



Source: NFS

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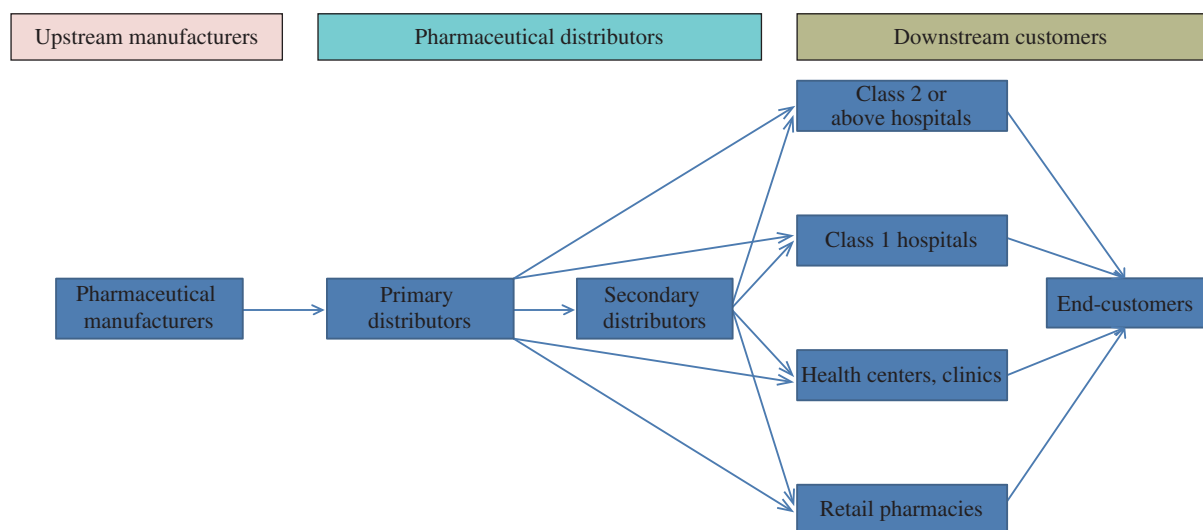
## INDUSTRY OVERVIEW

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### Pharmaceutical Distribution Industry Overview

#### Value Chain analysis of the Pharmaceutical Distribution Industry in China

The typical value chain of the pharmaceutical distribution industry is divided into three main segments: (i) upstream pharmaceutical manufacturers; (ii) pharmaceutical distributors which include primary distributors and secondary distributors and (iii) downstream customers which include hospitals, health centres, clinics, retail pharmacies and end-consumers. Pharmaceutical products manufactured by upstream manufacturers are normally distributed through primary or secondary distributors to downstream customers. However, in some cases, additional distributors will also be involved. Relying on their own sales networks and customer resources, distributors may decide to sell the pharmaceutical products to downstream hospitals, health centres and clinics, by themselves.



Source: NFS

#### Business model analysis

Pharmaceutical distribution enterprises in China can be categorised into three major types by business model, namely, distribution-oriented, professional agency, and value chain integrated. Our Group has implemented both the distribution-oriented and the value chain integrated models.

Under the distribution-oriented business model, a pharmaceutical manufacturer engages a pharmaceutical company to distribute its products within a specific market. Work related to the promotion and marketing of relevant pharmaceutical products is completely undertaken by the manufacturer and also third parties it engages (such as pharmaceutical marketing companies). Pharmaceutical distributor provides logistic distribution service.

Under the professional agency business model, a pharmaceutical manufacturer engages only one distribution company to be responsible for all distribution, promotion and marketing of its pharmaceutical products as an exclusive agent within a specific market.

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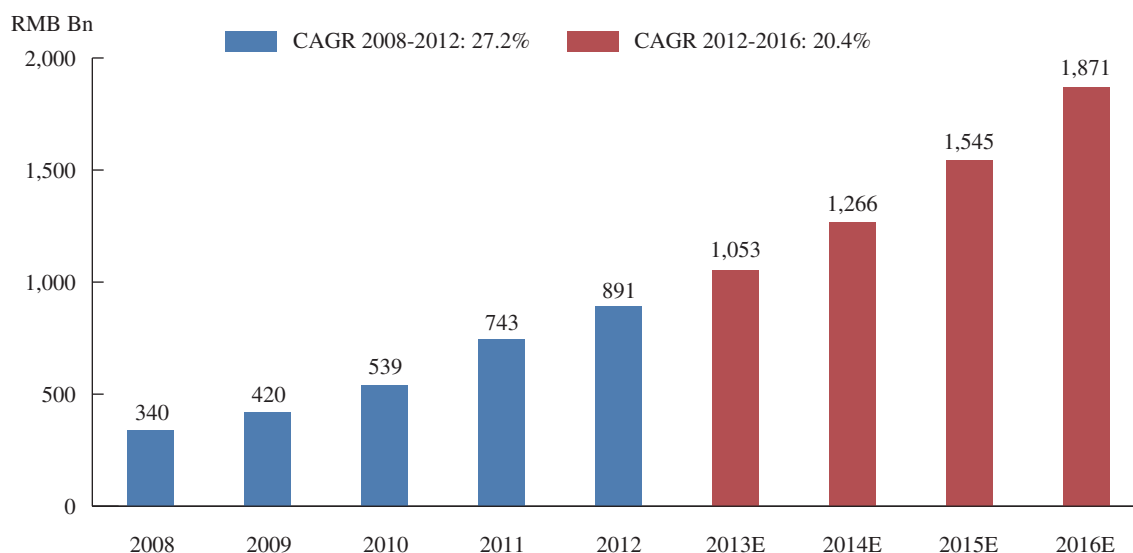
## INDUSTRY OVERVIEW

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Under the value chain integrated business model, a pharmaceutical distributor not only integrates upstream manufacturing through contracts with licensed product manufacturers to secure attractive and cost-competitive products, but also integrates parts of downstream customers (including retail pharmacies, hospitals, clinics and healthcare centres) to vertically integrate the pharmaceutical value chain. Under the value chain integrated model, work related to promotion and marketing of the licensed products is typically undertaken by distributors, rather than manufacturers, because distributors have direct access to the downstream customers. Pharmaceutical groups which employ this business model include our Group (金天醫藥集團股份有限公司), Hunan Tege'er Group (湖南特格爾集團) and Guangdong Jin Baihe (廣東金百合).

### Rapid Growth in the PRC Pharmaceutical Distribution Industry

According to NFS, the total sales from distributors to hospitals, healthcare centers, clinics, retail pharmacies in China grew from RMB340.4 billion in 2008 to RMB890.6 billion in 2012, representing a CAGR of 27.2%. According to NFS, the pharmaceutical distribution industry is expected to reach RMB1870.7 billion in 2016. The following chart sets out the historical and projected growth of China's pharmaceutical distribution market for the periods shown.



Source: NFS

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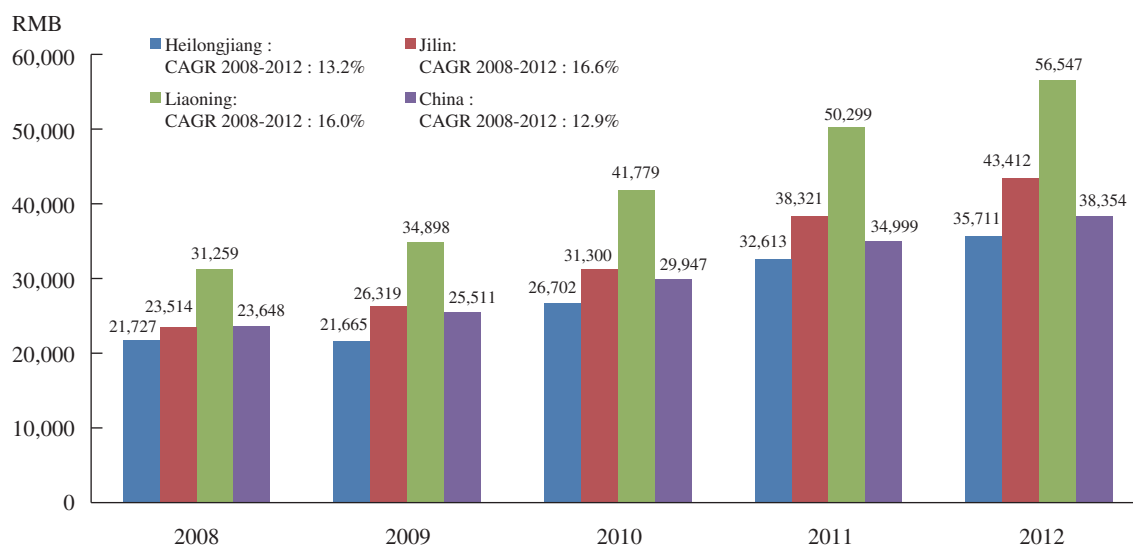
## INDUSTRY OVERVIEW

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### THE PHARMACEUTICAL INDUSTRY IN NORTHEAST CHINA

#### Overview of Northeast China

Northeast China consists of three provinces, namely Jilin, Heilongjiang and Liaoning. These three provinces have a respective population of 27.5 million, 38.3 million and 43.9 million as of the end of 2012. In 2012, Northeast China accounts for 8.1% of the national population according to the Bureau of Statistics of these three provinces. Annual GDP growth rates from 2008 to 2012 of each of Liaoning, Jilin and Heilongjiang outperformed China's overall GDP growth rate for the same period. Meanwhile, from 2008 to 2012, per capita GDP growth rates of these three provinces were also higher than that of China as a whole. The following chart sets forth the comparison of nominal per capita GDP growth rates of Heilongjiang, Jilin, Liaoning and China from 2008 to 2012.



Sources: Jilin Provincial Bureau of Statistics, Heilongjiang Provincial Bureau of Statistics, Liaoning Provincial Bureau of Statistics, and National Bureau of Statistics of China

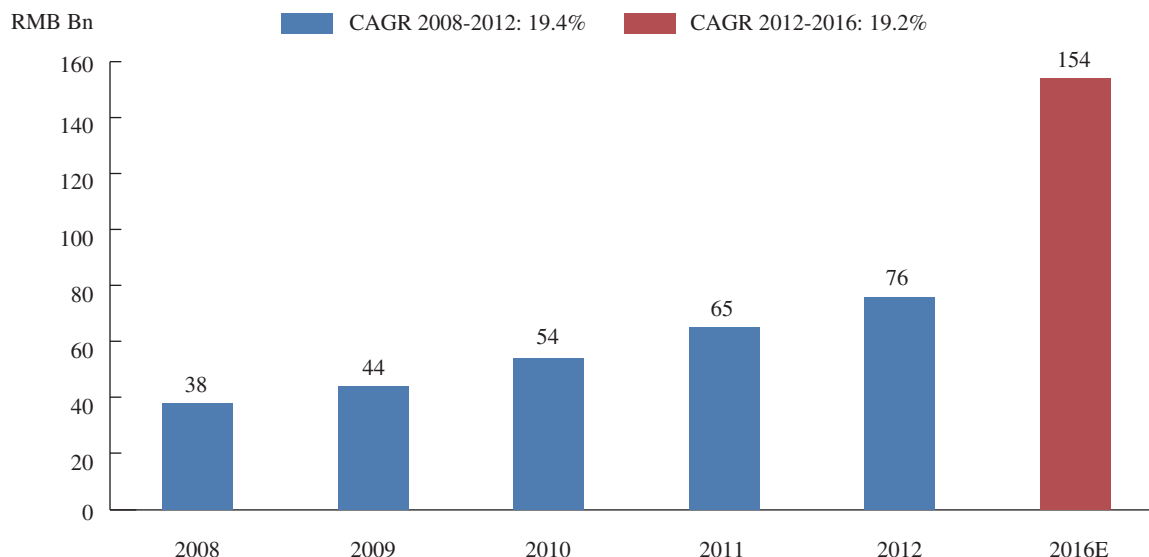
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## INDUSTRY OVERVIEW

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### Industry Overview

Supported by fast growing GDP, ageing population, urbanisation, government supported medical insurance and other socioeconomic factors, the pharmaceutical market of Northeast China grows from RMB37.6 billion in 2008 to RMB76.3 billion in 2012, representing a CAGR of 19.4% in the past five years and is expected to reach RMB154 billion in 2016. In 2012, the pharmaceutical market sales of Northeast China accounted for 6.8% of the total pharmaceutical market sales in China. The chart below sets forth the historical and projected size of the pharmaceutical market in Northeast China for the periods shown.



Source: NFS

### Primary Growth Drivers of the Pharmaceutical Industry in Northeast China

#### *Ageing population*

According to Provincial Bureau of Statistics from Heilongjiang, Jilin and Liaoning, in Northeast China, the proportion of people over 65 years old increased from 6.5% in 2000 to 9.1% in 2010. It is expected that the ageing trend of the population in Northeast China will support the growth of the pharmaceutical market of this region.

#### *Urbanisation*

The urbanisation level in Northeast China is relatively higher than other regions in China. In 2012, the proportion of urban residents is 59.6% of whole population in Northeast China, which is about 7% higher than the average level in China. The high urbanisation rate in Northeast China directly results in the higher per capita healthcare spending for residents of Northeast China and more attractive pharmaceutical market than most of the less urbanised regions in China, according to NFS.

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## INDUSTRY OVERVIEW

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### *Prevalence of Chronic Diseases*

According to NFS, due to the impact of regional factors such as prolonged winter and cold climate, as well as local dietary and living habits in Northeast China, chronic diseases including, cardio-cerebral vascular diseases and metabolic diseases have become more prevalent in Northeast China than most of other regions in China.

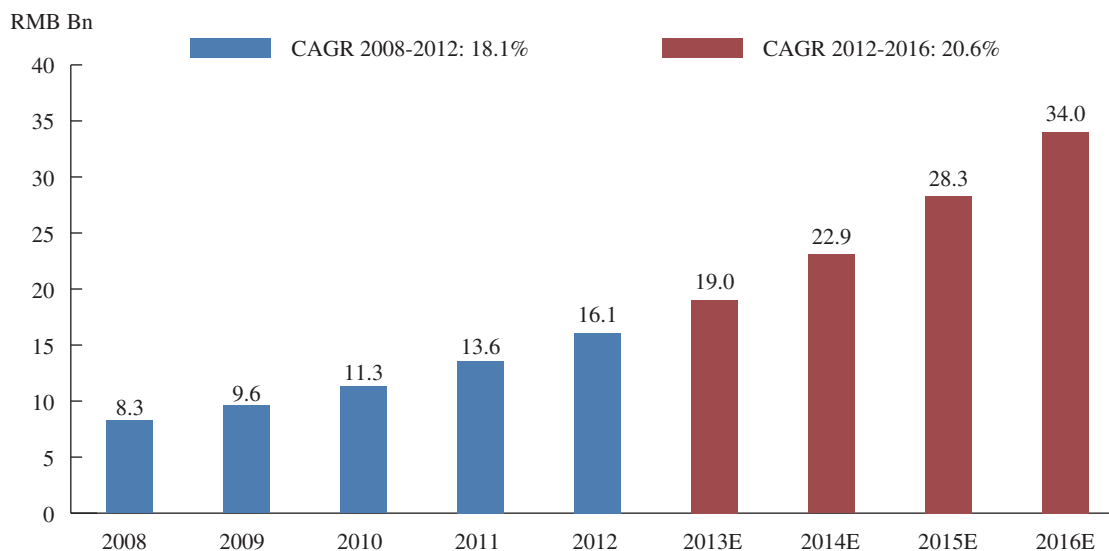
### *Medical Insurance Scheme*

The coverage of Medical Insurance Scheme in Northeast China is higher than the average level in China. According to NFS, in 2012, the coverage of Urban Employee Basic Medical Insurance Scheme in Northeast China reached 26.9% of the total population in the same area, which is higher than the average level of 19.6% for China overall.

### **Retail Pharmacy Industry in Northeast China**

#### *Rapid growth*

According to NFS, total sales of pharmaceuticals to customers through retail pharmacies in Northeast China grows from RMB8.3 billion in 2008 to RMB16.1 billion in 2012, representing a CAGR of 18.1%. In 2012, the pharmaceutical retail market sales in Northeast China accounted for 7.1% of the total pharmaceutical retail market sales in China. The following chart sets forth the historical and projected size of retail pharmacy market in Northeast China for the periods shown.



Source: NFS

## INDUSTRY OVERVIEW

### *Ranking of Major Players*

The pharmaceutical retail industry in Northeast China is fragmented and competitive as there is no significant presence of major national pharmaceutical retailers. As a market dominated by leading regional players, the pharmaceutical retail industry in Northeast China is expected to continue to experience consolidation which is expected to benefit these leading regional players. As at June 30, 2013, our Group owned 794<sup>(1)</sup> self-operated retail pharmacies, representing the most among all the pharmaceutical retailers in Northeast China. In addition, our Group was the largest privately-owned pharmaceutical retailer in terms of revenue in 2012. Our Group also has achieved the highest growth rate amongst the leading retail pharmacy companies operating in Northeast China from 2010 to 2012. According to NFS, our Group had the largest pharmaceutical retail chain in Northeast China in terms of the number of self-operated retail pharmacies and we were the largest privately-owned pharmaceutical retail chain in Northeast China in terms of revenue as of June 30, 2013 as set forth in the following two tables.

#### Ranking by number of self-operated retail pharmacies

Ranking	Retail Pharmacies Name	Feature	Self-operated pharmacies
1 . . .	Our Group (金天醫藥集團股份有限公司)	Privately-owned	794
2 . . .	Liaoning CDFY Pharmacy Chain Co., Ltd. (成大方圓醫藥連鎖有限公司)	State-owned	678
3 . . .	Jilin Pharmacy (吉林大藥房)	State-owned	481
4 . . .	Jilin Yihe Pharmacy Co., Ltd. (吉林省益和大藥房有限公司)	Privately-owned	467
5 . . .	Harbin Renmin Tongtai Pharmacy Chain Stores (哈爾濱人民同泰醫藥連鎖店)	State-owned	338

*Source:* China Drugstore Magazine, 21 Century Drugstore Magazine, internal data from our Group, compiled by NFS

#### Ranking by sales (RMB in billion)

Ranking	Retail Pharmacies Name	Company feature	Sales (Bn) 2012
1 . . .	Liaoning CDFY Pharmacy Chain Co., Ltd. (成大方圓醫藥連鎖有限公司)	State-owned	2.9
2 . . .	Harbin Renmin Tongtai Pharmacy Chain Stores (哈爾濱人民同泰醫藥連鎖店)	State-owned	1.8
3 . . .	Our Group (金天醫藥集團股份有限公司)	Privately-owned	0.9
4 . . .	Jilin Pharmacy (吉林大藥房)	State-owned	0.8
5 . . .	Sinopharm Pharm Group Co.Ltd (國藥控股國大藥房有限公司)	State-owned	0.7

(1) This includes 279 self-operated retail pharmacies which we converted from contracted pharmacies during the Track Record Period and excludes four joint venture retail pharmacies which we do not control and 15 supermarkets in Shenyang which sell healthcare products in addition to consumer goods.

## INDUSTRY OVERVIEW

*Source:* China Drugstore Magazine, 21 Century Drugstore Magazine, internal data from our Group, Compiled by NFS

*Notes:*

- (1) The peer companies' revenue include revenue from their non-self-operated retail pharmacies.
- (2) Our Group's revenue only include revenue from self-operated retail pharmacies.

### Pharmaceutical Distribution Industry in Northeast China

The sales of each of the top five pharmaceutical distributors in Northeast China in 2012 exceeded RMB1 billion. The top four pharmaceutical companies are state-owned and our Group is the largest privately-owned distributor<sup>(1)</sup> in terms of revenue. Our Group also has achieved the highest growth rate amongst the leading pharmaceutical distributors operating in Northeast China from 2010 to 2012. The table below sets forth the ranking of pharmaceutical distributors in Northeast China in terms of revenue as at 31 December 2012.

Ranking	Company name	Company feature	Sales (RMB Bn)	2010- 2012 CAGR
			2012	
1 . . .	Harbin Pharmaceutical Group Holding Co., Ltd (哈藥集團醫藥有限公司)	State-owned	6.1	0.9%
2 . . .	Northeast Pharmaceutical Group Distribution Co., Ltd. (東北製藥集團供銷有限公司)	State-owned	3.7	-0.2%
3 . . .	Harbin Pharmaceutical Group Sanjing Pharmaceutical Trading Co., Ltd. (哈藥集團三精醫藥商貿有限公司)	State-owned	2.4	14.4%
4 . . .	Liaoning Pharmaceutical Foreign Trade Corporation (遼寧省醫藥對外貿易公司)	State-owned	1.8	23.2%
5 . . .	Our Group (金天醫藥集團股份有限公司)	Privately-owned	1.7	73.1%

*Source:* Ministry of Commerce of the PRC, our Group, compiled by NFS

(1) According to NFS, other than manufacturers which engage in distribution of self manufactured products, we were the largest privately-owned pharmaceutical distributor in Northeast China in terms of revenue in 2012.