
INDUSTRY OVERVIEW

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SOURCE OF INFORMATION AND DATA

We commissioned SMERI, an independent consultant, to provide SMERI Report for use in this prospectus. As a direct reporting unit of CFDA, and with a nation-wide data collection network, SMERI specialises in researching in the PRC pharmaceutical industry and has provided market research and analysis for a number of companies listed in the stock exchange in the PRC and the Stock Exchange.

SMERI prepared its report based on data released by government institutions, including the National Bureau of Statistics, the Ministry of Health of the PRC, and the CFDA, as well as data gathered by SMERI and analysis performed by SMERI based on the available data. Where necessary, SMERI visited companies operating in the industry to gather and synthesise information about the market and other relevant information. The market size of pharmaceutical products stated in SMERI Report are based on the retail sales of such products, and accordingly do not reflect the actual revenue generated by the relevant pharmaceutical manufacturers. Information on retail sales of the products has been derived by SMERI from various sources, such as collecting retail sales information from more than 3,000 pharmacies in 33 cities and over 600 hospitals or medical institutions in 20 cities in the PRC, and conducting interviews with leading industry participants and industry experts. The information derived from SMERI Report and contained herein has been obtained from sources believed by SMERI to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Forecasts and assumptions included in SMERI Report are inherently uncertain because of events or combinations of events that cannot reasonably be foreseen, including, without limitation, the actions of government, individuals, third parties and competitors.

The projections in SMERI Report were based on the assumptions that during the projection period: (i) there will be a steady development of the PRC pharmaceutical industry similar to the current trend of development; (ii) there will be no revolutionary change in the diagnosis and treatment of the subject disease; and (iii) no medical accident will occur in relation to the subject product. The figures were projected with references to the current market condition and research and development status of the subject market, and taking into account of the population of the PRC and the structure thereof, the prevalence rate of the subject disease, the economic development, the living standard, the change in lifestyle, the health awareness and the macro government policies in the PRC.

This prospectus contains information extracted from SMERI Report in sections such as "INDUSTRY OVERVIEW", "BUSINESS" and "FINANCIAL INFORMATION". The fee payable to SMERI for the preparation and update of SMERI Report is RMB450,000. The payment of such amount is not contingent upon our successful Listing or on the results of SMERI Report. Except for SMERI Report, we did not commission any other report in connection with the Global Offering.

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GROWTH OF THE PHARMACEUTICAL MARKET IN THE PRC

Overview

The PRC had maintained good economic growth from 2008 to 2012. The total GDP of the PRC had increased sustainably from RMB31,404.5 billion in 2008 to RMB51,932.2 billion in 2012, increasing at a CAGR of 13.4%. The pharmaceutical market in the PRC has grown rapidly in recent years. According to SMERI Report, the market size of the PRC pharmaceutical market grew from RMB786.3 billion in 2008 to RMB1,784.5 billion in 2012. The growth in the market size of the PRC pharmaceutical market outpaced the growth in GDP of the PRC between 2008 and 2012, with the market size of the PRC pharmaceutical market increasing at a CAGR of 22.7%, almost doubling the growth of GDP over the same period.

Driving forces of the PRC pharmaceutical industry

Increase in disposable income and health awareness

Along with the GDP growth, the PRC's population has experienced steady increase in disposable income in urban areas and net income in rural areas, which is expected to contribute to the increase in the total pharmaceutical spending in the PRC. The growth in the medical and healthcare spending was due to the rise in living standards of the PRC residents accompanying the economic development and the increase in health awareness. According to SMERI Report, the average per capita annual disposable income of urban households in the PRC increased from RMB15,781 in 2008 to RMB24,565 in 2012, increasing at a CAGR of 11.7%, and the average annual spending on medical and healthcare sector per urban resident increased from RMB786.2 in 2008 to RMB969 in 2011, increasing at a CAGR of 5.4%, compared to the average per capita annual net income of rural households which increased from RMB4,761 in 2008 to RMB7,917 in 2012, increasing at a CAGR of 13.6%, and the average annual spending on medical and healthcare sector per rural resident which increased from RMB246 in 2008 to RMB437 in 2011, increasing at a CAGR of 15.5%.

Increase in urbanisation

The urban population of the PRC, which has greater needs for and access to medical care, has significantly higher per capita medical and healthcare expenditures than that of the rural population and has been a major contributor to the PRC's total medical and healthcare spending. According to SMERI Report, in 2011, the average annual spending per urban resident in the PRC on medical and healthcare sector was RMB969, compared to RMB437 for the rural population, with the percentage of urban population grew from 45.7% to 52.6% from 2008 to 2012.

Aging population and the prevalence of chronic health problems

Between 2008 and 2012, the population of the PRC only slightly increased from 1,328.0 million to 1,354.0 million. SMERI Report shows that despite the relatively slow growth in total population during the period, the number of the PRC population aged 60 and above grew from 159.9 million in 2008 to 185.0 million in 2011, representing a CAGR of 5.0%. Chronic health problems are particularly prevalent among the elderly. The increasing number of people aged 60 and above in the PRC is expected to drive the demand for medical and healthcare products and services in the PRC and the growth of the PRC's pharmaceutical industry. The proportion of the population aged 60 and above represented 13.7% of total population in 2011 and is expected to continue to grow.

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Increasing government initiatives and spending relating to the medical industry

The PRC government has implemented a medical reform plan to encourage and promote the development of the PRC medical industry. As part of the Eleventh Five-Year Plan for National Economic and Social Development of the PRC (中華人民共和國國民經濟和社會發展第十一個五年規劃綱要), the PRC government has provided a number of incentives and enacting programs to improve the affordability and accessibility of medical services and products, including building more hospitals, research centres and other medical facilities, enacting medical reforms, improving medical and healthcare standards and increasing medical subsidies. In 2009, the PRC government announced that it planned to invest RMB850.0 billion between 2009 and 2011 to implement a series of programmes under the medical reform plan, the majority of which are for increasing the subsidy standards for the new rural cooperation medical system and urban residents, and for subsidising medical and health institutions at the primary level and professional public health institutions.

As part of the subsequent Twelfth Five-Year Plan for National Economic and Social Development of the PRC (中華人民共和國國民經濟和社會發展第十二個五年規劃綱要), the PRC government sets out to make available more medical resources to the rural population and the suburban communities. In particular, it aims to improve the social medical insurance programme, increase the amount of benefits under such programme, continue to implement the essential medicines programme, as well as increase the number of community healthcare centres and clinics.

Expansion of the coverage of the social medical insurance system in the PRC

The social medical insurance system run by the PRC government primarily consist of three schemes, namely: (i) the urban worker basic medical insurance system (城鎮職工基本醫療保險制度), a mandatory scheme covering urban workers, (ii) the urban resident basic medical insurance system (城鎮居民醫療保險制度), a voluntary scheme covering the rest of the urban residents not covered by the urban worker basic medical insurance system, and (iii) the new rural cooperation medical system (新型農村合作醫療制度), a scheme that provides medical coverage for the rural population, and is supplemented by the urban and rural medical salvage system (城鄉醫療救助制度), a scheme targeted at the low-income group of residents. According to SMERI Report, the population covered by the social medical insurance system run by the PRC government increased from 1.1 billion in 2008 to 1.3 billion in 2012, representing an increase of 17.8%, and as of the end of 2012, the social medical insurance system collectively covered 98.3% of the PRC population.

The PRC government has expanded both the population coverage of and the benefits under the social medical insurance system to maximise the effectiveness. Under the new rural cooperation medical system, funds for reimbursing the participants' medical spending comprised participants' contribution and PRC government's subsidy. According to SMERI Report, the amount of such funds increased from RMB96.3 per capita in 2008 to RMB308.5 per capita in 2012, representing a CAGR of 33.8%, and is expected to increase further in the future.

Increasing number of medical institutions

According to SMERI Report, the number of medical institutions experienced constant growth from 2008 to 2012, in particular, the number of hospitals in the PRC (which are classified into Class I, Class II and Class III based on their functions, facilities and staff's expertise) had experienced a steady growth from 19,712 in 2008 to 23,170 in 2012, commanding a CAGR of 4.1%. Therefore, the PRC pharmaceutical market is projected to continue to experience a significant growth in the future, and has potential to be the second largest pharmaceutical market globally in 2020, according to SMERI Report.

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MODERN CHINESE MEDICINES MARKET IN THE PRC

As an integral part of the PRC pharmaceutical industry, the pharmaceutical products market in the PRC consists of seven segments: (i) chemical medicines; (ii) modern Chinese medicines; (iii) chemical bulk medicines; (iv) biological medicines; (v) medical equipments and devices; (vi) healthcare and medical materials; and (vii) Chinese herbal pieces. According to SMERI Report, it is estimated that the market size of the PRC pharmaceutical product market grew from RMB786.3 billion in 2008 to RMB1,784.5 billion in 2012, representing a CAGR of 22.7%. The following table shows the growth of pharmaceutical product market in the PRC by segment from 2008 to 2012:

Segment	2008	2009	2010	2011	2012	CAGR (2008- 2012)
	<i>(RMB billion)</i>					%
Chemical medicines	225.0	277.0	342.8	414.1	502.4	22.2
Modern Chinese medicines	156.7	193.6	247.4	331.9	407.9	27.0
Chemical bulk medicines	170.7	195.6	243.8	293.4	329.0	17.8
Biological medicines	79.5	102.4	126.1	168.2	177.5	22.3
Medical equipments and devices	79.0	93.2	114.1	133.7	156.5	18.6
Healthcare and medical materials	39.2	51.0	62.3	94.3	112.2	30.1
Chinese herbal pieces	36.3	44.1	63.4	77.1	99.0	28.6
Total	786.3	956.8	1,199.9	1,512.6	1,784.5	22.7

Source: SMERI Report

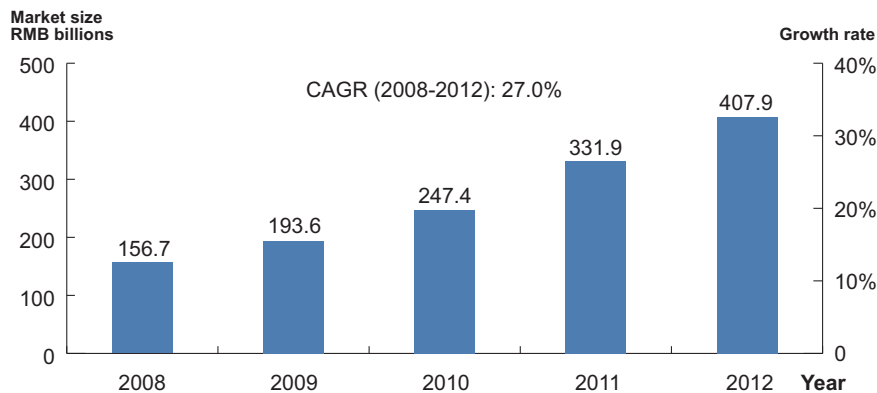
Traditional Chinese medicines are prepared from natural materials such as plants, animals and minerals, etc. based on traditional Chinese medical theory of correcting the imbalance between the human body with the environment and the imbalance among the organs. However, traditional Chinese medicines require lengthy preparation by the user, usually by boiling and simmering, before consumption. Also, it is difficult to control the quality and the dosage of traditional Chinese medicines.

To address the disadvantages described above, modern Chinese medicines combine the ancient medical theories and the traditional Chinese medicines with modern production techniques and intake methods. Advanced research and production techniques have allowed the identification and extraction of the specific curative ingredients from the traditional Chinese medicines facilitating and increasing concentrated delivery of the effective elements of the medicines in standardised dosages, and increasing their effectiveness and convenience. Modern Chinese medicines can be produced in forms of, including tablets, capsules and granules for immediate use which make them more appealing to the public.

According to SMERI Report, the modern Chinese medicines market is the second largest segment of the PRC pharmaceutical products market and the market size of the modern Chinese medicines represented 22.9% of that of the PRC pharmaceutical products in 2012. In recent years, following the development of economy and the pharmaceutical market in the PRC, and the public's increasing acceptance of modern Chinese medicines, the market size of modern Chinese medicines in the PRC has increased rapidly. The market size of modern Chinese medicines market in the PRC increased from RMB156.7 billion in 2008 to RMB407.9 billion in 2012, representing a CAGR of 27.0%.

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The following chart shows the market size of modern Chinese medicines from 2008 to 2012:



Source: SMERI Report

KIDNEY MEDICINES MARKET IN THE PRC

Kidney disease is a group of diseases with symptoms or origins from or related to the kidney. Certain factors or lifestyle, such as overwork, drug toxicity, unhealthy diet, and physical inactivity, may lead to increased risks of kidney disease. Chronic kidney disease and acute kidney disease are two major forms of kidney disease.

Chronic kidney disease is a progressive loss of kidney function over times. The major types of chronic kidney disease include chronic kidney failure, chronic glomerulonephritis, hypertensive kidney disease, and diabetic nephropathy. Patients with chronic kidney disease is divided into five stages of increasing severity. According to the diagnostic criteria normally adopted in the PRC, patients with chronic kidney disease at the second to fifth stages are classified as having chronic kidney failure. Under most cases, once a patient is diagnosed with chronic kidney failure, medication has to be started from then on to control the situation and prevent worsening of the condition, and the condition is mostly irreversible.

The following table below shows the description of the five stages of chronic kidney disease:

	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Description of each stage	Early kidney damage with normal or even increased GFR	Worse kidney damage with slightly reduced GFR	Moderately reduced GFR	Severely reduced GFR	Kidney failure
Treatment options	Identifying cause and trying to reverse it	Monitoring creatinine level, blood pressure, and general health and well-being. Stopping or slowing the worsening of kidney function	Stopping or slowing the worsening of kidney function. Patients learning more about the disease and treatment options	Planning and creating access site for dialysis. Receiving assessment for possible kidney transplantation	Starting renal replacement therapy: dialysis or kidney transplantation

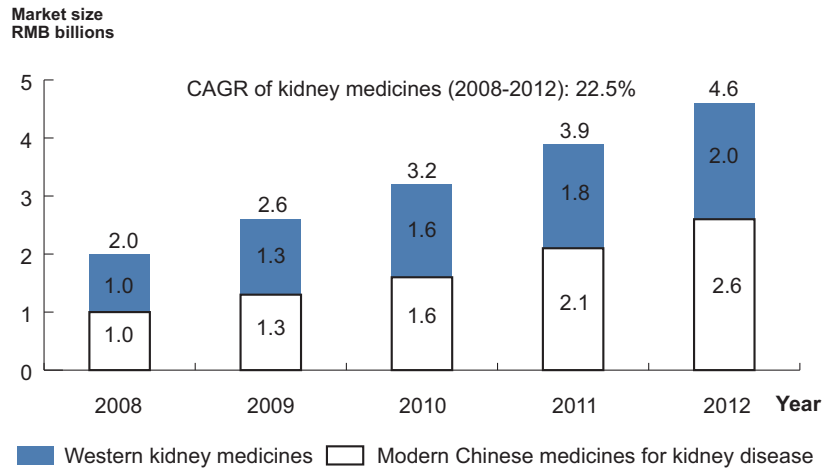
Source: SMERI Report

In recent years, more patients suffering from chronic kidney disease are aware of their condition. According to SMERI Report, the awareness rate of chronic kidney disease in the PRC has increased from 8.7% in 2007 to 12.5% in 2010.

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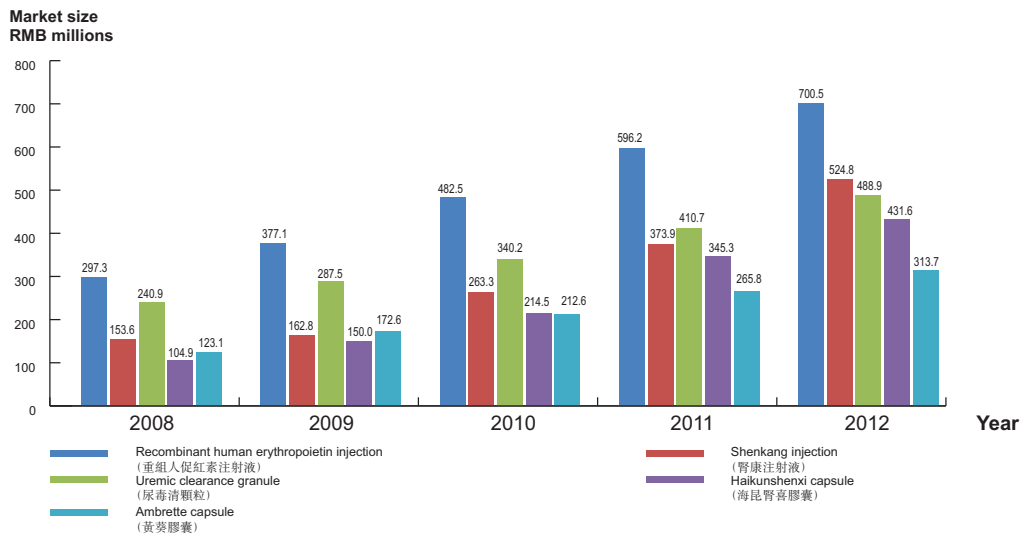
Market size of kidney medicines in the PRC

Most patients suffering from kidney disease need to rely on and receive long-term medical treatment to control their condition. Due to the increasing health awareness among the PRC population, the market size of kidney medicines has also been increasing steadily from 2008 to 2012. According to SMERI Report, the market size of kidney medicines increased from RMB2.0 billion in 2008 to RMB4.6 billion in 2012, representing a CAGR of 22.5%. The major categories of kidney medicines include modern Chinese medicines and western medicines. The following chart shows the market size of kidney medicines by category in the PRC from 2008 to 2012:



Source: SMERI Report

According to SMERI Report, there were approximately 130 kidney medicines in the PRC in each year during 2008 to 2012, and four of the top five kidney medicines, including our uremic clearance granule, were modern Chinese medicines. Modern Chinese medicines are commonly used for comprehensive conditioning and are generally more conducive to the treatment of kidney disease compared to other types of medicines. The macro-policies of the PRC government has also encouraged the use of modern Chinese medicines. As a result, the market size of the modern Chinese medicines for kidney disease grew more rapidly than that of western kidney medicines, with its market share growing from 51.4% in 2008 to 55.6% in 2012. The following chart shows the market size of the top five kidney medicines in the PRC from 2008 to 2012:



Source: SMERI Report

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Our uremic clearance granule has also consistently ranked among the top three in the market of kidney medicines in the PRC from 2008 to 2012 in terms of retail sales, according to SMERI Report. The following table shows the top five kidney medicines in the PRC from 2008 to 2012:

Rank	Product name	Manufacturer	Major usage	Market share					Total size per unit	Average retail price in 2012 (RMB)	National List of Essential Medicines	National Medical Insurance Catalogue	Product Category
				2008	2009	2010	2011	2012					
1	Recombinant human erythropoietin injection (重組人促紅素注射液)	Liaoning Shenyang Sansheng Pharmaceutical Co., Ltd. (遼寧瀋陽三生製藥有限責任公司)	Treating anaemia caused by kidney malfunctions or chemotherapy for non-myeloid malignancies, and red blood cells mobilisation that occurs during surgery periods	14.6%	14.7%	15.2%	15.5%	15.3%	0.01mu 3,000iu 4,000iu	114.5 31.5 47.3	No	Yes	Western medicine
2	Shenkang injection (腎康注射液)	Xian Shijishengkang Pharmaceutical Co., Ltd. (西安世紀盛康藥業有限公司)	Treating chronic kidney failure by enhancing body circulation and blood detoxification	7.5%	6.3%	8.3%	9.7%	11.4%	20ml	58.3	No	Yes	Modern Chinese medicine
3	Uremic clearance granule (尿毒清顆粒)	Our Group	Treating (i) chronic kidney failure by lowering creatinine and urea nitrogen, stabilising kidney functions and delaying dialysis; and (ii) renal anaemia by increase blood calcium level and lower blood phosphorus level	11.8%	11.2%	10.7%	10.6%	10.6%	90 grams 75 grams	69.6 58.2	Yes	Yes	Modern Chinese medicine
4	Haikunshenxi capsule (海昆腎喜膠囊)	Jilin Province Huinan Changlong Bio-pharmacy Company Limited (吉林省輝南長龍生化藥業股份有限公司)	Treating chronic kidney failure by detoxification	5.2%	5.8%	6.8%	9.0%	9.4%	4 grams	75.9	No	No	Modern Chinese medicine
5	Ambrette capsule (黃葵膠囊)	SZYY Group Pharmaceutical Limited (江蘇蘇中藥業集團股份有限公司)	Treating chronic nephritis by clearing the dampness and heat in the body, detoxification and reducing swelling	6.0%	6.7%	6.7%	6.9%	6.8%	15 grams	35.7	No	Yes	Modern Chinese medicine

Source: SMERI Report

SMERI has advised that medicines treating same types of diseases may generally be considered as alternatives to each other. However, in practice, whether one medicine can be treated as a substitute for the other largely depends on the medical practitioners' specific knowledge of such medicines and their prescription pattern.

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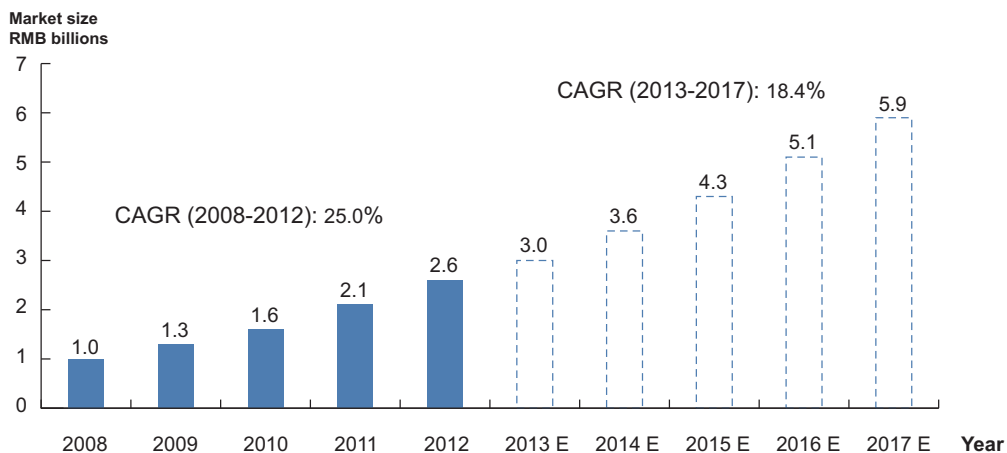
According to SMERI Report, there was no new western medicine for kidney disease as of the Latest Practicable Date, and there are two new modern Chinese medicines for kidney disease, which are under registration process of CFDA. As it normally takes about three to five years for a pharmaceutical manufacturer to obtain the required approval for the production and sale of a pharmaceutical product after it has submitted the application for registration, it is unlikely that the new products will be introduced to and materially change the current market of modern Chinese medicines for kidney disease in the PRC in the near future.

Modern Chinese medicines for kidney disease in the PRC

According to SMERI Report, the market size of modern Chinese medicines for kidney disease in the PRC increased from RMB1.0 billion in 2008 to RMB2.6 billion in 2012. Our uremic clearance granule ranked first in four consecutive years from 2008 to 2011 in the market of modern Chinese medicines for kidney disease in the PRC in terms of retail sales. Although the retail sales of our uremic clearance granule experienced a substantial growth from RMB410.7 million in 2011 to RMB488.9 million in 2012, representing a growth rate of 19.0%, our uremic clearance granule ranked second in the market of modern Chinese medicines for kidney disease in the PRC in 2012, mainly as a result of the more rapid growth of one of our competing products, shenkang injection (肾康注射液), which is the only modern Chinese medicine for kidney disease in the form of injection.

Future trend of modern Chinese medicines for kidney disease

According to SMERI Report, aside from the driving forces of the general pharmaceutical industry in the PRC, the market of modern Chinese medicines for kidney disease is also driven by the public's increasing recognition in the distinguished curative effects of modern Chinese medicines in comprehensive conditioning and its mild side effect in treating kidney disease and its convenient intake method. SMERI projects that the market size of modern Chinese medicines for kidney disease will grow from RMB3.0 billion in 2013 to RMB5.9 billion in 2017, with a CAGR of 18.4% from 2013 to 2017. The following chart shows the market size of modern Chinese medicines for kidney disease in the PRC from 2008 to 2012 and the forecast for 2013 to 2017:

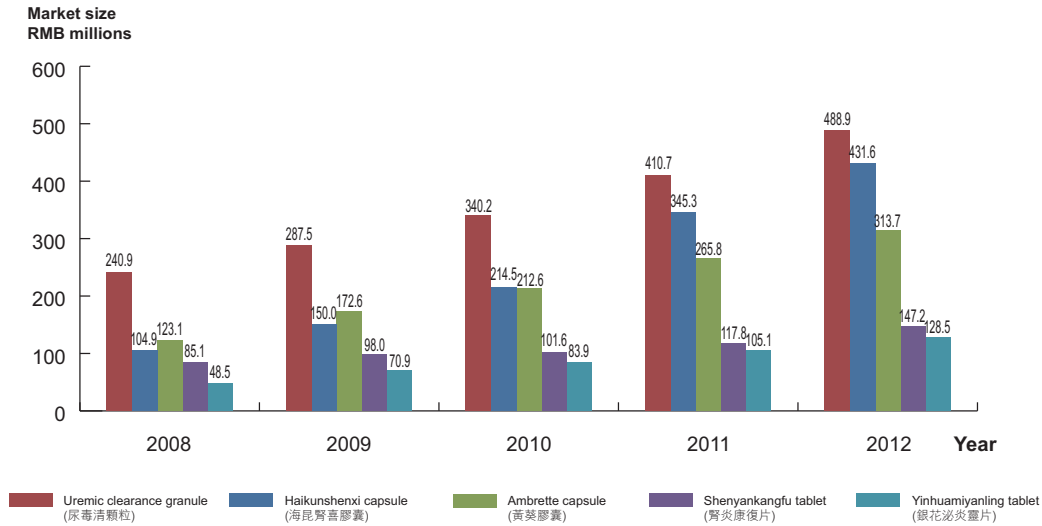


Source: SMERI Report

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Oral modern Chinese medicines for kidney disease in the PRC

According to SMERI Report, most of the modern Chinese medicines for kidney disease are in oral form, representing approximately 80% of the market share. The market size of oral modern Chinese medicines for kidney disease in the PRC increased from RMB0.9 billion to RMB2.0 billion in 2012. The following chart shows the market size of the top five oral modern Chinese medicines for kidney disease in the PRC from 2008 to 2012:



Source: SMERI Report

According to SMERI Report, the top five oral modern Chinese medicines for kidney disease in the PRC had a total market share of 74.5% in 2012, while the top 20 medicines had a total market share of over 95% in 2012. Our uremic clearance granule ranked first in five consecutive years from 2008 to 2012, and our kidney repair and edema alleviation granule ranked 54th, 37th, 30th and 22nd in 2009, 2010, 2011 and 2012, respectively, in the market of oral modern Chinese medicines for kidney disease in terms of retail sales. The following table shows the details of the top five oral modern Chinese medicines for kidney disease in the PRC from 2008 to 2012 and details of the oral modern Chinese medicines for kidney disease that ranked 21st to 25th in the PRC in 2012:

Rank	Product name	Manufacturer	Major usage	Market share					Total size per unit	National List of Essential Medicines	National Medical Insurance Catalogue	Average retail price in 2012
				2008	2009	2010	2011	2012				
1	Uremic clearance granule (尿毒清颗粒)	Our Group	Treating (i) chronic kidney failure by lowering creatinine and urea nitrogen, stabilising kidney functions and delaying dialysis; and (ii) renal anaemia by increase blood calcium level and lower blood phosphorus level	26.9%	26.3%	25.5%	24.3%	24.1%	90 grams 75 grams	Yes	Yes	69.6 58.2

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Rank	Product name	Manufacturer	Major usage	Market share					Total size per unit	National List of Essential Medicines	National Medical Insurance Catalogue	Average retail price in 2012
				2008	2009	2010	2011	2012				
												(RMB)
2	Haikunshenxi capsule (海昆腎喜膠囊)	Jilin Province Huinan Changlong Bio-pharmacy Company Limited (吉林省輝南長龍生化藥業股份有限公司)	Treating chronic kidney failure by detoxification	11.7%	13.7%	16.1%	20.4%	21.3%	4 grams	No	No	75.9
3	Ambrette capsule (黃葵膠囊)	SZYY Group Pharmaceutical Limited (江蘇蘇中藥業集團股份有限公司)	Treating chronic nephritis by clearing the dampness and heat in the body, detoxification and reducing swelling	13.8%	15.8%	15.9%	15.7%	15.5%	15 grams	No	Yes	35.7
4	Shenyankangfu tablet (腎炎康復片)	Tianjin Tongrentang Group Co., Ltd. (天津同仁堂集團股份有限公司)	Treating chronic glomerulonephritis (慢性腎小球腎炎)	9.5%	9.0%	7.6%	7.0%	7.3%	21.6 grams	Yes	Yes	27.0
5	Yinhuamianling tablet (銀花泌炎靈片)	Jilin Huakang Pharmaceutical Co., Ltd. (吉林華康藥業股份有限公司)	Treating acute pyelonephritis (急性腎盂腎炎)	5.4%	6.5%	6.3%	6.2%	6.3%	12 grams 18 grams	No	Yes	30.1 43.7
⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮
21	Shenshuaining tablet (腎衰寧片)	Shenyang Dongxin Pharmaceutical Co., Ltd. (瀋陽東新藥業有限公司)	Treating chronic kidney failure	N/A	0.054%	0.19%	0.23%	0.40%	8.6 grams	No	Yes	30.8
22	Kidney repair and edema alleviation granule (益腎化濕顆粒)	Our Group	Treating chronic glomerulonephritis (慢性腎小球腎炎)	N/A	0.004%	0.06%	0.17%	0.35%	90 grams	No	No	60.2
23	Shenyanan granule (腎炎安顆粒)	Guangxi Wuzhou Pharmaceutical (Group) Co., Ltd. (廣西梧州製藥(集團)股份有限公司)	Treating acute pyelonephritis (急性腎盂腎炎), acute nephritis (急性腎炎) and chronic nephritis (慢性腎炎)	0.008%	0.02%	0.10%	0.19%	0.34%	7.2 grams	No	No	33.9
24	Shenyanshu capsule (腎炎舒膠囊)	Anhui Jingfang Medical Industry Share Co., Ltd. (安徽精方藥業股份有限公司)	Treating edema caused by nephritis (腎炎)	0.57%	0.54%	0.52%	0.39%	0.32%	12.6 grams	No	Yes	21.3
25	Shenfukang capsule (腎復康膠囊)	Tonghua Shenyuan Pharmaceutical Co., Ltd. (通化神源藥業有限公司)	Treating edema caused by acute nephritis (急性腎炎)	0.21%	0.32%	0.26%	0.34%	0.27%	18.0 grams	No	Yes	25.5

Source: SMERI Report

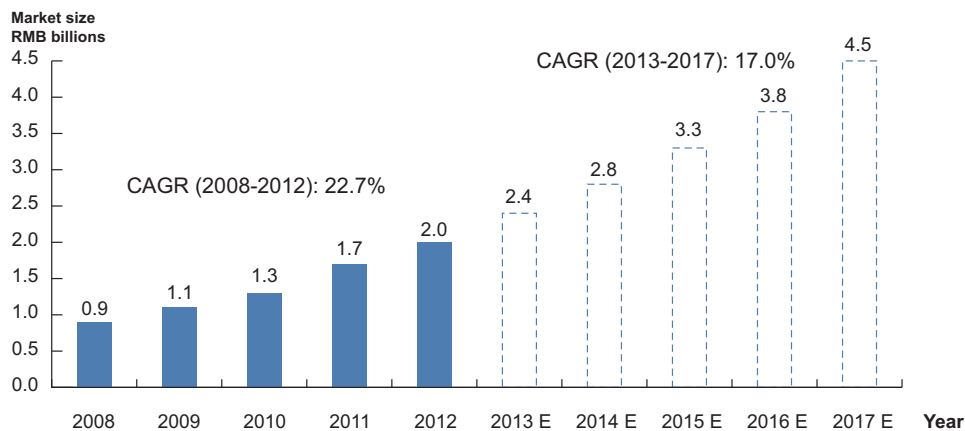
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SMERI has advised that medicines treating same types of diseases may generally be considered as alternatives to each other. However, in practice, whether one medicine can be treated as a substitute for the other largely depends on the medical practitioners' specific knowledge of such medicines and their prescription pattern.

Future trend of oral modern Chinese medicines for kidney disease

According to SMERI Report, the market of oral modern Chinese medicines for kidney disease is also driven by the public's increasing recognition in the distinguished curative effects of oral modern Chinese medicines due to its mild side effect in treating kidney disease and its convenient intake method.

SMERI projects that the market size of oral modern Chinese medicines for kidney disease will grow from RMB2.4 billion in 2013 to RMB4.5 billion in 2017, with a CAGR of 17.0% from 2013 to 2017. The following chart shows the market size of oral modern Chinese medicines for kidney disease in the PRC from 2008 to 2012 and the forecast for 2013 to 2017:



Source: SMERI Report

Our Directors believe that the sales of our uremic clearance granule will continue to grow due mainly to the increase in overall market demand for oral modern Chinese medicines for kidney disease in the PRC driven by the increased awareness of chronic kidney disease and the public's increasing recognition in the distinguished curative effects of modern Chinese medicine in comprehensive conditioning and its mild side effect in treating kidney disease and its convenient intake method.

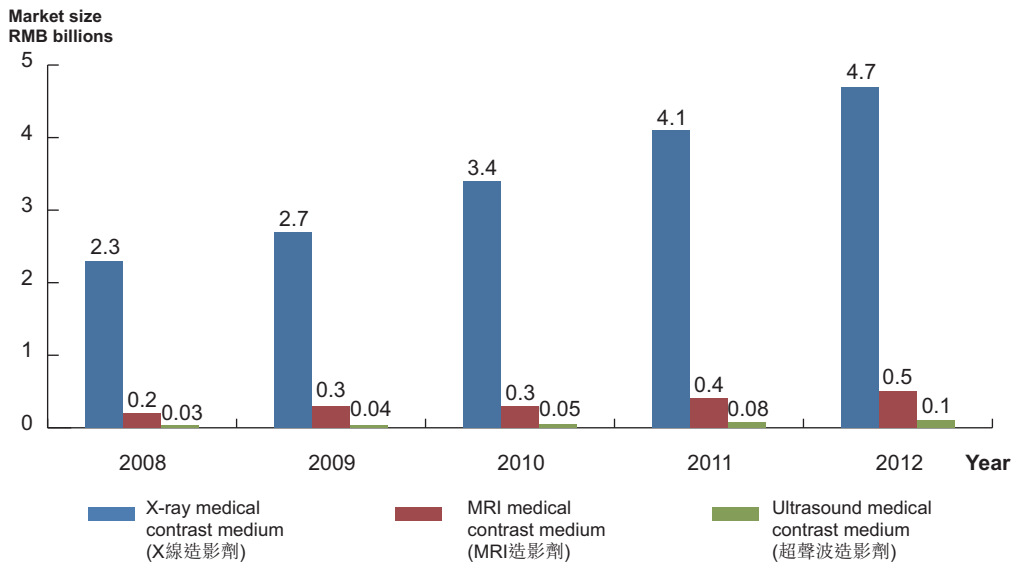
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MEDICAL CONTRAST MEDIUM MARKET IN THE PRC

Overview

Medical contrast medium is a substance used to enhance the contrast of structures or fluids within the body in medical imaging. In recent years, the health awareness of the PRC population has improved and people have become more aware of the importance of screening and diagnosis of internal diseases, resulting in the increased use of medical contrast medium and thus the steady growth of the medical contrast medium market. According to SMERI Report, the market size of medical contrast medium in the PRC grew from RMB2.5 billion in 2008 to RMB5.3 billion in 2012, representing a CAGR of 21.0%.

Medical contrast medium is classified into three major categories: (i) MRI medical contrast medium; (ii) x-ray medical contrast medium; and (iii) ultrasound medical contrast medium. The following table shows the market size of medical contrast medium in the PRC from 2008 to 2012 by category:



Source: SMERI Report

The following table shows the market share of the medical contrast medium in the PRC by category from 2008 to 2012:

Rank	Category	Market share				
		2008	2009	2010	2011	2012
1	X-ray medical contrast medium.....	90.7%	90.1%	89.7%	89.1%	88.7%
2	MRI medical contrast medium.....	8.3%	8.6%	9.0%	9.2%	9.4%
3	Ultrasound medical contrast medium	1.0%	1.3%	1.3%	1.7%	1.9%

Source: SMERI Report

According to SMERI Report, x-ray medical contrast medium has gained the largest market share in the medical contrast medium market in the PRC from 2008 to 2012. MRI medical contrast medium ranked second, and its market share grew from 8.3% in 2008 to 9.4% in 2012. The market size of MRI medical contrast medium in the PRC has grown at a CAGR of 20.4% from 2008 to 2012.

INDUSTRY OVERVIEW

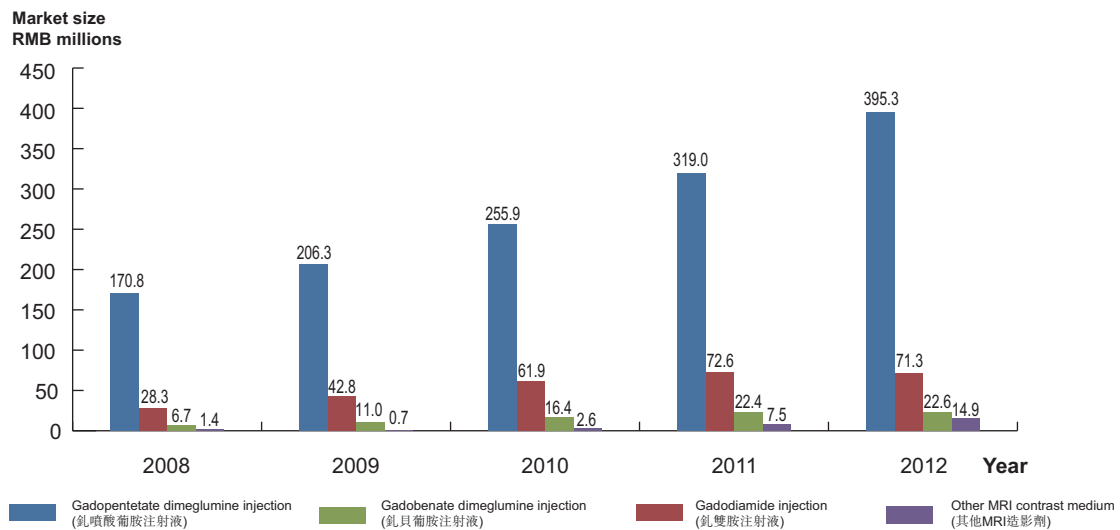
The PRC government's continuous investment in the construction of medical and healthcare system, which results in the spending on primary medical facilities including imaging equipment for diagnosis, future applications of medical contrast medium will be more extensive and in-depth, thus promoting the expansion of the medical contrast medium market. SMERI projects that the market size of medical contrast medium will grow from RMB6.3 billion in 2013 to RMB11.4 billion in 2017, with a CAGR of 15.9% from 2013 to 2017.

MRI medical contrast medium

MRI medical contrast medium is commonly used for diagnosis of diseases in enhancing the contrast of the medical resonance images of the central nervous system (including brain and spine), abdominal, chest, pelvic area, limb and other tissues. Although MRI is a relatively new technology when compared to CT imaging, over 30% of diagnosis with imaging utilises MRI with MRI medical contrast medium.

A steady growth of the MRI medical contrast medium market is observed during the period from 2008 to 2012. According to SMERI Report, the market size of the MRI medical contrast medium increased from RMB207.0 million in 2008 to RMB504.1 million in 2012, representing a CAGR of 24.9%, associated with an increasing market share in the medical contrast medium market in the PRC from 8.3% in 2008 to 9.4% in 2012.

The following chart shows the market size of the major types of MRI medical contrast medium in the PRC from 2008 to 2012:



Source: SMERI Report

INDUSTRY OVERVIEW

According to SMERI Report, gadopentetate dimeglumine injection had a market share of 78.4% in the MRI medical contrast medium market in the PRC in 2012, with a growth rate of 3.6% when compared to 2011. There are only five manufacturers which have obtained the production approval from CFDA for the manufacture and sale of gadopentetate dimeglumine injection in the PRC and only four of them, including us, are still manufacturing and selling such pharmaceutical product. Our gadopentetate dimeglumine injection ranked third in the market of MRI medical contrast medium in the PRC in 2012 in terms of retail sales, commanding a market share of 17.1%.

The following table shows the market share of the top five MRI medical contrast medium in the PRC from 2008 to 2012:

Rank	Product Name	Manufacturer	Market share					Average retail price in 2012 ⁽¹⁾
			2008	2009	2010	2011	2012	
1	Gadopentetate dimeglumine injection	BEILU Pharmaceutical Co., Ltd (北京北陸藥業股份有限公司)...	31.5%	27.7%	26.1%	27.4%	30.5%	RMB135.5
2	Gadopentetate dimeglumine injection	Bayer Healthcare Co., Ltd. Guangzhou Branch (拜耳醫藥保健有限公司 廣州分公司).....	29.3%	28.9%	28.9%	27.7%	25.9%	RMB184.9
3	Gadopentetate dimeglumine injection	Our Group	15.0%	17.2%	16.7%	16.1%	17.1%	RMB131.5
4	Gododiamide injection (釵雙胺注射液)	GE Healthcare (Shanghai) Co., Ltd. (通用電氣藥業(上海)有限公司).....	13.7%	16.4%	18.4%	17.2%	13.9%	RMB216.8
5	Gadopentetate dimeglumine injection	Shanghai Xudong Haipu Pharmaceutical Co., Ltd. (上海旭東海普藥業有限公司)...	6.7%	5.5%	4.3%	4.6%	4.9%	RMB128.2

Note:

(1) Refers to the average retail price of the products with the dosage of 15ml.

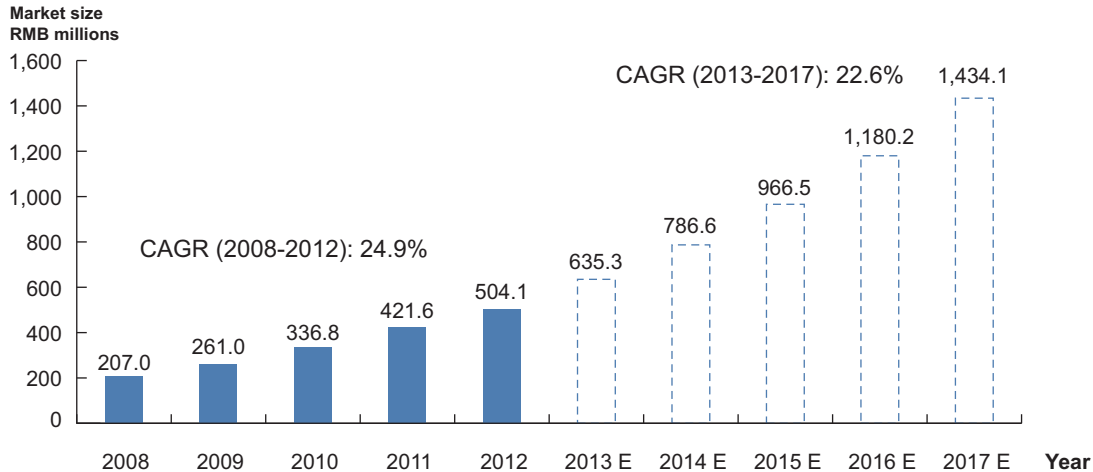
Source: SMERI Report

Future trend of MRI medical contrast medium

Significant growth in the sales of MRI medical contrast medium is projected due to the lowering of price per unit of the medium as a result of the increasing competition in the industry, according to SMERI Report. The leading position of gadopentetate dimeglumine injection in the MRI medical contrast medium market is very concrete and this type of injection is not likely to be replaced in the near future.

INDUSTRY OVERVIEW

SMERI projects that the market size of MRI medical contrast medium will grow from RMB635 million in 2013 to RMB1.4 billion in 2017, with a CAGR of 22.6% from 2013 to 2017. The following chart shows the market size of MRI medical contrast medium in the PRC from 2008 to 2012 and the forecast for 2013 to 2017:



Source: SMERI Report

According to SMERI Report, there are four new MRI medical contrast medium which are under registration process of CFDA. However, as it normally takes about three to five years for a pharmaceutical manufacturer to obtain the required approval for the production and sale of a pharmaceutical product after it has submitted the application for registration, it is unlikely that new products will be introduced to and materially change the current market of MRI medical contrast medium in the PRC in the near future.

LATEST DEVELOPMENTS

Our Directors confirm that, after taking reasonable care and to their best knowledge, there has been no material adverse change in our products' position since the date of SMERI Report which may materially qualify, contradict or have a material impact thereon as of the Latest Practicable Date.