
SUMMARY

OVERVIEW

We are the largest distributor of, and a leading provider of supply chain services for, pharmaceutical and healthcare products and operate the largest national pharmaceutical distribution network in China, based on our revenues in 2008 and according to China Association of Pharmaceutical Commerce, or CAPC. We have been able to rapidly grow our market share and profits in a highly fragmented industry by taking advantage of our economies of scale and nationwide distribution network, through which we offer a range of value-added supply chain services for our customers and suppliers. According to CAPC, our market share, measured as a percentage of the total revenues of pharmaceutical distributors in China, increased from approximately 4.4% in 2003 to 10.8% in 2008. According to CAPC, we have also increased our lead in terms of market share over our nearest competitor from less than 0.1% in 2003 to 6.1% in 2008.

We have integrated operations in the following business segments, namely:

- *Pharmaceutical distribution.* Pharmaceutical distribution is our principal business. We provide distribution, logistics and other value-added services for pharmaceutical and healthcare products of domestic and international manufacturers and other suppliers. We differentiate ourselves from our competitors in China by our geographic coverage, the breadth of our product portfolio and the strength of the supply chain services we provide to our customers and suppliers.
- *Retail pharmacy.* We have a network of retail drug stores that we directly operate or franchise in major cities throughout China. Our retail pharmacy operations contributed less than 5% of our total revenues in the three years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009.
- *Other business operations.* We are also engaged in the manufacturing or selling of pharmaceutical products, chemical reagents and laboratory supplies. Our other business operations contributed less than 5% of our total revenues in the three years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009.

We operate in a fast-growing and highly fragmented industry. According to CAPC, the pharmaceutical distribution industry in China grew at a CAGR of approximately 16% from 2003 to 2008, which we believe was driven by favorable socio-economic factors and strong government support. Furthermore, the PRC Government has recently announced a reform plan to spend RMB850 billion on healthcare, which is in addition to the regular healthcare budget, from 2009 to 2011 in order to increase the availability of healthcare, basic medicines and health insurance coverage in China. As a comparison, in 2007, the total healthcare expenditure in China was approximately RMB1.1 trillion, of which approximately RMB230 billion was government spending, according to the Ministry of Health. The healthcare reform plan is expected to accelerate growth in the PRC pharmaceutical industry. In addition, the highly fragmented pharmaceutical distribution industry has recently commenced a process of consolidation, which has led to an increase in market share of the three largest pharmaceutical distributors from 12.7% in 2003 to 20.0% in 2008, according to CAPC, and the healthcare reform plan is expected to contribute to further consolidation.

We believe that we are well-positioned to benefit from the healthcare reform plan and PRC pharmaceutical industry trends, and add to our leading market position in China. With our geographically diverse distribution network of 25 distribution centers, spanning 19 provinces, municipalities and autonomous regions in China, we are able to provide our products and services to our customers across China in a timely and cost-effective manner. In particular, in 2008, over 80% of

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pharmaceutical sales in China were made at hospital pharmacies, rather than at unaffiliated retail pharmacies, and we sold, directly or indirectly through our distributor customers, our pharmaceutical and healthcare products to hospitals in every region and province of China. As of 31 May 2009, our direct customers included approximately 36.4% of all hospitals in China, encompassing 56.2% of the largest, most highly ranked class-three hospitals, and over 24,000 other customers, such as pharmaceutical distributors, retail pharmacies and other healthcare institutions. The following table sets forth a breakdown of our direct customers in our pharmaceutical distribution segment as of 31 May 2009:

| | <u>Number</u> |
|---------------------------------------------|---------------|
| Hospitals | 4,723 |
| Distributor Customers | 2,545 |
| Retail Pharmacies and Other Customers | 22,155 |

We focus on offering a comprehensive range of products through our distribution network, which included over 22,000 different types of pharmaceutical and healthcare products as of 31 May 2009, comprising branded and generic prescription medicines and over-the-counter medicines, as well as personal care products and medical supplies. We source our products from over 3,300 domestic and international pharmaceutical companies, including 30 of the top 50 international pharmaceutical companies, such as Roche, AstraZeneca, Pfizer, GlaxoSmithKline, Merck, Eli Lilly, and Novo Nordisk, and 95 of the top 100 domestic pharmaceutical companies, such as Jiangsu Hengrui, Harbin Pharma and North China Pharma. As of the Latest Practicable Date, we distributed 46 of the 50 international top-selling pharmaceutical products, according to IMS statistics, in China. In addition, we are one of the only three licensed nationwide anesthetics distributors in China, and we currently hold approximately 90% of the PRC market share in this segment according to China Anesthetics Association.

As part of our pharmaceutical distribution operations, we offer a broad range of logistics and value-added services to our customers and suppliers that enable them to maintain and improve their performance. For example, our services benefit our hospital customers by helping them to improve the delivery of pharmaceutical and healthcare products to patients and lower their overall costs in the pharmaceutical supply chain. We are able to integrate our information management system with those of the hospitals, perform inventory tracking of medicines, which assists hospitals to maintain appropriate levels of inventory, and provide logistics services, ensuring medicines are delivered promptly and at reduced costs to customers. With respect to suppliers, our supply chain services ensure the quality and timely distribution of their products to multiple customers in all parts of China. See "Business — Pharmaceutical Distribution — Value-added Services". Our customers and suppliers value our ability to provide these services, which further enhances our relationships with them and strengthens our role as a leading supply chain services provider.

We have experienced significant growth in our business in recent years. Our revenues increased from RMB23,736.6 million in 2006 to RMB31,110.2 million in 2007 and to RMB38,187.4 million in 2008, representing a CAGR of 26.8% from 2006 to 2008. Our net profit, defined as after tax profit attributable to our equity holders, increased from RMB101.3 million in 2006, to RMB380.9 million in 2007 and to RMB585.7 million in 2008, representing a CAGR of 140.4% from 2006 to 2008. In the five months ended 31 May 2009, our revenue amounted to RMB18,048.0 million, representing an increase of 20.3% over the same period in 2008, and in the five months ended 31 May 2009, our net profit, defined as after tax profit attributable to our equity shareholders, amounted to RMB421.5 million, representing an increase of 41.9% over the same period in 2008. As we have grown, our increased economies of scale and measures to improve our cost and operating efficiencies have allowed us to continue to improve our operating and net margins. Our operating margins were

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2.0%, 2.5%, 3.1% and 3.9% in the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, respectively. In the same periods, our net margins were 0.4%, 1.2%, 1.5% and 2.3%, respectively.

We have two subsidiaries, National Medicines and Accord Pharma, with A shares listed on the Shanghai Stock Exchange and A shares and B shares listed on the Shenzhen Stock Exchange, respectively.

OUR COMPETITIVE STRENGTHS

- We are the industry leader in the distribution of pharmaceutical and healthcare products in China both in terms of our market share and the geographical range of our distribution network.
- As China's leading pharmaceutical distributor, we are well-positioned to benefit from the strong growth, consolidation, and regulatory reform in the PRC pharmaceutical and healthcare industry.
- In addition to growing organically, we have also grown through acquisitions in a consolidating industry and possess significant experience in integrating acquired targets.
- We believe we have the most competitive pharmaceutical distribution network in China, due to our broad geographic and market coverage, strong relationships with customers and suppliers, comprehensive logistics arrangements, advanced value-added supply chain services and infrastructure, and well-established "Sinopharm" brand name.
- We continue to increase operational and cost efficiencies due to our economies of scale, integrated logistics systems and modern information management systems.
- We have an experienced and committed professional management team and highly-qualified employees.

OUR BUSINESS STRATEGIES

Our objectives are to consolidate our position as the top distributor of, and supply chain services provider for, pharmaceutical and healthcare products in China and continue to grow and play a significant role in the development of the pharmaceutical and healthcare industry in China. We aim to achieve these objectives through the following strategic initiatives:

- Continue to expand our geographic reach and optimize our distribution operations, customer composition and product portfolio to add to our leading position in the pharmaceutical distribution industry.
- Grow further through acquisitions.
- Continue to invest in our efficient logistics and information management systems to improve cost and operating efficiencies.
- Expand and streamline our total-solution and value-added services.
- Continue to build upon our integrated business platform in order to enhance the synergies between our pharmaceutical distribution, retail pharmacy and other businesses.

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REGULATORY ENVIRONMENT

We are subject to a variety of PRC laws and regulations that are applicable to distribution and manufacturing of pharmaceutical products. We must comply with licensing requirements for pharmaceutical distribution and manufacturing, including Good Supply Practices and Good Manufacturing Practices standards. In our manufacturing business, our pharmaceutical products must be approved and registered by the SFDA before they can be manufactured.

The prices of certain pharmaceutical products sold in China, primarily those included in the national and provincial Medical Insurance Catalog, are subject to price controls mainly in the form of fixed prices or price ceilings. During the Track Record Period, the PRC Government implemented seven rounds of reductions in the retail prices of various pharmaceutical products, which affected substantially all the pharmaceutical products in our pharmaceutical distribution and retail pharmacy segments and the products we manufacture in our other business operations segment. In our pharmaceutical distribution and retail pharmacy operations, we have not been significantly affected by price controls. However, we may be subject to pricing pressures in our manufacturing operations as a result of retail price controls instituted by the PRC Government. As of 31 May 2009, the retail prices of 100 pharmaceutical products we manufactured were subject to state-imposed price controls. During the Track Record Period, over 80% of our revenue from pharmaceutical manufacturing operations, before the elimination of inter-segment sales, was derived from sales of pharmaceutical products that were subject to price controls. Our pharmaceutical manufacturing operations contributed less than 3% of our total revenues throughout the Track Record Period.

PRC rules and regulations require most public hospitals and healthcare institutions to purchase medicines through a centralized tendering process, including through implementation of government-mandated price controls. The manufacturers of provincial catalog medicines that are on the hospitals' formularies and are in demand by these hospitals are invited to bid and participate in the centralized tendering process, which they must do so directly. The bidding process covers multiple categories of medicines used by the hospitals. A duly organized committee of pharmaceutical and clinical medical experts is responsible for bid evaluations. Selection is based on a number of factors, including bid price, quality, clinical effectiveness, and manufacturer's reputation and service. The supply of a particular type of medicine is generally made on a non-exclusive basis by multiple manufacturers and distributors. We typically advise and assist pharmaceutical manufacturers in the hospital tendering process and distribute products of pharmaceutical manufacturers that win bids upon purchase orders by the hospitals.

For further information on the PRC pharmaceutical regulatory environment, see the section headed "Regulation" in this document.

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SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

Summary Financial Information for Our Company

The following tables present our selected historical consolidated financial information for the periods indicated. The selected summary consolidated income statement information, segment financial information, cash flow information and other financial information for the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009, and the selected summary consolidated balance sheet information as of 31 December 2006, 2007 and 2008 and 31 May 2009 should be read in conjunction with, the consolidated financial information set forth in the Accountant's Report included as Appendix I to this document.

| | <u>Year ended 31 December</u> | | | <u>Five months ended 31 May</u> | |
|------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|-----------------|-----------------|---------------------------------|-----------------|
| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2008</u> | <u>2009</u> |
| | (unaudited) | | | | |
| | (RMB in millions, except per share information) | | | | |
| Consolidated Income Statement Data: | | | | | |
| Revenue | 23,736.6 | 31,110.2 | 38,187.4 | 15,007.2 | 18,048.0 |
| Cost of sales | (21,747.1) | (28,560.0) | (35,152.5) | (13,794.6) | (16,610.0) |
| Gross profit | 1,989.5 | 2,550.2 | 3,034.9 | 1,212.6 | 1,438.0 |
| Other income | 17.3 | 24.0 | 69.9 | 16.2 | 19.7 |
| Distribution and selling expenses | (779.0) | (945.3) | (966.0) | (365.0) | (408.6) |
| General and administrative expenses | (747.6) | (839.6) | (966.7) | (354.4) | (346.5) |
| Operating profit | 480.3 | 789.3 | 1,172.1 | 509.4 | 702.6 |
| Other gains/loss – net | (45.6) | 124.1 | 92.7 | 79.4 | 104.0 |
| Finance income | 11.7 | 17.8 | 24.3 | 7.3 | 9.0 |
| Finance costs | (101.5) | (150.9) | (266.0) | (98.1) | (93.9) |
| Finance costs – net | (89.8) | (133.1) | (241.7) | (90.8) | (84.9) |
| Share of results from associates | 19.2 | 40.0 | 54.2 | 22.8 | 25.1 |
| Profit before income tax | 364.0 | 820.4 | 1,077.4 | 520.8 | 746.8 |
| Income tax expense | (181.5) | (284.5) | (259.3) | (119.0) | (193.8) |
| Profit for the year/period | 182.4 | 535.9 | 818.1 | 401.8 | 552.9 |
| Attributable to: | | | | | |
| Equity holders of the Company | 101.3 | 380.9 | 585.7 | 297.0 | 421.5 |
| Minority interests | 81.1 | 155.0 | 232.4 | 104.8 | 131.4 |
| | 182.4 | 535.9 | 818.1 | 401.8 | 552.9 |
| Dividends per share ⁽¹⁾ | 0.10 | 0.18 | 0.06 | - | 0.17 |
| Basic and fully diluted earnings per share attributable to equity holders of the Company during the year/period ⁽²⁾ ... | | | | | |
| | 0.06 | 0.23 | 0.36 | 0.18 | 0.26 |

(1) The calculation of dividends per share is based on dividends declared by the Company to its equity holders for each period presented on the assumption that 1,637,037,451 Shares, representing the number of Shares of the Company issued and outstanding as of 6 October 2008 upon conversion of the Company into a joint stock limited company, as if such Shares had been outstanding for all periods presented.

(2) Basic and fully diluted earnings per share for each period presented have been calculated by dividing the profit attributable to equity holders of the Company for each period presented by 1,637,037,451 Shares issued and outstanding as of 6 October 2008 upon conversion of the Company into a joint stock limited company, as if such shares had been outstanding for all periods presented.

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| | Year ended 31 December | | | Five months ended 31 May | |
|---------------------------------------------------|------------------------|----------|----------|--------------------------|----------|
| | 2006 | 2007 | 2008 | 2008 | 2009 |
| | (RMB in millions) | | | | |
| Consolidated Segment Financial Data: | | | | | |
| External segment revenue⁽¹⁾⁽²⁾: | | | | | |
| Pharmaceutical distribution | 21,927.2 | 28,997.3 | 35,745.1 | 14,017.7 | 16,845.7 |
| Retail pharmacy | 823.1 | 835.6 | 952.2 | 389.0 | 463.2 |
| Other business operations ⁽³⁾ | 986.3 | 1,277.3 | 1,490.2 | 600.5 | 739.1 |
| Total revenue | 23,736.6 | 31,110.2 | 38,187.4 | 15,007.2 | 18,048.0 |
| Cost of sales | | | | | |
| Pharmaceutical distribution | 20,548.5 | 27,106.8 | 33,370.7 | 13,074.5 | 15,735.4 |
| Retail pharmacy | 615.5 | 620.1 | 708.3 | 293.4 | 337.2 |
| Other business operations ⁽³⁾ | 583.1 | 833.1 | 1,073.5 | 426.7 | 537.4 |
| Total cost of sales | 21,747.1 | 28,560.0 | 35,152.5 | 13,794.6 | 16,610.0 |
| Gross profit | | | | | |
| Pharmaceutical distribution | 1,378.7 | 1,890.5 | 2,374.3 | 943.2 | 1,110.3 |
| Retail pharmacy | 207.7 | 215.5 | 243.9 | 95.6 | 126.0 |
| Other business operations ⁽³⁾ | 403.2 | 444.2 | 416.7 | 173.8 | 201.7 |
| Total gross profit | 1,989.5 | 2,550.2 | 3,034.9 | 1,212.6 | 1,438.0 |
| Operating profit | | | | | |
| Pharmaceutical distribution | 394.2 | 680.6 | 1,053.7 | 448.2 | 629.8 |
| Retail pharmacy | 12.3 | 24.2 | 11.9 | 5.0 | 4.2 |
| Other business operations ⁽³⁾ | 73.8 | 84.5 | 106.5 | 56.2 | 68.6 |
| Total profit from operations | 480.3 | 789.3 | 1,172.1 | 509.4 | 702.6 |
| Depreciation and amortization | | | | | |
| Pharmaceutical distribution | 81.7 | 88.4 | 114.2 | 48.8 | 46.6 |
| Retail pharmacy | 12.5 | 12.5 | 14.4 | 3.8 | 5.9 |
| Other business operations ⁽³⁾ | 32.5 | 34.0 | 44.2 | 17.2 | 24.4 |
| Total depreciation and amortization | 126.7 | 134.9 | 172.7 | 69.8 | 77.0 |

(1) External segment revenue refers to segment revenue after inter-segment elimination.

(2) The inter-segment revenues for the years ended 31 December 2006, 2007 and 2008 were RMB177.6 million, RMB225.9 million and RMB311.2 million, respectively. The inter-segment revenues for the five months ended 31 May 2008 and 2009 were RMB140.9 million and RMB147.6 million, respectively.

(3) Other business operations consist of the (i) distribution and selling of laboratory supplies; (ii) manufacturing and distribution of chemical reagents; and (iii) production and sale of pharmaceutical products.

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SUMMARY

| | As of 31 December | | | As of 31 May | |
|---------------------------------------------------------------------------|------------------------|-----------------|-----------------|-------------------|--------|
| | 2006 | 2007 | 2008 | 2009 | |
| | (RMB in millions) | | | | |
| Consolidated Balance Sheet Data: | | | | | |
| Non-current assets | 2,192.7 | 2,332.0 | 2,433.4 | 2,645.1 | |
| Current assets | | | | | |
| Cash and cash equivalents | 1,838.8 | 1,955.6 | 1,712.1 | 2,602.1 | |
| Other current assets | 7,558.8 | 9,999.7 | 11,969.4 | 13,781.1 | |
| Total current assets | 9,397.6 | 11,955.3 | 13,681.5 | 16,383.2 | |
| Total assets | 11,590.3 | 14,287.3 | 16,114.9 | 19,028.3 | |
| Non-current liabilities | | | | | |
| Long-term borrowings | 177.7 | 157.7 | 130.0 | 60.0 | |
| Other non-current liabilities | 552.6 | 564.3 | 696.5 | 722.8 | |
| Total non-current liabilities | 730.3 | 722.0 | 826.5 | 782.8 | |
| Current liabilities | | | | | |
| Short-term borrowings (including current portion of long-term borrowings) | 1,704.4 | 1,521.6 | 1,504.2 | 2,464.9 | |
| Other current liabilities | 6,565.4 | 9,425.3 | 10,373.6 | 11,903.1 | |
| Total current liabilities | 8,269.7 | 10,946.9 | 11,877.8 | 14,368.0 | |
| Total liabilities | 9,000.0 | 11,668.9 | 12,704.3 | 15,150.8 | |
| Equity | | | | | |
| Equity attributable to equity holders of the Company | 1,759.7 | 1,683.7 | 2,264.2 | 2,584.5 | |
| Minority interests | 830.6 | 934.6 | 1,146.4 | 1,293.1 | |
| Total equity | 2,590.3 | 2,618.3 | 3,410.6 | 3,877.6 | |
| Total equity and liabilities | 11,590.3 | 14,287.3 | 16,114.9 | 19,028.3 | |
| | | | | | |
| | Year ended 31 December | | | Five months ended | |
| | 2006 | 2007 | 2008 | 31 May | |
| | | | | (unaudited) | |
| | (RMB in millions) | | | | |
| Consolidated Cash Flow Data: | | | | | |
| Net cash from operating activities | 638.4 | 441.2 | 653.8 | (474.0) | 264.1 |
| Net cash (used in) investing activities | (270.9) | (14.4) | (148.0) | (2.2) | (37.3) |
| Net cash from/(used in) financing activities | 119.8 | (310.0) | (749.4) | (16.0) | 663.1 |
| Net increase/(decrease) in cash and cash equivalents | 487.4 | 116.8 | (243.5) | (492.2) | 890.0 |

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

The following sets forth certain unaudited profit forecast data for the year ending 31 December 2009. See "Appendix III — Profit Forecast".

Forecast consolidated profit attributable to equity holders of the
Company⁽¹⁾ not less than RMB[●] million

(1) The bases and assumptions on which the above profit forecast has been prepared are summarized in Appendix III to this document.

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DIVIDEND POLICY

We declared approximately RMB165.8 million, RMB298.2 million, RMB105.7 million and RMB279.5 million as dividends for the years ended 31 December 2006, 2007 and 2008, and the five months ended 31 May 2009, respectively. Our Board of Directors will determine the payment of future dividends, if any, with respect to our Shares on a per Share basis. Any dividend shall be subject to shareholders' approval. Under the PRC Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distribution.

For holders of our Domestic Shares, cash dividend payments, if any, will be declared by our Board of Directors, subject to shareholders' approval, in Renminbi and paid in Renminbi.

In addition to cash, dividends may be distributed in the form of Shares. Any distribution of Shares, however, must be approved by special resolution of the shareholders. For holders of our Domestic Shares, dividends in the form of Shares will be distributed in the form of additional Domestic Shares.

The declaration of dividends is subject to the discretion of our Board of Directors and the approval of our shareholders, which we expect will take into account factors such as the following:

- 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.

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

- recovery of accumulated losses, if any;
- allocations to a statutory common reserve fund equivalent to 10% of our after-tax profit attributable to equity holders of the Company, as determined under PRC accounting rules and regulations; and
- allocations to a discretionary common reserve fund as approved by our shareholders in a shareholders' meeting.

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The allocations to the statutory common reserve fund is currently 10% of our after-tax profit attributable to equity holders of the Company for the fiscal year determined in accordance with PRC accounting rules and regulations. When the accumulated allocations to the statutory common reserve fund reach 50% of our Company's registered capital, we will no longer be required to make allowances for allocation to the statutory common reserve fund.

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.

A Special Dividend is expected to be paid to CNPGC and Sinopharm Investment by 31 December 2009. For details regarding the Special Dividend, please refer to the section headed "Special Dividend" below. In addition, the Company intends to distribute not less than 25% of its distributable profits as of 31 December 2009. However, we can give no assurance that any dividends ultimately will be paid. You should consider the assumptions underlying our forecast contained in "Appendix III — Profit Forecast" to this document, the risk factors affecting our Company contained in the section headed "Risk Factors" and the cautionary notice regarding forward-looking statements contained in the section headed "Forward-looking Statements" in this document.

SPECIAL DIVIDEND

On 22 December 2008, our shareholders' meeting resolved to distribute to CNPGC and Sinopharm Investment our distributable profits as of the last day of the month immediately preceding [●], after making the required allocations for the statutory common reserve fund (the "Special Dividend").

Assuming [●] is in September 2009, we estimate that the Special Dividend will not exceed RMB833.8 million, by reference to our consolidated retained earnings as of 31 May 2009 in the amount of RMB644.8 million and our estimated distributable profits generated in the period from 1 June 2009 to 31 August 2009 in the amount of approximately RMB189.0 million, which is calculated based on our profit forecast for the year ending 31 December 2009 and after making the required allocations for the statutory common reserve fund. Our two listed subsidiaries will declare and pay their dividends, subject to approval by their respective shareholders.

Pursuant to an ordinary resolution passed by our shareholders on 19 August 2009, we declared our audited distributable profits as of 31 May 2009, being part of the Special Dividend, in the total amount of RMB279.5 million (the "First Special Dividend"), to CNPGC and Sinopharm Investment. The First Special Dividend was fully paid on 31 August 2009 and was financed by our internal cash resources. The rest of the Special Dividend (the "Final Special Dividend"), which we estimate will not exceed RMB554.3 million, will be declared and paid after [●]. The financial statements of the Company as of the last day of the month immediately preceding [●] will be audited (the "Special Audit"). The Final Special Dividend will be determined based on our distributable profits as reflected in such audited financial statements prepared in accordance with PRC GAAP or HKFRS, whichever is lower, after making allocations for the required statutory common reserve fund. We will only declare and pay the Final Special Dividend after completion of the Special Audit, following which we will publish an announcement of the actual amount of the Final Special Dividend. The Final Special Dividend is expected to be paid to CNPGC and Sinopharm Investment by 31 December 2009 from our available cash and cash equivalents on hand.

Although the Final Special Dividend will only be paid after the [●], our Directors consider the Company's cash resources are sufficient to cover the full payment of the Final Special Dividend.

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We have sufficient cash surplus to finance our operations from internally generated cashflow and to maintain a satisfactory financial position through the steady growth of our business. As of 31 July 2009, our Company's total unaudited balance of cash and cash equivalents were approximately RMB1,661.0 million, before the payment of the First Special Dividend of RMB279.5 million. In addition, our Directors estimate that our consolidated net profit attributable to our Shareholders for the eight months ended 31 August 2009 will not be less than RMB560 million. In light of the above, our Directors are of the view that we have, and will have, sufficient funds to make payment of the Final Special Dividend, and we will continue to have sufficient working capital upon the full payment of the Final Special Dividend.

Our Directors further confirm that the payment of the Final Special Dividend will not adversely affect our financial position, having regard to our operating cash flow and the expected timing of such payment.

The declaration of the Special Dividend is made by us as a commercial decision. The amount of the Special Dividend is not indicative of our Company's future profits or the dividends that we may declare or pay in the future.

RISK FACTORS

There are certain risks involved in our operations and many of these risks are beyond our control. These risks can be characterized as: (i) risks relating to our business operations; (ii) risks relating to China's pharmaceutical industry; and (iii) risks relating to the People's Republic of China. Additional risks and uncertainties not presently known to us, or not expressed or implied below, or that we deem immaterial, could also harm our business, financial condition and operating results.

Risks Relating to Our Business Operations

- We may not be able to sufficiently and promptly respond to rapid changes in government regulation, treatment of diseases and customer preferences in the PRC pharmaceutical industry, which may adversely affect our business, financial condition and results of operations.
- We may not be able to optimize the management of our distribution network or be successful in expanding our distribution network.
- We may not be able to maintain our supplier relationships in our pharmaceutical distribution operations and our manufacturer suppliers may not be successful in winning bids in the government-mandated tender process for the purchase of medicines by state-owned hospitals and other non-profit healthcare institutions.
- We may experience delays in collecting trade receivables from our customers, which may adversely affect our cash flows and working capital, financial condition and results of operations.
- We may not be able to maintain proper inventory levels for our pharmaceutical distribution operations.

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- Substantial defaults, significant reduction in purchases or deterioration of the financial condition of distribution customers, especially in view of declining economic conditions, may have an adverse effect on our business, financial condition and results of operations.
- We operate in a highly competitive market comprised of a large number of competitors, and our business, financial condition and results of operations may be adversely affected if we are not able to compete effectively.
- We may not be able to successfully identify, acquire or complete acquisitions, or adhere to our growth and expansion plans.
- We may experience difficulty in managing our acquisitions and future growth.
- We may not have the ability to cause our less than wholly-owned subsidiaries and associated corporations to take all actions which we believe would be most beneficial for us.
- We rely on information systems in managing our operations and any system failure or deficiencies of our information systems may have an adverse effect on our business, financial condition and results of operations.
- We may incur losses resulting from product liability, personal injury or wrongful death claims or product recalls.
- The existence of counterfeit pharmaceutical products in the PRC pharmaceutical retail market may damage our brand and reputation and have a material adverse effect on our business, financial condition, results of operations and prospects.
- Our operations are subject to operating hazards that may affect our operations and may not be fully covered by our insurance policies.
- Our operations could be adversely affected by the departure of any of our executive Directors and senior management members.
- We depend on the continued service of, and on the ability to attract, motivate and retain a sufficient number of qualified and skilled staff, especially distribution personnel, regional retail managers and in-store pharmacists for our business.
- Disruptions in the global financial markets and the resulting governmental action in China and in other parts of the world could have a material adverse impact on our results of operations, financial condition and cash flows, and could cause the market price of our Shares to decline.
- Our manufacturing operations are subject to certain risks, which may affect our business, results of operations and financial condition.
- Our retail pharmacy operations are subject to certain risks, which may affect our business, results of operations and financial condition.
- We do not possess valid or clear leasehold titles or written agreements providing for usage rights in respect of some of our occupied properties.
- We significantly rely on dividends received from our subsidiaries to distribute dividends or meet other payment obligations which may arise from time to time.

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SUMMARY

- If we fail to maintain effective internal controls, we may not be able to accurately report our financial results or prevent fraud, and our business, financial condition, results of operations and reputation could be materially and adversely affected.
- Our Controlling Shareholder has substantial influence over our Company and its interests may not be aligned with the interests of our other shareholders.
- Certain conflicts of interests may arise between the Company and the Controlling Shareholder and its Associates, or between the Company and certain directors of the Company with respect to connected transactions and/or competing businesses.
- Our historical dividends may not be indicative of our future dividend policy.
- The interests of minority shareholders of National Medicines and Accord Pharma may, in certain circumstances, be inconsistent with our and our shareholders' interests.
- Third parties may infringe upon our intellectual property rights and other forms of protection under PRC law.
- We may face intellectual property infringement claims initiated by third parties.

Risks Relating to China's Pharmaceutical Industry

- The PRC healthcare industry is highly regulated, and the regulatory framework, requirements and enforcement trends may constantly change.
- We are subject to risks in relation to actions taken by us, our employees or our affiliates that constitute violations of anti-corruption measures taken by the PRC Government to prevent fraud and abuse in the pharmaceutical industry. Our failure to comply with these measures, or effectively manage our employees and affiliates, could adversely affect our reputation, results of operations and business prospects.
- Our business operations may be adversely affected by present or future environmental regulations or enforcement.
- China's WTO accession may intensify competition in our businesses within China.

Risks Relating to the People's Republic of China

- The political, economic and social conditions, laws, regulations and policies in China could affect our businesses and results of operations.
- Changes in foreign exchange regulations and future movements in the exchange rate of the Renminbi may adversely affect our financial condition and results of operations and our ability to pay dividends.
- The PRC legal system is still evolving and has inherent uncertainties that could limit the legal protections available to you.
- It may be difficult to effect service of process upon us or our Directors or executive officers that reside in the PRC or to enforce against them or us in the PRC any judgments obtained from non-PRC courts.

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- Foreign individual holders of our Shares may become subject to PRC income tax and there are uncertainties as to the PRC tax obligations of foreign enterprises that are holders of our Shares.
- Any future outbreaks of contagious diseases in China may have a material adverse effect on our business operations, financial condition and results of operations.