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CONNECTED TRANSACTIONS

OVERVIEW

Our Company has during the three years ended 31 December 2008 entered into various transactions with (i) certain Associates of CNPGC; (ii) certain Associates of Fosun Pharma; and (iii) Zhejiang Intmedic, Hainan Jiyuan, Shenyang Pharmaceutical and Qianxitang Pharmaceutical, respectively, which our Company expects to continue after [●]. CNPGC is the Controlling Shareholder of the Company. Fosun Pharma is an Associate of Guo Guangchang, who is a non-executive Director. Zhejiang Intmedic, Hainan Jiyuan and Shenyang Pharmaceutical are Substantial Shareholders of different non-wholly owned subsidiaries of the Company. Qianxitang Pharmaceutical is an Associate of Wang Wei, who is a director of a subsidiary of the Company. Therefore, after [●], CNPGC, Fosun Pharma, Zhejiang Intmedic, Hainan Jiyuan, Shenyang Pharmaceutical and Qianxitang Pharmaceutical will constitute Connected Persons and the transactions that our Company conduct with them and their respective Associates will constitute connected transactions under the Hong Kong Listing Rules.

The definition of connected persons under Chapter 14A of the Hong Kong Listing Rules is different from the definition of related parties under HKFRS. Accordingly, connected transactions set out in this section, which are described and disclosed in accordance with Chapter 14A of the Hong Kong Listing Rules, differ from the significant related party transactions set out in Note 39 to “Appendix I — Accountant’s Report of Our Company”.

TYPES OF CONNECTED TRANSACTIONS

As of the Latest Practicable Date, the following connected transactions had been entered into between our Company and the relevant Connected Persons and their respective Associates:

Non-recurrent Transactions

- Deed of Indemnity; and
- Non-Competition Agreement.

On-going Transactions under Subsisting Agreements

- Logistics Service Agreements;
- Property Leases; and
- Trademark License Agreement.

On-going Transactions under the Master Agreements

DETAILS OF THE CONNECTED TRANSACTIONS

Non-recurrent Transactions

Deed of Indemnity

Sinopharm Investment and the Company have entered into the Deed of Indemnity according to which Sinopharm Investment will fully indemnify the Company against:

- (a) any tax liability of our Company resulting from or by reference to any income, profits or gains earned, accrued or received on or before the date on which the obligations of the [●] under the [●] become unconditional; and

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- (b) any loss or liability suffered by any member of our Company, resulting from or by reference to:
 - (i) any equity interest or business acquired by our Company from (a) any member of the Parent Group; or (b) Fosun Pharma or any of its Associates (excluding our Company), since the establishment of the Company (including the assets injected into our Company before the Company’s establishment) and up to the date on which the obligations of the [●] under the [●] become unconditional;
 - (ii) any defect in the legal title to any land, building or property under development that is held by any member of our Company;
 - (iii) any non-registration of leases of properties that have been leased to any member of our Company;
 - (iv) any member of our Company being evicted from a building it has leased from a third party, details of which have been referred to in this document, as a result of (i) any defect in the relevant landlord’s legal title to such building; or (ii) the relevant landlord not having the right to lease such building; and
 - (v) any penalty or fine on any member of our Company arising from any advance made by such company in breach of the PRC General Rules on Loans.

Non-Competition Agreement

The Controlling Shareholder and the Company have entered into the Non-Competition Agreement according to which the Controlling Shareholder has undertaken to the Company (for itself and for the benefit of other members of our Company) that during the term of the Non-Competition Agreement, other than the Excluded Companies which engage in Western medicines distribution business and the Xinjiang Group, the Controlling Shareholder shall not, and shall procure that its subsidiaries (other than our Company) shall not, directly or indirectly, whether on its own or jointly with another person or company, own, invest in, participate in, develop, operate or engage in any business or company which directly or indirectly competes with the Core Business, subject to certain exceptions described in the section headed “Relationship with the Controlling Shareholder and Directors” in this document.

Implication under the Hong Kong Listing Rules

Any transaction that might take place after [●] pursuant to any deed or agreement described in this “Non-Recurrent Transactions” section is made in the performance of the relevant party’s obligation(s) under the relevant deed or agreement already entered into before [●]. Such transactions therefore will not constitute connected transactions or continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules, and will not be subject to further regulatory requirements under the Hong Kong Listing Rules, except as described in the section headed “Relationship with the Controlling Shareholder and Directors” in this document.

On-going Transactions under Subsisting Agreements

Logistics Service Agreements

As of the Latest Practicable Date, Logistics Company, a subsidiary of the Company, had entered into a logistics service agreement (collectively the “Logistics Service Agreements”) with each

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of China National Pharmaceutical Industry Corporation Limited Beijing Sales Company and China National Pharmaceutical Foreign Trade Corporation Sales Company respectively, which are the branches of a wholly-owned subsidiary of the Controlling Shareholder. Under the Logistics Service Agreements, Logistics Company has agreed to provide China National Pharmaceutical Industry Corporation Limited Beijing Sales Company and China National Pharmaceutical Foreign Trade Corporation Sales Company with transportation, storage and other logistics services. Each of the Logistics Service Agreements will expire on 31 December 2009, subject to automatic extension for a further term of one year if both parties do not raise any objection.

The Directors are of the view that the above transactions are in the interest of the shareholders of the Company as a whole. The transactions were entered into after arm's length negotiations, on normal commercial terms and the underlying terms and conditions are no less favorable to our Company than those offered by our Company to independent third parties.

The amount of service fees which have been paid by these two companies to Logistics Company for each of the three years ended 31 December 2008 were RMB1,096,000, RMB3,746,000 and RMB4,402,000 respectively, representing less than 0.1% of the revenue ratio.

On the basis that the amount of annual service fees payable to Logistics Company for each of the three years ending 31 December 2011, is expected to be less than 0.1% of the revenue ratio, the above transactions fall under the *de minimis* provision set forth in Rule 14A.33(3) of the Hong Kong Listing Rules and are therefore exempted from the reporting, announcement and independent shareholders' approval requirements set forth under the Hong Kong Listing Rules.

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Property leases

Certain members of our Company, as lessees, and certain connected persons of our Company have entered into the following leases:

<u>Lessor</u>	<u>Lessee</u>	<u>Location</u>	<u>Historical annual rental</u>			<u>Current annual rental</u>	<u>Term</u>
			<u>2006</u>	<u>2007</u>	<u>2008</u>		
Shenyang Pharmaceutical, a Substantial Shareholder of China National Pharmaceutical Group Shenyang Chemical Reagent Co. Ltd., a subsidiary of the Company	China National Pharmaceutical Group Shenyang Chemical Reagent Co., Ltd., a subsidiary of the Company	1st Floor to 3rd Floor, No.106 Shifu Road, Heping District, Shenyang City	RMB 650,000	RMB 650,000	RMB 650,000	RMB650,000	8 October 2004 to 7 October 2010
Shanghai Bailian Shopping Center Co., Ltd., an Associate of Shanghai Bailian Group Co., Ltd., a Substantial Shareholder of Shanghai Guoda Chain Store, a subsidiary of the Company	Shanghai Guoda Chain Store, a subsidiary of the Company	No.588 Baiqi Road, Shanghai	RMB 0	RMB 0	RMB 452,454 (inclusive of the annual management fees of RMB75,409)	RMB452,454 (inclusive of the annual management fee of RMB75,409). From the third year onwards, the annual rental payable each year shall increase by 5% of the aggregate amount of the annual rental and management fee of the previous year	18 January 2008 to 17 January 2013

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<u>Lessor</u>	<u>Lessee</u>	<u>Location</u>	<u>Historical annual rental</u>			<u>Current annual rental</u>	<u>Term</u>
			<u>2006</u>	<u>2007</u>	<u>2008</u>		
Shenyang Pharmaceutical, a Substantial Shareholder of Shenyang Tianyitang, a subsidiary of the Company	Shenyang Tianyitang, a subsidiary of the Company	No.83 Zhongjie Road, Shenhe District, Shenyang City	RMB 0	RMB 0	RMB 6,000,000	RMB6,000,000 (from 1 May 2008 to 30 April 2013) and RMB6,500,000 (from 1 May 2013 to 30 April 2018)	1 May 2008 to 30 April 2018
		No.87 Yaochang Road, Dadong District, Shenyang City	RMB 0	RMB 0	RMB 140,000	RMB140,000 (from 1 May 2008 to 30 April 2011) and the annual rental for the remaining 2 years of the lease will be determined by the parties	1 May 2008 to 30 April 2013
		No. 106 Shifu Avenue Heping District, Shenyang City	RMB 0	RMB 0	RMB 240,000	RMB240,000 (from 1 May 2008 to 30 April 2011) and the annual rental for the remaining 2 years of the lease will be determined by the parties	1 May 2008 to 30 April 2013
		Building No. 96, No. 252 Shiyiwei Road, Shenhe District, Shenyang City	RMB 0	RMB 0	RMB 9,568.08	RMB9,568.08	1 April 2008 to 31 March 2018
		No. 131 Nanwuma Road, Heping District, Shenyang City	RMB 0	RMB 0	RMB 12,060	RMB12,060	15 May 2008 to 14 May 2018

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<u>Lessor</u>	<u>Lessee</u>	<u>Location</u>	<u>Historical annual rental</u>			<u>Current annual rental</u>	<u>Term</u>
			<u>2006</u>	<u>2007</u>	<u>2008</u>		
Sichuan Antibiotic Institute, a wholly-owned subsidiary of the Controlling Shareholder	China National Pharmaceutical Group Chengdu Chemical Reagent Co., Ltd., a subsidiary of the Company	No. 168 Zhonghe Road, Longtan Metropolis Industrial Development Area, Second Section East 3rd Ring Road, Chengdu City, Sichuan Province	RMB 14,000 (inclusive of annual water and electricity fees of RMB6,800)	RMB 14,000 (inclusive of annual water and electricity fees of RMB6,800)	RMB 14,000 (inclusive of annual water and electricity fees of RMB6,800)	RMB14,000 (inclusive of annual water and electricity fees of RMB6,800)	1 January 2009 to 31 December 2009

Chen & Co. Law Firm, our PRC legal adviser, has confirmed that the above lessors either have legal and valid title to or have undertaken to indemnify the relevant lessee for all damages caused by defects in title to the relevant leased property. Jones Lang LaSalle Sallmanns Limited, our independent property valuer, has confirmed that the rental payable under each of the leases is no less favorable to our Company than that payable by an independent third party. The Directors are of the view that the above leases are in the interest of the shareholders of the Company as a whole and the rental under each of the leases is fair and reasonable. The leases are entered into after arm's length negotiations, on normal commercial terms and the underlying terms and conditions are no less favorable to our Company than those offered by the relevant connected persons to independent third parties.

The total amount of rental paid by our Company to the above lessors for each of the three years ended 31 December 2008 was less than 0.1% of the consideration ratio.

On the basis that the total amount of the annual rental payable by our Company to the above lessors is expected to be less than 0.1% of the consideration ratio for each of the three years ending 31 December 2011, the above transactions fall under the *de minimis* provision set forth in Rule 14A.33(3) of the Hong Kong Listing Rules and are therefore exempted from the reporting, announcement and independent shareholders' approval requirements set forth under the Hong Kong Listing Rules.

Trademark License Agreement

Pursuant to the Trademark License Agreement, the Controlling Shareholder has, without any consideration, granted to our Company a non-exclusive license to use (i) the following trademarks registered in its name in the PRC: "☞" mark registered under class 11, "☛" mark registered under classes 1, 2, 3, 5, 6, 7, 9, 10, 11, 12, 16, 20, 21, 25, 30, 35, 37, 39, 40, 41 and 42, "☜" mark registered under classes 1, 3, 5, 7, 9, 10, 11, 16, 20, 28, 29, 30, 35, 37, 40 and 44, "☞" mark registered under classes 5, 10, 11, 30, 35, 38 and 44, and "☛" mark registered under classes 5 and 10; and (ii) the following trademarks registered in its name in Hong Kong: "☛" mark registered under class 5 and "☛" mark registered under class 35.

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The initial term of the trademark license granted under the Trademark License Agreement shall expire on 31 December 2011. So long as CNPGC remains as the Controlling Shareholder and its interest in such trademarks exists and continues, the term of the Trademark License Agreement shall automatically extend for further periods of 3 years. Neither party to the Trademark License Agreement has any right to unilaterally terminate the agreement.

Under the Trademark License Agreement, our Company is permitted to sub-license the use of such trademarks to any third party, provided that the Company shall report to the Controlling Shareholder the exercise of such right to sub-license within 10 days.

The Controlling Shareholder has agreed to maintain and extend the registration of the above trademarks during the term of the license. It has also agreed to use its best endeavors to apply for, at the Company's reasonable request, the registration of such trademarks in such other jurisdictions and to grant to our Company license(s) to use such trademarks.

Our Company was not required to pay any consideration to the Controlling Shareholder for the use of the above trademarks prior to the entering into of the above Trademark License Agreement. Our Company is also not required to pay any consideration to the Controlling Shareholder under the Trademark License Agreement.

The Controlling Shareholder did not transfer the above trademarks to us because the other businesses carried on by the Controlling Shareholder and its subsidiaries (other than our Company) also use such trademarks. In the event that the Trademark License Agreement is terminated, the Company is of the view that there will not be any material adverse impact on our Company, since the principal business of our Company is the distribution of pharmaceutical and healthcare products. Such business does not place too much reliance on trademarks it uses. Instead, the success of our distribution business depends mainly on our broad geographic and market coverage, strong relationships with customers and suppliers, comprehensive logistics arrangements and provision of advanced value-added supply chain services.

With respect to the retail business carried on by our Company, our retail drug stores and franchises are operated under the brand names 大德生 (Dadesheng) and 一致 (Yizhi). We have obtained trademark registrations for such brand names. Our retail business will also not be affected if the Trademark License Agreement is terminated.

The Directors are of the view that the Trademark License Agreement is in the interest of the shareholders of the Company as a whole. The agreement is entered into after arm's length negotiations, on normal commercial terms and the underlying terms and conditions are no less favorable to our Company than those offered by the Controlling Shareholder to independent third parties.

On the basis that no consideration is payable to the Controlling Shareholder by our Company, the above transaction falls under the *de minimis* provision set forth in Rule 14A.33(3) of the Hong Kong Listing Rules and is therefore exempted from the reporting, announcement and independent shareholders' approval requirements set forth under the Hong Kong Listing Rules.

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On-going Transactions under the Master Agreements

The following table sets forth a summary of certain Master Agreements, the underlying transactions of which constitute exempted continuing connected transactions under Rule 14A.33(3) of the Hong Kong Listing Rules for which no waiver from the Hong Kong Stock Exchange is required and the related historical figures for each of the three years ended 31 December 2008 were less than 0.1% of the revenue ratio.

Title	Products and services providers	Types of products and services	Historical figures			
			2006	2007	2008	From 1 January 2009 to 31 July 2009
<i>Revenue item:</i>						
(RMB million)						
1) Master Chemical Reagent and Laboratory Supplies Sales Agreement with the Controlling Shareholder	By our Company to the Controlling Shareholder and its Associates	<ul style="list-style-type: none"> ● sale of chemical reagent and laboratory supplies ● other related or ancillary goods and services 	0	0.002	0.001	0.26
2) Master Chemical Reagent and Laboratory Supplies Sales Agreement with Fosun Pharma	By our Company to Fosun Pharma and its Associates	<ul style="list-style-type: none"> ● sale of chemical reagent and laboratory supplies ● other related or ancillary goods and services 	0.328	0.278	0.457	0.22
3) Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Hainan Jiyuan	By our Company to Hainan Jiyuan	<ul style="list-style-type: none"> ● sale of pharmaceutical products, healthcare products and medical supplies ● other related or ancillary goods and services 	6.83	9.87	9.69	11.34
4) Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Shenyang Pharmaceutical	By our Company to Shenyang Pharmaceutical	<ul style="list-style-type: none"> ● sale of pharmaceutical products, healthcare products and medical supplies ● other related or ancillary goods and services 	8.58	11.97	11.29	8.63
<i>Expenditure item:</i>						
1) Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Shenyang Pharmaceutical	By Shenyang Pharmaceutical to our Company	<ul style="list-style-type: none"> ● purchase of pharmaceutical products, healthcare products and medical supplies ● other related or ancillary goods and services 	0.48	0.64	0.42	5.44

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Title	Products and services providers	Types of products and services	Historical figures			
			2006	2007	2008	From 1 January 2009 to 31 July 2009
(RMB million)						
2) Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Zhejiang Intmedic	By Zhejiang Intmedic to our Company	<ul style="list-style-type: none"> ● purchase of pharmaceutical products, healthcare products and medical supplies ● other related or ancillary goods and services 	10.65	8.30	2.69	5.03

The following table sets forth a summary of certain Master Agreements, the underlying transactions of which constitute non-exempted continuing connected transactions under Rule 14A.34 of the Hong Kong Listing Rules, for which a waiver from the announcement requirement is sought on the basis that each transaction is subject to the relevant proposed annual caps referred to in this table.

Title	Products and services providers	Types of products and services	Historical figures				Proposed annual caps		
			2006	2007	2008	From 1 January 2009 to 31 July 2009	2009	2010	2011
(RMB million)									
Revenue item:									
1) Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with the Controlling Shareholder	By our Company to the Controlling Shareholder and its Associates	<ul style="list-style-type: none"> ● sale of pharmaceutical products, healthcare products and medical supplies ● other related or ancillary goods and services 	269	286	379	176	361 ⁽¹⁾	433 ⁽¹⁾	390 ⁽²⁾
2) Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Fosun Pharma	By our Company to Fosun Pharma and its Associates	<ul style="list-style-type: none"> ● sale of pharmaceutical products, healthcare products and medical supplies ● other related or ancillary goods and services 	34	37	42	23	52 ⁽¹⁾	63 ⁽¹⁾	75 ⁽¹⁾
3) Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Zhejiang Intmedic	By our Company to Zhejiang Intmedic	<ul style="list-style-type: none"> ● sale of pharmaceutical products, healthcare products and medical supplies ● other related or ancillary goods and services 	356	407	460	233	457 ⁽¹⁾	549 ⁽¹⁾	658 ⁽¹⁾

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Title	Products and services providers	Types of products and services	Historical figures				Proposed annual caps		
			2006	2007	2008	From 1 January 2009 to 31 July 2009	2009	2010	2011
			(RMB million)				(RMB million)		
<i>Expenditure item:</i>									
1) Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Fosun Pharma	By Fosun Pharma and its Associates to our Company	<ul style="list-style-type: none"> ● purchase of pharmaceutical products, healthcare products and medical supplies ● other related or ancillary goods and services 	28	42	55	40	70 ⁽³⁾	91 ⁽³⁾	119 ⁽³⁾
2) Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Qianxitang Pharmaceutical	By Qianxitang Pharmaceutical to our Company	<ul style="list-style-type: none"> ● purchase of pharmaceutical products, healthcare products and medical supplies ● other related or ancillary goods and services 	0	21	24	21	30 ⁽³⁾	35 ⁽³⁾	42 ⁽³⁾

The following table sets forth a summary of the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with the Controlling Shareholder. Transactions under this agreement constitute non-exempted continuing connected transactions under Rule 14A.35 of the Hong Kong Listing Rules and do not fall under Rule 14A.34 of the Hong Kong Listing Rules, for which a waiver from the independent shareholders' approval and announcement requirements is sought on the basis that the transaction is subject to the relevant proposed annual caps referred to in this table.

Title	Products and services providers	Types of products and services	Historical figures				Proposed annual caps		
			2006	2007	2008	From 1 January 2009 to 31 July 2009	2009	2010	2011
			(RMB million)				(RMB million)		
<i>Expenditure item:</i>									
Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with the Controlling Shareholder	By the Controlling Shareholder and its Associates to our Company	<ul style="list-style-type: none"> ● purchase of pharmaceutical products, healthcare products and medical supplies ● other related or ancillary goods and services 	662	704	791	503	916 ⁽³⁾	1,099 ⁽³⁾	1,318 ⁽³⁾

(1) The proposed annual caps are determined after taking into account the following factors: (i) the historical figures set out in the table above; (ii) the expected annual growth of the pharmaceutical distribution industry in the PRC of approximately 20% for the 3 years ending 31 December 2011 based on a report "China Pharmaceuticals & Healthcare Report Q4 2008" published by Business Monitor

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International Ltd. in January 2008; (iii) the expected increase in the number of our customers and their demand for our pharmaceutical products, healthcare products and medical supplies as a result of the medical reform by the PRC Government and the expansion of our distribution network; and (iv) the expected expansion of the size of our Company resulting in an increase in the number and value of transactions to be entered into between our Company and the relevant Connected Persons and their respective Associates.

- (2) The proposed annual cap for the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with the Controlling Shareholder for the year ending 31 December 2011 is lower than that for the year ending 31 December 2010, since the Controlling Shareholder has decided to cease certain of its medicines distribution businesses and dispose of its indirect equity interest in Tianjin Company in the manner as described in the "Relationship with the Controlling Shareholder and Directors" section within two years after [●], i.e. by not later than [●].
- (3) The proposed annual caps are determined after taking into account the following factors: (i) the historical figures set out in the table above; (ii) the expected annual growth of the pharmaceutical distribution industry in the PRC of approximately 20% for the 3 years ending 31 December 2011 based on a report "China Pharmaceuticals & Healthcare Report Q4 2008" published by Business Monitor International Ltd. in January 2008; (iii) the expected increase in the number of our customers and their demand for our pharmaceutical products, healthcare products and medical supplies as a result of the medical reform by the PRC Government and the expansion of our distribution network and retail drug store network; and (iv) the expected expansion of the size of our Company resulting in an increase in the number and value of transactions to be entered into between our Company and the relevant Connected Persons and their respective Associates.

MASTER AGREEMENTS

Each of the Master Agreements contains the binding principles, guidelines and terms and conditions, in accordance with which any and all products and services contemplated therein are to be provided by the relevant provider to the relevant recipient. The general terms of the Master Agreements are set out below:

General Principles, Price and Terms

The relevant Master Agreement requires, in general terms that:

- the quality of products and services to be provided to our Company should be satisfactory to us;
- the price at which such products and services are to be provided must be fair and reasonable; and
- the terms and conditions (including but not limited to the price) on which such products and services are to be provided should be on normal commercial terms and no less favorable to our Company than those:
 - offered from or to (as appropriate) the Controlling Shareholder, Fosun Pharma, Zhejiang Intmedic, Hainan Jiyuan, Shenyang Pharmaceutical or Qianxitang Pharmaceutical (as appropriate) or their respective Associates to or from (as appropriate) independent third parties; and
 - offered from or to (as appropriate) independent third parties to or from (as appropriate) our Company.

Price Determination

Each of the Master Agreements provides that each relevant product or service must be provided in accordance with the following general pricing principles:

- state-prescribed price;
- where there is no state-prescribed price, then according to state guidance price;

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- where there is neither state-prescribed price nor state guidance price, then according to relevant market price; or
- where none of the above prices exists, then according to the price to be agreed between the parties. The agreed price will be calculated based on the actual cost or reasonable cost (whichever is lower) incurred in providing such product or service plus a reasonable profit.

Term and Termination

The initial term of each of the Master Agreement shall expire on 31 December 2011, unless at any time either party gives at least three months' prior written notice of termination to the other party. The term of each of the Master Agreements can be extended or renewed, provided that the relevant parties agree to such extension or renewal and the requirements under the relevant laws, regulations, the Hong Kong Listing Rules and/or the Rules Governing the Listing of Stocks on Shanghai Stock Exchange (as the case may be) are complied with.

Implementation Agreements

It is envisaged that from time to time and as required, individual written implementation agreements may be entered into between our Company and: (i) the Controlling Shareholder; (ii) Fosun Pharma; (iii) Zhejiang Intmedic; (iv) Hainan Jiyuan; (v) Shenyang Pharmaceutical; (vi) Qianxitang Pharmaceutical or (vii) their respective Associates, as appropriate.

Each implementation agreement will set out the specific products and services requested by the relevant party and other specifications which may be relevant to those products or services. The implementation agreements may only contain provisions which are in all material respects consistent with the binding principles, guidelines, terms and conditions as contained in the relevant Master Agreement.

As the implementation agreements are simply further elaborations on the provision of products and services as contemplated by each of the Master Agreements, as such, they do not constitute new connected transactions under the Hong Kong Listing Rules.

APPLICATION FOR A WAIVER

The Directors (including the independent non-executive Directors) consider that the continuing connected transactions exempted under Rule 14A.33(3) and the non-exempted continuing connected transactions under Rule 14A.34 or Rule 14A.35 as described above, will be entered into in the ordinary and usual course of business of our Company, on normal commercial terms, and are fair and reasonable and in the interests of the shareholders of the Company as a whole. Under the Hong Kong Listing Rules, such transactions are considered to be "connected transactions" and would normally require full disclosure and prior independent shareholders' approval on each occasion on which they arise, depending on the nature and value of the transactions.

In relation to the non-exempted continuing connected transactions under Rule 14A.34 described above, each of the relevant total annual revenue or the relevant total annual expenditure in respect thereof is expected to be less than 2.5% of the revenue ratio or the consideration ratio, as the case may be. The underlying transactions are therefore exempted from the independent shareholders' approval requirements applicable to connected transactions under the Hong Kong Listing Rules, but would still be subject to the announcement requirements of the Hong Kong Listing Rules.

In relation to the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with the Controlling Shareholder described above, the total annual

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expenditure in respect thereof is expected to be more than 2.5% of the consideration ratio. The underlying transactions are therefore subject to the independent shareholders' approval and announcement requirements applicable to connected transactions under the Hong Kong Listing Rules.

As the above non-exempted continuing connected transactions are expected to continue on a recurring basis, the Directors consider that such announcement and/or independent shareholders' approval would be impractical and would add unnecessary administrative costs to the Company. Accordingly, the Company has requested the Hong Kong Stock Exchange to grant and the Hong Kong Stock Exchange [has granted], a waiver to the Company under Rule 14A.42(3) of the Hong Kong Listing Rules from compliance with the normal independent shareholders' approval and/or announcement requirements related to connected transactions under the Hong Kong Listing Rules. The waiver [granted] by the Hong Kong Stock Exchange for the non-exempted continuing connected transactions will expire on 31 December 2011. The Company will comply with the relevant requirements under Chapter 14A of the Hong Kong Listing Rules, including the proposed annual caps set out in the above table.

In the view of the Directors (including the independent non-executive Directors), the proposed annual caps referred to above are fair and reasonable.