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.

The pharmaceutical industry in China is subject to extensive government regulation and supervision. In recent years, the PRC Government has introduced and implemented certain regulatory measures, and announced plans to implement additional rules and regulations with respect to the pharmaceutical industry, including those relating to: (i) changes in legislation or regulations governing the distribution, manufacturing or pricing of pharmaceutical products; (ii) additional quality control, licensing and certification requirements; (iii) changes in legislation or regulations governing the pricing, procurement, prescription and dispensing of essential and other medicines by public hospitals and other healthcare institutions; and (iv) changes in governmental funding for individual healthcare and pharmaceutical services. These measures may lead to significant changes in the PRC pharmaceutical industry, and could result in increased costs and lowered profit margins for pharmaceutical distributors. The measures could also lead to decreases in the amount of our products and services purchased by our customers or the price they are willing to pay for our products and services. In addition, we cannot assure you that the PRC Government will continue to adopt policies supporting the pharmaceutical industry. The PRC Government may adopt laws and regulations that reduce support or the level of healthcare services and benefits provided in China. We cannot assure you that we will be able to adapt to such changes, and further cannot assure you that our business, financial condition and results of operations will not be adversely affected.

The PRC pharmaceutical industry is also characterized by rapid advances in science and technology and the emergence or mutation of viruses and bacteria that together lead pharmaceutical manufacturers to discover and develop innovative new medicines and other pharmaceutical products and treatments. Our future success depends on our ability to improve and diversify our product portfolio by identifying such trends, as well as securing sales and distribution agreements from global pharmaceutical manufacturers for new and competitively priced pharmaceutical products that meet the requirements of a constantly changing market and are effective in treating new diseases and illnesses. We cannot assure you that we will be able to respond to emerging trends by improving our product portfolio and services or distributing new products in a timely fashion.

In addition to regulatory and industry changes, the preferences and purchasing trends of our customers with regard to pharmaceutical products can rapidly change. Our success depends on our ability to anticipate product lead-time and demand, identify customer preferences and adapt our product selection to these preferences. We must adjust our product availability, selection and inventory levels based on certain business requirements, sales trends and other market data. In addition, our product selection may not accurately reflect product life cycles, seasonality, backorders or customer preferences at any given time. We cannot assure you that we will be able to accurately respond to such changes in customer preferences and purchasing trends, and such failure may have an adverse effect on our business, financial condition, results of operations and profitability.

We may not be able to optimize the management of our distribution network or be successful in expanding our distribution network.

We distribute substantially all of our products to our customers through our distribution network which comprises 25 distribution centers that are strategically located in 19 provinces, municipalities and autonomous regions in China. Our ability to meet customer demand may be significantly limited if we do not successfully operate our distribution centers and logistics facilities as well as efficiently conduct our distribution activities, or if one or more of our distribution centers or logistics facilities are destroyed or shut down for any reason, including as a result of a natural disaster. Any disruption in the operation of our distribution network could result in higher costs or longer lead-times associated with distributing our products. In addition, as it is difficult to predict accurate sales volumes in our industry, we may be unable to optimize our distribution activities, which may result in excess or insufficient inventory, warehousing, fulfillment of logistics or value-added services, or distribution capacity. In addition, failure to effectively control product damage or spoilage during the distribution process could decrease our operating margins and reduce our profitability.

We intend to expand our distribution network to include additional cities and rural areas in China to expand our geographic reach to customers. However, we may not be successful in expanding our distribution network. Our distribution, logistics and value-added services and products may face competition from similar services and products offered by our competitors. Therefore, the success of our proposed expansion will depend on many factors, including our ability to form relationships with, and manage an increasing number of, customers nationwide and optimize our distribution channels. We must also be able to anticipate and respond effectively to competition posed by other pharmaceutical distributors. If we fail to expand our distribution network in China as planned or if we are unable to compete effectively with other distributors, our business, financial condition and results of operations may be materially and adversely affected.

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.

In our pharmaceutical distribution operations, we depend on more than 3,300 suppliers for a steady supply of pharmaceutical and healthcare products. We typically distribute products pursuant to annual agency or distribution agreements entered into directly between us and our suppliers or upstream distributors, under which our suppliers provide us with a series of economic incentives and other support. The terms of our agreements with our suppliers range from one year to three years, and, in this regard, we have had business relationships with most of our suppliers since the incorporation of the Company in 2003. We cannot assure you that manufacturers and other suppliers will continue to sell products to us on commercially reasonable terms, or at all. We also cannot assure you that we will be able to establish new manufacturer and other supplier relationships, or extend existing relationships with suppliers when our agreements with them expire. Our annual agency or distribution agreements with suppliers may be terminated from time to time due to various reasons beyond our control. Moreover, the annual agency or distribution agreements for some of our products are not exclusive, and we cannot assure you that our competitors will not obtain the distribution rights of certain of our products.

Further, for the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, 44.0%, 45.6%, 46.8% and 48.3%, respectively, of the products we sell of our manufacturer suppliers were sold to state-owned hospitals in China belonging to the people’s government at the county level or above. These hospitals must implement collective tender processes for the purchase of medicines listed in the Medical Insurance Catalogs and medicines that are consumed in large volumes and commonly prescribed for clinical uses. The centralized tendering process is conducted once a year in the relevant province or city in China. Only pharmaceuticals that have won bids in the collective tender processes may be purchased by these hospitals. For further information on the hospital tender process, see the section headed "Regulation — Tendering Requirements for Hospital Purchases of Medicines". After the tendering process, we distribute products of the pharmaceutical manufacturers that win bids upon purchase orders provided by the hospital or healthcare institution. If our manufacturer suppliers are not successful in winning bids in the collective tendering process, we may lose the revenues associated with the sales of the affected pharmaceutical products to the hospitals and other non-profit healthcare institutions. If we fail to maintain our supplier relationships, our revenue could be significantly reduced, resulting in a material adverse effect on our business, financial condition and results of operations.

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.

Our trade receivables mainly represent accounts receivable and notes receivable. We typically grant a credit period of 30 to 120 days to customers. For customers with a good credit history, in particular hospitals, we usually grant a longer credit period of between 90 days to 180 days. A portion of our customers make payments by notes, with maturities generally under 180 days. To the extent that revenue recognized under a sales contract has not been received, we record it as an accounts receivable. As a result of the extended credit periods for our hospital customers, we enter into note discount or factor programs with PRC domestic banks in China pursuant to which we sell a portion of our accounts receivables to them to meet a portion of our working capital needs. Our hospital customers may delay their payments beyond the time period of our agreed credit arrangements. As of 31 May 2009, we had in aggregate trade receivables of RMB9,347.9 million, of which RMB4,617.3 million, or 49.4%, represented accounts receivable from hospital customers. Of the total amount of trade receivables before provision for impairment, RMB9,310.5 million, or 98.1%, had been outstanding for less than six months from the time the revenue was recognized, RMB148.1 million, or 1.6%, had been outstanding for six months to one year from the time the revenue was recognized, RMB5.3 million, or 0.1%, had been outstanding for one to two years from the time the revenue was recognized, and RMB31.4 million, or 0.3%, had been outstanding for over two years from the time the revenue was recognized.

As of 31 May 2009, our provision for impairment of trade receivables amounted to RMB147.4 million, or 1.6% of total trade receivables, and RMB0.4 million of receivables were written off as uncollectible in the five months ended 31 May 2009. We cannot assure you that we will be able to continue to sell a portion of our accounts receivable, that our past provisioning practice will not change in the future or that our provision levels will be sufficient to cover defaults in our accounts receivable. Our liquidity and cash flows from operations may be materially and adversely affected if we are unable to sell a portion of our accounts receivable, if our accounts receivable cycles or collection periods lengthen further or if we encounter a material increase in defaults of payment, or provisions for impairment, of our trade receivables from customers. Should these events occur, we may be required to obtain working capital from other sources, such as from third-party financing, in order to maintain our daily operations, and such financing from outside sources may not be available or acceptable terms or at all.

We may not be able to maintain proper inventory levels for our pharmaceutical distribution operations.

We consider a number of factors when we manage the inventory levels for our pharmaceutical distribution operations, including inventory holding costs, our product portfolio, the preferences and purchasing trends of our customers and prompt delivery and sufficiency of our products in response to our customers’ requests. In addition, some of our wholly foreign and foreign joint-venture suppliers require us to maintain inventory levels of one to three months for various imported products. The volatile economic environment has made accurate projection of inventory levels increasingly challenging. Inventory levels in excess of customer demand may result in inventory write-downs, expiration of products or increase in inventory holding costs. Net write-downs of our inventories to their net realizable value amounted to approximately RMB4.2 million, RMB7.9 million, RMB4.5 million and RMB4.6 million for the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009. Conversely, if we underestimate consumer demand for our products or if our suppliers fail to provide products in a timely manner, we may experience inventory shortages. Such inventory shortages might result in unfilled customer orders and have a negative impact on customer relationships. We cannot assure you that we will be able to maintain proper inventory levels for our pharmaceutical distribution operations and such failure may have an adverse effect on our business, financial condition, results of operations and profitability.

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.

Our sales to our distribution customers, who are primarily hospitals, other distributors, retail drug stores and other customers, represented approximately 92.4%, 93.2%, 93.6% and 93.3% of our total revenue for the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, respectively. We cannot assure you that our customers will continue to maintain relationships with us or that they will continue to procure our products at similar volumes or at all. In addition, we cannot assure you that our customers will not experience any deterioration of their financial condition, such as bankruptcy, insolvency or other credit failure. Disruptions in the worldwide financial markets and other macroeconomic challenges currently affecting the PRC economy and the global economic outlook could adversely impact our customers in a number of ways, which could adversely affect us. The slowdown in the growth of the PRC economy, and any attendant affects on the levels of consumer and commercial spending may cause customers to reduce, modify, delay or cancel plans to purchase our products. If our customers’ cash flow or operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, they may not be able to pay, or may delay payment of, trade receivables owed to us. As of 31 May 2009, the largest trade receivable due from a single customer represented approximately 1.2% of trade receivables. We may also lose a significant customer if any existing contract with such customer expires without being extended, renewed, renegotiated or replaced, or if it is terminated by the customer. In this regard, we generally rely on recurring customer purchase orders and we generally do not have long-term contracts with any of our customers. In the five months ended 31 May 2009, our sales to our single largest customer accounted for approximately 1.0% of our total revenue and our sales to our five largest customers accounted for approximately 3.6% of our total revenue. The loss of any key customer or any substantial default or significant reduction in purchases by a significant customer may adversely affect 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.

The pharmaceutical distribution market is highly competitive. Our key competitors are large national and regional distributors of pharmaceutical and healthcare products. In addition, we compete with local distributors of pharmaceutical products, manufacturers that engage in direct selling, specialty distributors and other healthcare providers. Further, we also compete with foreign pharmaceutical distribution, retail and service companies with operations in China. These companies may have substantially greater resources than we do, such as financial, technical, research and development, marketing, distribution and other resources. We cannot assure you that we will be able to remain competitive by distinguishing our distribution services, innovating and producing products, or maintaining our supplier relationships, nor can we assure you that we will increase or maintain our existing market share. Any significant increase in competition could adversely affect our profitability. If we are unable to compete effectively against our competitors, our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to successfully identify, acquire or complete acquisitions, or adhere to our growth and expansion plans.

One of our business strategies is to take advantage of the trend towards consolidation in the highly fragmented PRC pharmaceutical industry by undertaking merger and acquisition activities. In addition, we may identify, pursue and consummate joint venture projects in the future. Further, as part of our future plans, we aim to expand our retail pharmacy operations by establishing new stores or acquiring existing pharmaceutical stores, particularly in large and well-developed cities in China. As a result, we may make acquisitions in the pharmaceutical distribution, retail pharmacy or other business operations segments.

Acquisitions and expansion involve numerous risks and uncertainties, including but not limited to:

- our inability to identify suitable acquisition targets or complete acquisitions at acceptable terms or prices;
- the availability, terms and costs of any financing required to make an acquisition or complete an expansion plan;
- potential ongoing financial obligations and unforeseen or hidden liabilities of our acquisition targets;
- our failure to achieve the intended objectives or benefits, or to generate sufficient revenue to recover the costs and expenses, of an acquisition or expansion plan;
- our inability to identify suitable locations for our new retail stores and successfully negotiate leases or purchases for these stores on terms acceptable to us;
- the diversion of resources and management attention from our existing businesses;
- the costs of and difficulties in integrating acquired businesses and managing a larger business; and
- delays in or inability to secure necessary governmental approvals, third-party consents and land use rights.

Our failure to address these risks successfully may have a material adverse effect on our financial condition and results of operations.

We may experience difficulty in managing our acquisitions and future growth.

We have grown significantly in recent years. Our revenue increased by a CAGR of 26.8% 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. We anticipate that we will continue to grow through organic growth and selective acquisitions. Managing our acquisitions and growth has resulted in, and will continue to result in, substantial demands on our management, operational and other resources. To manage the potential growth of our operations, we will be required to, among other things:

- control operating expenses and achieve a high level of efficiency;
- enhance our information technology systems, including installing compatible warehouse management and team management systems;
- strengthen our operational financial and management systems, procedures and controls;
- maintain and expand our relationships with suppliers, hospitals, distributors, retail pharmacies and other third parties;
- control procurement costs and optimize product and service offerings and prices;
- increase marketing, sales and sales support activities; and
- expand, train and manage our growing personnel resources.

Our current and planned operations, personnel, systems, internal procedures and controls may not be adequate to support our future growth. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, execute our business strategies or respond to competitive pressures.

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 have, and expect to have in the future, interests in less than wholly-owned subsidiaries and associated corporations, in connection with our business operations. Please see "Appendix I — Accountant's Report of Our Company" for a description of these entities. Some of these less than wholly-owned subsidiaries and associated corporations, account for a significant portion of our revenue and profits. Our ownership interests in these subsidiaries and associated corporations do not in every instance provide us with the ability to control all their actions. We do not have control over the proposed strategies, policies or objectives of any of our associated corporations. As a result, our ability to control the decisions of these businesses depends on a number of factors, including reaching agreement with our business partners, our rights under any shareholder agreements as well as the decision-making process applicable to those less than wholly-owned subsidiaries and associates. We cannot assure you that we will be able to prevent them from engaging in activities or pursuing strategic objectives that conflict with our own interests or strategic objectives, and this may also adversely affect the results of our operations.

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.

Our businesses rely on sophisticated information systems to obtain, rapidly process, analyze and manage data. In our pharmaceutical distribution and retail pharmacy businesses, we rely on these systems to, among other things:

- facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers and logistics facilities across China;
- monitor the daily operations of our distribution network and supply chain;
- receive, process and ship orders on a timely basis;
- manage the accurate billing and collections for thousands of customers;
- control logistics and quality control for our retail pharmacy operations; and
- process payments to suppliers.

In our retail pharmacy business, we rely on our information management system to monitor the daily operation of our retail pharmacies and to maintain accurate and up-to-date operating and financial data for compilation of management information. With respect to both our pharmaceutical distribution and retail pharmacy operations, we rely on our computer hardware and network for the storage, delivery and transmission of the data of our distribution and retail systems. Any damage by unforeseen events or system failure which cause interruptions to the input, retrieval and transmission of data or increase in the service time could disrupt our normal operations. We cannot assure you that we can effectively carry out our disaster recovery plan to handle the failure of our information systems, or that we will be able to restore our operational capacity within a sufficiently adequate time frame to avoid disrupting our business. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations. In addition, if the capacity of our information systems fails to meet the increasing needs of our expanding operations, our ability to expand may be constrained.

We may incur losses resulting from product liability, personal injury or wrongful death claims or product recalls.

Our pharmaceutical distribution, retail pharmacy and other business operations are exposed to risks inherent in the manufacturing, packaging, marketing and distribution of pharmaceutical and healthcare products, such as unsafe, ineffective or defective products, the improper filling of prescriptions, labeling of prescriptions and adequacy of warnings and unintentional distribution of counterfeit medicines. In the event that the use or misuse of our products results in personal injury or death, product liability claims may be brought against us for damages, we may be subject to product recalls, and the PRC Government may close down related operations.

A substantial claim or a substantial number of claims, if successful, would have a material adverse effect on our business, financial condition and results of operations. In this regard, product liability insurance for pharmaceutical products is not available in China. In the event of allegations that any of our products are harmful, we may experience reduced consumer demand for products distributed or manufactured by us or these products may be recalled from the market. Any claims against us or product recalls, regardless of merit, could materially and adversely affect our financial condition, because litigation related to those claims or product recalls would strain our financial resources in addition to consuming the time and attention of our management. If any claims against us were to prevail, we may incur monetary liabilities, and our reputation may be damaged. Although, with respect to our distribution operations, we may have the right under applicable PRC laws, rules and regulations to recover from the relevant manufacturer for compensation that we are required to make to our customers in connection with a product liability, personal injury or wrongful death claim, if the manufacturer is responsible, we cannot assure you that we will be able to recover the relevant amounts, or at all.

Further, the applicable laws, rules and regulations require our in-store retail pharmacists to offer counseling, without additional charge, to our customers about medication, dosage, common side effects and other information deemed significant by our in-store pharmacists. Our in-store pharmacists may also have a duty to warn customers regarding any potential negative effects of a prescription medicine if the warning could reduce or negate these effects. We may be liable for claims arising from such advice given by our in-store pharmacists, and our business, financial condition, results of operations and reputation may be adversely affected.

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.

Certain pharmaceutical products distributed or sold in the PRC pharmaceutical retail market may be counterfeit, meaning pharmaceuticals manufactured without proper licenses or approvals and fraudulently mislabeled with respect to their content and/or manufacturer. Such counterfeit pharmaceutical products are generally sold at lower prices than the authentic pharmaceutical products due to their low production costs, and in some cases are very similar in appearance to the authentic pharmaceutical products. Counterfeit pharmaceutical products may or may not have the same chemical content as their authentic counterparts. The counterfeit pharmaceutical product regulation control and enforcement system in China is not able to completely eliminate production and sale of counterfeit pharmaceutical products. Any unintentional sale of counterfeit pharmaceutical products by us in our pharmaceutical distribution operations, or illegal sale of counterfeit pharmaceuticals by others under our brand names with respect to pharmaceuticals in our manufacturing operations, especially if resulting in adverse side effects to consumers, may subject us to negative publicity, fines and other administrative penalties or even result in litigation against us. Moreover, the continued proliferation of counterfeit pharmaceutical products and other products in recent years may reinforce the negative image of distributors and retailers among consumers in China, and may severely harm the reputation and brand name of companies like us. Further, consumers may buy counterfeit pharmaceuticals that are in direct competition with the pharmaceuticals of our suppliers in our pharmaceutical distribution operations or with our pharmaceuticals in our manufacturing operations. As a result of these factors, the continued proliferation of counterfeit pharmaceutical products in China could 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.

We use complex equipment and logistics facilities in our pharmaceutical distribution business operations, including the distribution of industrial chemicals. We also have retail pharmacies and manufacturing facilities in our other business operations. As a result, our business may be adversely affected due to the occurrence of typhoons, earthquakes, floods, fire, acts of terror or other natural disasters or similar events at our distribution network, retail pharmacies and manufacturing facilities or sources of raw materials for our products. We cannot assure you that all claims under our insurance policies will be honored fully or on time. We do not carry any business interruption insurance or third-party liability insurance for personal injury or environmental damage arising from accidents at our facilities. In addition, there are certain types of losses, such as from war, acts of terrorism, earthquakes, typhoons, flooding or other natural disasters for which we cannot obtain insurance at a reasonable cost or at all. Should an accident, natural disaster or terrorist act occur, or should an uninsured loss or a loss in excess of insured limits occur, we could suffer from financial losses, as well as damage to our reputation or lose all or a portion of future revenues anticipated to be derived from the relevant facilities. Any material loss not covered by our insurance could materially and adversely affect our business, financial condition and results of operations.

Our operations could be adversely affected by the departure of any of our executive Directors and senior management members.

Our success depends on the continued service of our senior management team, as identified in the section headed "Directors, Supervisors, Senior Management and Employees" in this document. The expertise, industry experience and contributions of our executive Directors and other members of our senior management are crucial to our success. We will require an increasing number of experienced and competent executives and other members of senior management in the future to implement our growth plans. If we lose the services of any of our key management members, including our Directors and senior officers as provided elsewhere in this document, and unable to recruit and retain replacement personnel with equivalent qualifications at any time, the growth of our business could be adversely affected.

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.

Our ability to continue expanding our pharmaceutical distribution, retail pharmacy and other business operations and deliver high quality products and customer service depends on our ability to attract and retain qualified and skilled staff, especially distribution personnel, regional retail managers and in-store pharmacists. In particular, PRC regulations require at least one qualified pharmacist to be present onsite in every pharmacy to supervise dispensing of prescription medicines and instruct or advise customers on prescription medicines. We cannot assure you that we will be able to attract, hire and retain sufficient numbers of skilled distribution personnel, regional retail managers and in-store pharmacists necessary to continue to develop and grow our business. The inability to attract and retain a sufficient number of such skilled personnel could limit our ability to open additional pharmacies, increase our revenues or deliver high quality customer service. In addition, competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, which could materially and adversely affect our financial condition and results of operations.

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.

The recent global financial crisis has adversely affected the United States, and other world economies, including China. As the financial crisis has broadened and intensified, the growth of China's overall economy has been negatively impacted. An extended downturn could lead to a decline in prescriptions corresponding with the growth of the uninsured and underinsured population in China. The on-going global financial crisis affecting the banking system and financial markets has also resulted in a tightening in credit markets, a low level of liquidity in many financial markets and increased volatility in credit and equity markets. If these conditions continue or worsen, they may adversely affect the availability, terms and cost of borrowings in the future, including any financings necessary to complete acquisitions or capital expenditures. Any disruptions in our ability to renew existing borrowings or obtain new borrowings may materially and adversely affect our business, financial condition, results of operations and cash flows as we rely on bank borrowings for a portion of our working capital and capital expenditure requirements.

We face risks attendant to changes in economic environments, changes in interest rates, and instability in securities markets, around the world, among other factors. Major market disruptions and the current adverse changes in market conditions and regulatory climate in China and worldwide may adversely affect our business and industry or impair our ability to borrow amounts under our credit facilities or any future financial arrangements. In addition, the timing and nature of any recovery in worldwide financial markets and the global economy remain uncertain, and there can be no assurance that market conditions will improve in the near future or that our results will not be adversely affected. Moreover, these recent and developing economic and governmental factors may have a material adverse effect on our results of operations, financial condition or cash flows and could cause the price of our Shares to decline significantly, and you may lose a significant value on your investments.

Our manufacturing operations are subject to certain risks, which may affect our business, results of operations and financial condition.

We are subject to certain risks in our manufacturing operations, including but not limited to:

- the inability to achieve or maintain customer acceptance of our manufactured chemical reagents and pharmaceutical products;

- the inability to maintain the cost-competitiveness of our products;

- the inability to effectively promote and market our products;

- the inability to ensure the safety and efficacy of our chemical reagents and pharmaceutical products;

- the removal or exclusion of our pharmaceutical products in the Medical Insurance Catalog, which can materially adversely affect the commercial success of our products, and thus our revenues, as eligible participants in the national basic medical insurance program in China are entitled to reimbursement from the social medical insurance fund for up to the entire cost of medicines that are included in the Medical Insurance Catalog and for this reason hospitals frequently order medicines included in the catalog for their patients. In this regard, the governmental authorities select medicines for inclusion based on factors including treatment requirements, frequency of use, effectiveness and price, and the governmental authorities also occasionally remove medicines from the catalog;

- the failure to win bids in the government-mandated collective tendering process for the purchase of medicines by public hospitals and other healthcare institutions;

- limitations on our flexibility to raise or set prices and pass along cost increases in our manufacturing operations because, 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. If there are future price controls or government mandated price reductions and we are unable to reduce our costs correspondingly or increase the prices of products not subject to price controls, our gross margins and profitability may be adversely affected;

- the possibility that our research and development efforts will fail to yield products that are commercially successful;
- the inability to obtain and maintain regulatory or governmental permits, approvals and clearances, or to pass PRC Government inspections or audits or to adhere to, or comply with, relevant PRC manufacturing laws and regulations;
- the possibility of accidents affecting certain of our manufacturing processes and finished products that we store, warehouse or transport, which may result in fires, explosions and other potentially dangerous situations;
- the possibility of natural disasters or other unanticipated catastrophic events, including power interruptions, water shortages, storms, fires, earthquakes, terrorist attacks and wars, which may significantly disrupt or even halt our manufacturing capabilities;
- the risk of, and resulting liability from, any contamination, injury or other harm caused by any mishandling of industrial chemicals, harmful biological or hazardous materials that we may use in our manufacturing operations;
- the inability to control or manage, at commercially reasonable terms or at all, a stable supply of raw materials and components that are generally not readily available or are only manufactured by a limited number of suppliers;
- difficulties in manufacturing sufficient or commercially-viable quantities of our products; and
- shortages of qualified personnel to operate our manufacturing equipment and maintain our production processes.

The occurrence of any such risks in our manufacturing operations may affect our business, reputation, 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 are subject to certain risks in our retail pharmacy operations, including but not limited to:

- the inability to successfully execute effective advertising, marketing and promotional programs necessary to maintain and increase the awareness of the brands, products and services relating to our retail pharmacy operations;
- the inability to implement effective pricing and other strategies including because of state-imposed price controls, in response to competitive pressures in the retail pharmacy industry;
- the inability to respond to changes in consumer demand in a timely manner;
- poor selection of franchisees or failure on our part to provide guidance to our franchisees and their staff may lead to situations which adversely affect the operational viability of our franchised retail pharmacies;

- the inability to secure and renew leases and properties for retail pharmacies in quality locations at competitive prices;

- the inability to stock an adequate supply of pharmaceutical products and related merchandise that are desired by customers on the shelves of our retail pharmacies;

- the inability to adhere to, or comply with, any relevant PRC retail, franchise, health, employment and labor laws and regulations;

- the inability to obtain and maintain regulatory or governmental permits, approvals and clearances, or to pass PRC Government inspections or audits;

- the risk of, and resulting liability from, any contamination, injury or other harm caused by any use, misuse or misdiagnosis involving our retail products;

- business and financial losses arising from our retail operations; and

- possible disputes over property, lease and buildings in which our retail pharmacy operations are situated.

The occurrence of any such risks in our retail pharmacy operations may affect our business, reputation, 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.

As of 30 June 2009, we occupied 35 parcels of land. Of these parcels of land, we have not obtained land use right certificates for five parcels of land, with an aggregate site area of approximately 121,718 sq.m. These parcels of land are primarily for general business use. In addition, we also occupied 310 buildings or units as of 30 June 2009. Of these buildings or units, we have not obtained building ownership certificates for 56 buildings or units, which have a total gross floor area of approximately 48,306 sq.m. These buildings or units are primarily for general commercial and ancillary uses, such as storage, manufacturing, office and residential purposes. Further, we leased 611 properties from our Controlling Shareholder and other lessors as of 30 June 2009. Of these properties, our Controlling Shareholder and other lessors have not provided building ownership certificates or registrations for 137 properties, which have a total gross floor area of approximately 52,053 sq.m. These properties are primarily for general manufacturing and corporate uses. See the section headed "Business — Properties" in this document.

We or our lessors have applied to the appropriate authorities to obtain the relevant title certificates. We cannot assure you that ownership disputes or claims will not occur or that third parties will not assert any claims against us for compensation in respect of any illegal and/or unauthorized use of their land. In addition, our rights as owner and lessee of the above land use rights and buildings may be adversely affected if formal title certificates are not obtained.

We significantly rely on dividends received from our subsidiaries to distribute dividends or meet other payment obligations which may arise from time to time.

We conduct our operations substantially through our operating subsidiaries. A significant portion of our assets are held by, and a significant portion of our earnings and cash flows is attributable to, our operating subsidiaries. The ability of our operating subsidiaries to pay dividends depends on business considerations and regulatory restrictions, including cash flow sources and requirements, the articles of association of these companies, the laws and other regulations of the PRC and any relevant joint venture and shareholders' agreements in which they are parties to. We cannot assure you that our operating subsidiaries will generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to enable us to declare dividends.

In addition, the ability of our subsidiaries in the PRC to pay dividends to their shareholders is subject to the requirements of PRC law. PRC laws and regulations permit payment of dividends out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Dividends may not be paid until cumulative prior years' losses are made up. As a result, if our subsidiaries in the PRC incur losses, such losses may impair their ability to pay dividends or other distributions to us, which would restrict our ability to distribute dividends and to service our indebtedness. Our PRC subsidiaries are required to make monthly contributions to the social security plan maintained for their employees, consisting of pension benefits, personal injury insurance, maternity insurance and medical and unemployment benefits. In addition, each of our PRC subsidiaries is also required to set aside at least 10% of its after-tax profits based on PRC accounting standards each year to its statutory common reserve fund until the cumulative amount of such fund reaches 50% of its registered capital.

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.

We have implemented measures to enhance our internal controls, and plan to take steps to further improve our internal controls. If we encounter difficulties in improving our internal controls and management information systems, we may incur additional costs and management time in meeting our improvement goals. In addition, during the Track Record Period, we grew organically and through acquisitions, and we plan to grow further through acquisitions. These acquisitions have in the past involved, and further acquisitions may in the future involve, the incurrence of costs and difficulties in integrating acquired businesses and centralizing our internal controls for our acquired businesses. We cannot assure you that the measures taken to improve our internal controls will be effective. If we fail to maintain effective internal controls in the future, our business, financial condition, results of operations and reputation may 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.

Our Controlling Shareholder has substantial influence over our business, including matters relating to our management and policies and decisions regarding mergers, expansion plans, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. Two of our non-executive Directors are at the same time directors or members of senior management of our Controlling Shareholder. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares. These actions may be taken even if they are opposed by our other shareholders. In addition, the interests of our Controlling Shareholder may differ from the interests of our other shareholders. It is possible that the Controlling Shareholder may exercise its substantial influence over us and cause us to enter into transactions or take, or fail to take, other actions or make decisions which conflict with the best 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.

CNPGC is our Controlling Shareholder. We currently engage and will continue to engage in connected transactions with CNPGC and certain of its Associates. Such transactions include, but are not limited to sale and procurement of pharmaceutical products, healthcare products and medical supplies. See the section headed "Connected Transactions" in this document for further information.

We have put in place various procedures and other measures to address potential conflicts of interests that may arise from our relationship with (i) the Controlling Shareholder and its subsidiaries (other than any member of our Company); and (ii) Fosun Company or any of its subsidiaries, as well as six Directors who are at the same time directors and/or members of senior management of certain members of the CNPGC Group (other than our Company) and/or Fosun Company and its subsidiaries. Among the six Directors, three Directors are at the same time directors and/or members of senior management of the Controlling Shareholder and/or Trading Company, Traditional & Herbal Medicine Company, Industry Company and/or Xinjiang Company, as the case may be, which are subsidiaries of the Controlling Shareholder. See the section headed "Relationship with the Controlling Shareholder and Directors" in this document for a description of these procedures and measures. However, those Excluded Companies which engage in a Western medicines distribution business and the Xinjiang Group, which are subsidiaries of CNPGC, are not covered by the non-compete undertaking given by CNPGC under the Non-Competition Agreement and may also engage in distribution of Western medicines, which compete with our Core Business and may result in conflicts of interest. With respect to the other three Directors, Guo Guangchang, Wang Qunbin and Fan Banghan, they are substantial shareholders and/or directors of companies that may have interests that conflict with our interests. See the section headed "Relationship with the Controlling Shareholder and Directors" in this document for a description of these Directors' relationship with such companies. These Directors may from time to time be placed in conflicting positions with regard to their involvement of the business, policies and other affairs of the Company.

Our historical dividends may not be indicative of our future dividend policy.

We declared approximately RMB165.8 million, RMB298.2 million and RMB105.7 million in dividends for the years ended 31 December 2006, 2007 and 2008, respectively. Pursuant to the resolution of a shareholders' meeting held on 22 December 2008, our two shareholders, CNPGC and Sinopharm Investment resolved to pay themselves, as shareholders of the Company, our distributable profits, after making the required allocations for the statutory common reserve fund, as of the last day of the month immediately preceding [●] as a special dividend. Assuming [●] is in September 2009, we estimate that the special dividend will not exceed RMB833.8 million. Our estimate is made 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. Our estimated distributable profits is calculated based on our estimated profit forecast for the year ending 31 December 2009 and after making the required allocations for the statutory common reserve fund. The ability of our two listed subsidiaries to declare and pay their dividends is subject to the approval of 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, to CNPGC and Sinopharm Investment. Such dividend was fully paid on 31 August 2009 and was financed by our internal cash resources. The rest of the special dividend, which we estimate will not exceed RMB554.3 million, will be declared and paid after completion of a special audit of our financial statements as of the last day of the month immediately preceding [●]. We will publish an announcement of the actual amount of the rest of the special dividend prior to its payment.

Investors in the [●] will not be entitled to share in the special dividend, and therefore, any distributable profits available for distribution to the Company's shareholders after the [●] will exclude the amount of the special dividend to be paid to CNPGC and Sinopharm Investment. In addition, the amount of the special dividend is not indicative of the dividends that we may declare or pay in the future. We cannot guarantee whether and when any dividends will be paid in the future and the amount of dividends that we may have declared historically is not indicative of our Company's future profit or the amount of dividends that we may pay in the future. For further information on our dividend policy after completion of the [●], see the section headed "Financial Information — Dividend Policy" in this document. The declaration, payment and the amount of any future dividends will be determined at the discretion of our Board and will depend upon general business conditions and strategies, our financial results and capital requirements, our shareholders' interests, 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 other factors that our Board may deem relevant.

The interests of minority shareholders of National Medicines and Accord Pharma may, in certain circumstances, be inconsistent with our and our shareholders' interests.

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. The interests of minority shareholders of National Medicines and Accord Pharma may, in certain circumstances, be inconsistent with our and our shareholders' interests. National Medicines and Accord Pharma must comply with a number of PRC regulations concerning the protection of the interests of their minority shareholders. For example, according to applicable PRC law and stock exchange listing rules, when shareholders of National Medicines and Accord Pharma vote by poll on connected transactions, all related parties must abstain from voting. If we are unable to obtain the approval from the minority shareholders of National Medicines and Accord Pharma, such transactions cannot be implemented, which may affect our overall operational efficiency.

Furthermore, although our behavior towards National Medicines and Accord Pharma as their majority shareholder may be regarded as proper under Hong Kong regulatory requirements, the minority shareholders of National Medicines and Accord Pharma may take the view that they have been unfairly treated by us under their interpretation of the relevant PRC regulatory requirements. As a consequence, we may be subject to legal proceedings initiated by the minority shareholders of National Medicines and Accord Pharma in the future, for reasons that are beyond our control. Such legal proceedings could result in significant awards for damages payable by us and disruption to our businesses, which in turn could have an adverse effect on our business, financial condition and results of operations.

Third parties may infringe upon our intellectual property rights and other forms of protection under PRC law.

Our success depends, to a large degree, upon obtaining and maintaining intellectual property rights and other forms of protection afforded to our products and services under PRC law, and defending these rights against third-party challenges. Under PRC law, we have the exclusive right to use a trademark for products and services for which such trademark has been registered with the

Trademark Office by us. As of the Latest Practicable Date, we had registered 143 trademarks with the Trademark Office, such as Guorui (國瑞), Accord (一致) and Dadesheng (大德生) and two trademark registrations with the Hong Kong Trade Marks Registry, which were used in our business. In addition, as of the Latest Practicable Date, we had six invention patent applications pending approval, and one design patent and two invention patents registered with the SIPO. These patents are used in our pharmaceutical manufacturing business. Our competitors may independently develop proprietary technology similar to ours, introduce counterfeits of our products, misappropriate our proprietary information or processes or infringe on our patents, brand name and trademarks, or produce similar products that do not infringe on our patents or successfully challenge our patents. Our efforts to defend our patents, trademarks and other intellectual property rights may be unsuccessful against competitors or other violating entities, we may be unable to identify any unauthorized use of our patents, trademarks and other intellectual property rights and may not be afforded adequate remedies for any breach. In particular, in the event that our registered patents and our applications do not adequately describe, enable or otherwise provide coverage of our technologies, samples and products, we would not be able to exclude others from developing or commercializing these technologies, samples and products.

In the event that any misappropriation or infringement of our intellectual property occurs in the future, we may need to protect our intellectual property or other ownership rights through litigation. Litigation may divert our management's attention from our business operations and possibly result in significant legal costs, and the outcome of any litigation is uncertain. In addition, infringement of our intellectual property rights may impair the market value and share of our pharmaceutical products, damage our reputation and adversely affect our business, financial condition and results of operations.

We may face intellectual property infringement claims initiated by third parties.

Third parties, including our competitors, may make claims or initiate litigation seeking to establish their patent, trademark, copyright and other intellectual property rights in products, technologies and trade names relevant to our business. The risk of being subject to intellectual property infringement claims will increase as we continue to expand our operations and diversify our product lines. Because of the confidential nature of PRC patent applications and the numerous patent applications currently under review in China, we may be unable to determine whether any of our products, processes and other related matters infringe upon the rights of others. Specifically, under PRC patent law, the term of patent protection starts from the date the patent was filed, instead of the date it was issued. Therefore, our priority in any PRC patents may be defeated by third-party patents issued on a later date if the applications for such patents were filed prior to our own, and the technologies underlying such patents are the same or substantially similar to ours. In such a case, a third party with an earlier application may force us to pay to license its patented technology, sue us for patent infringement and/or challenge the validity of our patents. Regardless of their merit, any claims would divert management's attention and result in possibly significant legal costs. If such claims are successful, we may be required to obtain licenses from the claimants to continue producing or selling such products. However, such licenses may not be available on commercially reasonable terms or at all. In addition, we may be forced to discontinue production of the relevant products and may be required to compensate the claimant for any infringement.

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.

The healthcare industry in China is highly regulated. We are governed by various local, regional and national regulatory regimes in all aspects of our operations, including licensing and certification requirements and procedures for manufacturers, distributors and retailers of pharmaceutical and healthcare products, operating and security standards and environmental protection. We cannot assure you that the legal framework, licensing and certification requirements and enforcement trends in the healthcare industry will not change, or that we will be successful in responding to such changes. Such changes may result in increased costs of compliance, which would adversely affect our business, financial condition and results of operations.

All pharmaceutical distribution, retail and manufacturing companies in China are required to obtain certain permits and licenses from various PRC governmental authorities, including Good Manufacturing Practice, or GMP, certifications for manufacturing operations and Good Supply Practice, or GSP, certifications for wholesale and retail distribution operations. We have obtained permits, licenses and GMP certifications required for the manufacture of our pharmaceutical products. In addition, we have obtained permits, licenses and GSP certifications for the wholesale and retail distribution of our products. These permits and licenses held by us are generally valid for a maximum period of five years and subject to periodic renewal and/or reassessment by the relevant PRC Government authorities and the standards of such renewal or reassessment may change from time to time. We intend to apply for the renewal of these permits, licenses and certifications when required by applicable laws and regulations. Any failure by us to obtain and maintain all licenses, permits and certifications necessary to carry on our business at any time could have a material adverse effect on our business, financial condition and results of operations. In addition, any inability to renew these permits, licenses and certifications could severely disrupt our business, and prevent us from continuing to carry on our business. Any changes in the standards used by governmental authorities in considering whether to renew or reassess our business licenses, permits and certifications, as well as any enactment of new regulations that may restrict the conduct of our business, may also decrease our revenues and/or increase our costs, and materially reduce our profitability and prospects. Further, if the interpretation or implementation of existing laws and regulations changes or new regulations come into effect requiring us to obtain any additional permits, licenses or certifications that were previously not required to operate our existing businesses, we cannot assure you that we may successfully obtain such permits, licenses or certifications.

We are subject to regular inspections, examinations, inquiries or audits by the regulatory departments as part of the process of maintaining or renewing the various permits, licenses and certificates required for the manufacture and distribution of pharmaceutical products and the provision of related logistics services. As a logistics service provider, we are also subject to periodic and spot inspections conducted by relevant governmental authorities of various levels in order to maintain our logistics operation permit, which we need to provide these services. In the event that any of our products or facilities fails such inspections, our business, profitability and reputation in the industry may be adversely affected.

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.

In our pharmaceutical distribution, pharmaceutical retail and other business operations, we are subject to PRC laws and regulations relating to healthcare fraud and abuse. We are subject to risks in relation to actions taken by us, our employees or our affiliates that constitute violations of the PRC anti-corruption laws. Our failure to comply with these measures, or effectively manage our employees and affiliates, could have a material adverse effect on our reputation, results of operations and business prospects.

In the pharmaceutical industry, corrupt practices include, among others, acceptance of kickbacks, bribes or other illegal gains or benefits by pharmacies, hospitals and medical practitioners from pharmaceutical manufacturers and distributors in connection with the prescription of certain pharmaceutical products. If we, our employees or affiliates violate these laws, rules or regulations, we could be required to pay damages or fines. In the case of our distribution and manufacturing operations, the products involved may be seized and our operations may be suspended, or, in the case of our retail pharmacy operations, outstanding claims from government security bureaus for reimbursement of purchases using medical insurance cards could be rejected, any of which could materially and adversely affect our business, financial condition and results of operations. Actions by PRC regulatory authorities or the courts to provide an interpretation of PRC laws and regulations that differs from our own or to adopt additional anti-corruption laws and regulations could also require us to make changes to our operations. Our reputation and our sales activities could be adversely affected if we become the target of any negative publicity as a result of actions taken by us, our employees or affiliates.

Our business operations may be adversely affected by present or future environmental regulations or enforcement.

Since the beginning of the 1980s, China has formulated and implemented a series of environmental protection laws and regulations. Our operations are subject to these environmental protection laws and regulations in China. These laws and regulations impose fees for the discharge of waste substances, permit the levy of fines and claims for damages for serious environmental offences and allow the PRC Government, at its discretion, to close any facility that fails to comply with orders requiring it to correct or stop operations causing environmental damage. Our operations are in compliance with PRC environmental regulations in all material aspects. The PRC Government has taken steps and may take additional steps towards more rigorous enforcement of applicable environmental laws, and towards the adoption of more stringent environmental standards. If the PRC national or local authorities enact additional regulations or enforce current or new regulations in a more rigorous manner, we may be required to make additional expenditures on environmental matters, which could have an adverse impact on our financial condition and results of operations. In addition, environmental liability insurance is not common in China. Therefore, any significant environmental liability claims successfully brought against us would adversely affect our business, financial condition and results of operations.

China's WTO accession may intensify competition in our businesses within China.

As part of its WTO accession commitment, China has lowered tariffs on certain imported pharmaceutical products and opened its pharmaceutical distribution market to foreign participation. As a result, an increasing number of foreign investors, many of which have substantially greater financial and marketing resources than we do, may establish entities or ties with existing domestic pharmaceutical distributors in China to engage in the manufacture or distribution of pharmaceutical products in the domestic market. Such new entities or alliances between foreign investors and our competitors may erode our competitiveness and weaken our financial performance.

RISKS RELATING TO THE PEOPLE'S REPUBLIC OF CHINA

Substantially all of our assets are located in China and a significant amount of our revenue is sourced from China. Accordingly, our results of operations, financial condition and prospects are to a significant degree subject to economic, political and legal developments in China.

The political, economic and social conditions, laws, regulations and policies in China could affect our businesses and results of operations.

China's economy differs from the economies of most developed countries in many respects, including:

- structure;
- level of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

China's economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the PRC Government has implemented economic reform measures to emphasize the utilization of market forces in economic development. We cannot predict whether changes in China's political, economic and social conditions, as well as its laws, regulations and policies will have any material adverse effect on our current or future business, financial condition 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.

Current foreign exchange regulations have reduced the PRC Government's foreign exchange control on routine transactions under the current account, including trade and service-related foreign exchange transactions and payment of dividends. Under the existing foreign exchange regulations in the PRC, following completion of the [●], we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, we cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, foreign transactions under our capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the SAFE. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

Although we receive substantially all of our revenues in Renminbi, in the five months ended 31 May 2009, we received approximately 0.3% of our revenues in foreign currencies, derived from sales to overseas customers in our other business operations. We also purchase equipment and spare parts for our equipment from overseas equipment suppliers in foreign currencies, mainly U.S. dollars. As a result, our operations are exposed to the fluctuation of exchange rates of the RMB against these foreign currencies. The value of the RMB may fluctuate due to a number of factors. From 1994 until recently, the conversion of Renminbi into the U.S. dollar was based on rates set by the PBOC, which were set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. On 21 July 2005, the PBOC announced a reform of its exchange rate system and revalued the Renminbi to RMB8.11 = US$1.00. Under the reform, the Renminbi would no longer be pegged to the United States dollar but instead would be allowed to fluctuate within a narrow and managed band against a basket of foreign currencies. We cannot assure you that such exchange rate will not fluctuate widely against the U.S. dollar, Hong Kong dollar or any other foreign currency in the future. The PRC Government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. However, we cannot predict if or when these further reforms will occur. Fluctuation of the Renminbi value will affect the amount of our non-Renminbi debt service, if any, in Renminbi terms since we will have to convert Renminbi into non-Renminbi currencies to service our foreign debt, if any. Since our income and profits are denominated in Renminbi, any appreciation of Renminbi will also increase the value of, and any dividends payable on, our Shares in foreign currency terms. Conversely, any depreciation of Renminbi will decrease the value of, and any dividends payable on, our Shares in foreign currency terms.

The PRC legal system is still evolving and has inherent uncertainties that could limit the legal protections available to you.

As we are a company incorporated under PRC law and substantially all of our businesses are conducted in China, our operations are principally governed by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with the aim of developing a comprehensive system of commercial laws. However, because these laws and regulations are still evolving, and because of the limited volume of published cases and their non-binding nature, the interpretation of PRC laws and regulations still involves a degree of uncertainty.

Substantial amendments to the PRC Company Law and the PRC Securities Law came into effect on 1 January 2006. As a result, the State Council and the CSRC may revise the Special Regulations and the Mandatory Provisions and adopt new rules and regulations to implement and to reflect the amendments to the PRC Company Law and the PRC Securities Law. We cannot assure you that any revision of the current rules and regulations or the adoption of new rules and regulations by the State Council and the CSRC will not have a material adverse effect on the rights of holders of our Shares.

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.

The legal framework to which our Company is subject to is materially different from the Companies Ordinance or corporate law in the United States and other jurisdictions with respect to certain areas, including the protection of minority shareholders. In addition, the mechanisms for enforcement of rights under the corporate governance framework to which our Company is subject to are also relatively undeveloped and untested. However, according to the PRC Company Law, shareholders may commence a derivative action against the directors, supervisors, officers or any third party on behalf of a company under certain circumstances.

On 14 July 2006, the Supreme People's Court of the PRC and the Government of Hong Kong signed the *Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned* (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under such arrangement, where any designated people's court of mainland or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people's court of the mainland or Hong Kong court for recognition and enforcement of the judgment. Although this arrangement became effective on 1 August 2008, the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

Substantially all of our Directors, Supervisors and executive officers reside within the PRC. Substantially all of our assets and substantially all of the assets of our Directors, Supervisors and executive officers are located within the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan and many other countries. Therefore, it may not be possible for investors to effect service of process upon us or those persons in the PRC or to enforce against them or us in the PRC, any judgments obtained from non-PRC courts. In addition, recognition and enforcement in the PRC of judgments of a court of any other jurisdiction in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

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.

Under current PRC tax laws, regulations and rules, foreign individuals and foreign enterprises that are not PRC residents are subject to different tax obligations with respect to the dividends paid by us or the gains realized upon the sale or other disposition of our Shares.

Foreign individuals who are not PRC residents are currently exempted from PRC individual income tax on dividends paid by us and gains realized by such individuals upon the sale or other disposition of our Shares. If the PRC Government withdraws the exemption in the future, such foreign individuals may be required to pay PRC individual income tax or we may be required to withhold such tax from dividend payments unless there are applicable tax treaties between the PRC and the jurisdictions in which the foreign individuals reside that reduce or exempt the relevant tax.

For foreign enterprises that do not have offices or establishments in PRC, or have offices or establishments in PRC but their income is not related to such offices or establishments, under the new Enterprise Income Tax Law, or the EIT Law, and its implementation rules, dividends paid by us and the gains realized by such foreign enterprises upon the sale or other disposition of our Shares are ordinarily subject to PRC enterprise income tax at a rate of 10%, subject to a further reduction under a special arrangement or applicable treaty between the PRC and the jurisdiction of the relevant foreign enterprise's residence. In accordance with the Notice of the State Administration of Taxation on the Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident

Enterprises to H-share Holders Which Are Overseas Non-resident Enterprises (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知國稅函[2008]897號) which became effective from 6 November 2008, 10% withholding tax shall be imposed on dividends paid by Chinese resident enterprises to H-share holders that are overseas non-resident enterprises. These holders of our Shares may apply for tax refunds in accordance with applicable tax treaties or arrangements, if any. In addition, the PRC tax laws, rules and regulations may also change from time to time. If the tax rates stipulated in the EIT Law and the related implementation rules are amended, the value of your investment in our Shares will be materially affected.

Any future outbreaks of contagious diseases in China may have a material adverse effect on our business operations, financial condition and results of operations.

Any future outbreaks of contagious diseases, including avian influenza and severe acute respiratory syndrome, or SARS, may materially and adversely affect our business and results of operations. There have been recent reports of outbreaks of a highly pathogenic avian influenza caused by H5N1 virus in certain regions of Asia and Europe. The World Health Organization and other agencies have issued and may continue to issue warnings on a potential avian influenza pandemic if there is sustained human-to-human transmission. An outbreak of avian influenza in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, particularly in Asia. Additionally, a recurrence of SARS, a highly contagious form of atypical pneumonia, similar to the occurrence in the first half of 2003, which affected China, Hong Kong and certain other areas, could have similar adverse effects. Further, the World Health Organization in June 2009 raised its pandemic alert level to phase 6, its highest level, in response to an outbreak of influenza A caused by H1N1 virus that originated in Mexico, and resulted in a number of confirmed cases worldwide. There is no guarantee that any future outbreak of avian influenza, SARS, influenza A H1N1 or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of avian influenza, SARS, influenza A H1N1 or other epidemics, will not seriously interrupt our operations or those of our suppliers or customers, which may have a material adverse effect on our results of operations.