

Hong Kong Exchanges and Clearing Limited, the Stock Exchange of Hong Kong Limited and the Securities and Futures Commission take no responsibility for the contents of this Web Proof Information Pack, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Web Proof Information Pack.

Web Proof Information Pack of



SINOPHARM GROUP CO. LTD.*

國藥控股股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability and carrying on business in Hong Kong as 國藥控股股份有限公司)

WARNING

This Web Proof Information Pack is being published as required by The Stock Exchange of Hong Kong Limited (“HKEx”)/the Securities and Futures Commission solely for the purpose of providing information to the public in Hong Kong.

This Web Proof Information Pack is in draft form. The information contained in it is incomplete and is subject to change which can be material. By viewing this document, you acknowledge, accept and agree with Sinopharm Group Co. Ltd. (the “Company”), its sponsor, advisers and members of the underwriting syndicate that:

- (a) this Web Proof Information Pack is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and not for any other purposes. No investment decision should be based on the information contained in this Web Proof Information Pack;
- (b) the posting of this Web Proof Information Pack or supplemental, revised or replacement pages on the website of HKEx does not give rise to any obligation of the Company, its sponsor, advisers or members of the underwriting syndicate to proceed with an offering in Hong Kong or any other jurisdiction. There is no assurance that the Company will proceed with any offering;
- (c) the contents of the Web Proof Information Pack or any supplemental, revised or replacement pages may or may not be replicated in full or in part in the actual prospectus;
- (d) this Web Proof Information Pack is in draft form and may be changed, updated or revised by the Company from time to time and the changes, updates and/or revisions could be material, but each of the Company and its affiliates, advisers, sponsor or members of the underwriting syndicate is under no obligation, legal or otherwise, to update any information contained in this Web Proof Information Pack;
- (e) this Web Proof Information Pack does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities;
- (f) this Web Proof Information Pack must not be regarded as an inducement to subscribe for or purchase any securities, and no such inducement is intended;
- (g) neither the Company nor any of its affiliates, advisers, sponsor, members of the underwriting syndicate is offering, or is soliciting offers to buy, any securities in any jurisdiction through the publication of this Web Proof Information Pack;
- (h) neither the Company nor any of its affiliates, advisers, sponsor or members of the underwriting syndicate makes any express or implied representation or warranty as to the accuracy or completeness of the information contained in this Web Proof Information Pack;
- (i) each of the Company and any of its affiliates, advisers, sponsor or members of the underwriting syndicate expressly disclaims any and all liability on the basis of any information contained in, or omitted from, or any inaccuracies or errors in, this Web Proof Information Pack;
- (j) the Company has not and will not register the securities referred to in this Web Proof Information Pack under the United States Securities Act of 1933, as amended, or any state securities laws of the United States; and
- (k) as there may be legal restrictions on the distribution of this Web Proof Information Pack or dissemination of any information contained in this Web Proof Information Pack, you agree to inform yourself about and observe any such restrictions applicable to you.

THE WEB PROOF INFORMATION PACK IS NOT FOR PUBLICATION OR DISTRIBUTION TO PERSONS IN THE UNITED STATES. ANY SECURITIES REFERRED TO HEREIN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND MAY NOT BE OFFERED OR SOLD WITHOUT REGISTRATION THEREUNDER OR PURSUANT TO AN AVAILABLE EXEMPTION THEREFROM.

NEITHER THIS WEB PROOF INFORMATION PACK NOR THE INFORMATION CONTAINED HEREIN CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN THE UNITED STATES. THIS WEB PROOF INFORMATION PACK IS NOT BEING MADE AND MAY NOT BE DISTRIBUTED OR SENT INTO CANADA OR JAPAN.

No offer or invitation will be made to the public in Hong Kong until after a prospectus of the Company is registered with the Registrar of Companies in Hong Kong. If an offer or an invitation is made to the public in Hong Kong in due course, prospective investors are reminded to make their investment decisions solely based on a prospectus of the Company registered with the Registrar of Companies in Hong Kong, copies of which will be distributed to the public during the offer period.

* The Company is registered as a non-Hong Kong company under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) under its Chinese name and the English name “Sinopharm Group Co. Ltd.”.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

CONTENTS

This Information Pack contains the following information relating to Sinopharm Group Co. Ltd. extracted from an amended version of the Listing Committee Hearing Proof of the draft document:

- Summary
- Definitions
- Glossary
- Forward-looking Statements
- Risk Factors
- Directors, Supervisors and Parties Involved
- Corporate Information
- Industry Overview
- History, Restructuring and Corporate Structure
- Business
- Financial Information
- Directors, Supervisors, Senior Management and Employees
- Relationship with the Controlling Shareholder and Directors
- Connected Transactions
- Regulation
- Substantial Shareholders
- Share Capital
- Future Plans
- Appendix I — Accountant’s Report of Our Company
- Appendix III — Profit Forecast
- Appendix IVA — Unaudited Interim Financial Information of National Medicines
- Appendix IVB — Unaudited Interim Financial Information of Accord Pharma
- Appendix V — Property Valuation
- Appendix VI — Taxation
- Appendix VII — Summary of Principal Legal and Regulatory Provisions
- Appendix VIII — Summary of Articles of Association
- Appendix IX — Statutory and General Information

YOU SHOULD READ THE SECTION HEADED “WARNING” ON THE COVER OF THIS INFORMATION PACK.

SUMMARY

OVERVIEW

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

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

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

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

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

SUMMARY

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

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

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

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

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

SUMMARY

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

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

OUR COMPETITIVE STRENGTHS

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

OUR BUSINESS STRATEGIES

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

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

SUMMARY

REGULATORY ENVIRONMENT

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

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

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

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

SUMMARY

SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

Summary Financial Information for Our Company

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

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

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

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

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

SUMMARY

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

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

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

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

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

SUMMARY

	As of 31 December			As of 31 May
	2006	2007	2008	2009
	(RMB in millions)			
Consolidated Balance Sheet Data:				
Non-current assets	2,192.7	2,332.0	2,433.4	2,645.1
Current assets				
Cash and cash equivalents	1,838.8	1,955.6	1,712.1	2,602.1
Other current assets	7,558.8	9,999.7	11,969.4	13,781.1
Total current assets	9,397.6	11,955.3	13,681.5	16,383.2
Total assets	11,590.3	14,287.3	16,114.9	19,028.3
Non-current liabilities				
Long-term borrowings	177.7	157.7	130.0	60.0
Other non-current liabilities	552.6	564.3	696.5	722.8
Total non-current liabilities	730.3	722.0	826.5	782.8
Current liabilities				
Short-term borrowings (including current portion of long-term borrowings)	1,704.4	1,521.6	1,504.2	2,464.9
Other current liabilities	6,565.4	9,425.3	10,373.6	11,903.1
Total current liabilities	8,269.7	10,946.9	11,877.8	14,368.0
Total liabilities	9,000.0	11,668.9	12,704.3	15,150.8
Equity				
Equity attributable to equity holders of the Company	1,759.7	1,683.7	2,264.2	2,584.5
Minority interests	830.6	934.6	1,146.4	1,293.1
Total equity	2,590.3	2,618.3	3,410.6	3,877.6
Total equity and liabilities	11,590.3	14,287.3	16,114.9	19,028.3

	<u>Year ended 31 December</u>			<u>Five months ended 31 May</u>	
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>	<u>2009</u>
				(unaudited)	
	(RMB in millions)				
Consolidated Cash Flow Data:					
Net cash from operating activities	638.4	441.2	653.8	(474.0)	264.1
Net cash (used in) investing activities	(270.9)	(14.4)	(148.0)	(2.2)	(37.3)
Net cash from/(used in) financing activities	119.8	(310.0)	(749.4)	(16.0)	663.1
Net increase/(decrease) in cash and cash equivalents . . .	487.4	116.8	(243.5)	(492.2)	890.0

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

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

Forecast consolidated profit attributable to equity holders of the

Company⁽¹⁾ not less than RMB[●] million

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

SUMMARY

DIVIDEND POLICY

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

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

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

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

- our financial results;
- our shareholders' interests;
- general business conditions and strategies;
- our capital requirements;
- contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries to us;
- taxation considerations;
- possible effects on our creditworthiness;
- statutory and regulatory restrictions; and
- any other factors our Board of Directors may deem relevant.

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

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

SUMMARY

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

Under PRC law, dividends may be paid only out of distributable profits, which are our retained earnings, as determined in accordance with PRC accounting rules and regulations and HKFRS, whichever is lower, less allocations to the statutory and discretionary common reserve fund. We will not ordinarily pay any dividends in a year in which we do not have any distributable profits.

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

SPECIAL DIVIDEND

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

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

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

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

SUMMARY

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

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

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

RISK FACTORS

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

Risks Relating to Our Business Operations

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

SUMMARY

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

SUMMARY

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

Risks Relating to China’s Pharmaceutical Industry

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

Risks Relating to the People’s Republic of China

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

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

SUMMARY

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

DEFINITIONS

In this document, the following terms have the following meanings unless the context otherwise requires. Certain technical terms are explained in the section headed “Glossary” in this document.

“Accord Pharma”	Shenzhen Accord Pharmaceutical Co., Ltd. (深圳一致藥業股份有限公司), a joint stock limited company incorporated in the PRC whose A shares and B shares are listed on the Shenzhen Stock Exchange, is a subsidiary of the Company;
“Anhui Yian”	Anhui Yian Pharmacy Group Co., Ltd. (安徽億安醫藥集團有限公司), a limited liability company incorporated in the PRC, is a Connected Person of the Company;
“Articles of Association” or “Articles”	the articles of association of the Company approved at the extraordinary general meeting of the shareholders of the Company held on 8 October 2008 and as amended from time to time;
“Associates”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“AstraZeneca”	AstraZeneca PLC, an Anglo-Swedish pharmaceutical company, is an Independent Third Party;
“Bayer”	Bayer AG, a chemical and pharmaceutical company incorporated in Germany, is an Independent Third Party;
“Beijing Deheyongdao”	Beijing Dehoe Investment Consult Co., Ltd. (北京德和永道投資諮詢有限公司), a limited liability company incorporated in the PRC, is an Independent Third Party;
“Beijing Zidesen”	Beijing Zidesen Investment Consulting Ltd. (北京智德盛投資顧問有限公司), a limited liability company incorporated in the PRC, is an Independent Third Party;
“Board” or “Board of Directors”	the Board of Directors of our Company;
“Boehringer Ingelheim”	Boehringer Ingelheim GmbH, a pharmaceutical company incorporated in Germany, is an Independent Third Party;
“Business Day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong;
“CAGR”	compound annual growth rate;
“CAPC”	The China Association of Pharmaceutical Commerce is a national industry and trade organization that advises the relevant PRC Government agencies in charge of the pharmaceutical industry. It seeks to assist the advancement of pharmaceutical production, research and development, and distribution;

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

DEFINITIONS

“Chain Management System” or “CMS”	an information system managing the work flow and documentation of procurement, inventory and sales developed in-house by our Company;
“Changchun Puhua”	ChangChun Puhua Pharmaceutical Co., Ltd. (長春普華製藥股份有限公司), a joint stock limited company established in the PRC, is an Independent Third Party;
“Chemical Reagent Company”	China National Pharmaceutical Group Chemical Reagent Co., Ltd. (國藥集團化學試劑有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“China Pharmacy Magazine”	A national business magazine focused on news and management issues in the pharmaceutical industry;
“CICC”	China International Capital Corporation Hong Kong Securities Limited;
“CIETAC”	China International Economic and Trade Arbitration Commission;
“CNPGC” or “Parent Company”	China National Pharmaceutical Group Corporation (中國醫藥集團總公司), an enterprise owned by the whole people established in the PRC, is the Controlling Shareholder of the Company;
“CNPGC Group”	CNPGC and its subsidiaries, including our Company;
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“the Company”	Sinopharm Group Co. Ltd., (國藥控股股份有限公司), a joint stock limited liability company incorporated in the PRC, and its predecessor;
“Company Law” or “PRC Company Law”	Company Law of the People’s Republic of China (中華人民共和國公司法), as amended at the Eighteenth Session of the Standing Committee of the Tenth NPC on 27 October 2005, effective from 1 January 2006 (2005 Amendment), as amended, supplemented or otherwise modified from time to time;
“Connected Person”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“consideration ratio”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Controlling Shareholder”	has the meaning ascribed thereto under the Hong Kong Listing Rules and unless the context requires otherwise, refers to CNPGC;

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

DEFINITIONS

“Core Business”	the core business carried on by our Company, namely, the distribution of Western medicines in the PRC;
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets;
“Deed of Indemnity”	the deed of indemnity dated 31 August 2009 entered into between Sinopharm Investment and the Company, as referred to in the section headed “Connected Transactions” in this document;
“Director(s)”	the Director(s) of the Company, including all executive, non-executive and independent non-executive Directors;
“Domestic Shares”	ordinary shares in the capital of our Company, with a nominal value of RMB1.00 each, which are subscribed for and fully paid up in Renminbi by PRC nationals and/or PRC incorporated entities;
“EIT Law”	Enterprise Income Tax Law of the People’s Republic of China (中華人民共和國企業所得稅法), as amended on 16 March 2007 and effective from 1 January 2008;
“Eli Lilly”	Eli Lilly and Company, a pharmaceutical company incorporated in the U.S., is an Independent Third Party;
“Excluded Companies”	Industry Company and certain of its Associates, Hubei Yibao, Tianjin Company, Trading Company, South Trade, Guangdong Dong Fang, Traditional & Herbal Medicine Company and certain of its subsidiaries and Xinjiang Company;
“Fluka”	Fluka Chemical Corporation, a chemical company incorporated in Switzerland, is an Independent Third Party;
“Fosun Company”	Fosun International Limited (復星國際有限公司), a limited liability company incorporated in Hong Kong, is a Connected Person of the Company;
“Fosun Distribution Companies”	certain companies which are principally engaged in the distribution of medicines in the PRC; and the non-executive Director, Guo Guangchang is a substantial shareholder of these companies, the non-executive Director, Fan Banghan is a director of each of these companies and the non-executive Director, Wang Qunbin is a director of one of these companies;
“Fosun Grand Medicine”	Shanghai Fosun Grand Medicine Chain Operating Co., Ltd. (上海復星大藥房連鎖經營有限公司), a limited liability company incorporated in the PRC, is a Connected Person of the Company;

DEFINITIONS

“Fosun Group”	Fosun Pharma and its subsidiaries;
“Fosun High Technology”	Shanghai Fosun High Technology (Group) Co., Ltd. (上海復星高科技(集團)有限公司), a limited liability company incorporated in the PRC, is a Connected Person of the Company;
“Fosun Holdings”	Fosun Holdings Limited (復星控股有限公司), a limited liability company incorporated in Hong Kong, is a Connected Person of the Company;
“Fosun International Holdings”	Fosun International Holdings Limited (復星國際控股有限公司), a limited liability company incorporated in the British Virgin Islands, is a Connected Person of the Company;
“Fosun Investment”	Shanghai Fosun Industrial Investment Co., Ltd. (上海復星產業投資有限公司), a limited liability company incorporated in the PRC, is a Connected Person of the Company;
“Fosun Pharma”	Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (上海復星醫藥(集團)股份有限公司), a joint stock limited company established in the PRC whose A shares are listed on the Shanghai Stock Exchange, is a Connected Person of the Company;
“Fosun Production Companies”	certain companies which are principally engaged in the production of medicines in the PRC; and the non-executive Director, Guo Guangchang, is a substantial shareholder of certain of these companies and the non-executive Director, Wang Qunbin, is a director of one of these companies;
“Fosun Retail Companies”	certain companies which are principally engaged in the operation of retail drug stores in the PRC; and the non-executive Director, Guo Guangchang, is a substantial shareholder of certain of these companies and a director of one of these companies, and the non-executive Director, Fan Banghan, is a director of certain of these companies;
“GDP”	gross domestic product (all references to GDP growth rates are to real as opposed to nominal growth rates of GDP);
“GlaxoSmithKline”	GlaxoSmithKline PLC, a pharmaceutical, biological, and healthcare company incorporated in the United Kingdom, is an Independent Third Party;
“Guangdong Accord”	Guangdong Accord Drugstore Co., Ltd. (廣東一致藥店有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

DEFINITIONS

“Guangdong Dong Fang”	Guangdong Dong Fang Uptodate & Special Medicines Co. (廣東東方新特藥公司), an enterprise owned by the whole people established in the PRC, is a Connected Person of the Company;
“Guangzhou Pharma”	Guangzhou Pharmaceuticals Corporation (廣州醫藥有限公司), a limited liability company incorporated in the PRC, is an Independent Third Party;
“Guorui Pharmaceutical”	China National Pharmaceutical Group Guorui Medicine Co., Ltd. (國藥集團國瑞藥業有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Guotou Anhui”	Guotou Anhui Pharmaceutical Co., Ltd. (國投藥業安徽有限公司), a limited liability company incorporated in the PRC, is an Independent Third Party;
“H Shares”	overseas-listed foreign invested shares of par value RMB1.00 each in the ordinary share capital of the Company;
“Hainan Jiyuan”	Hainan Jiyuan Pharmaceutical Co., Ltd. (海南濟源藥業有限公司), a limited liability company established in the PRC, is a Connected Person of the Company;
“Harbin Pharma”	Harbin Pharmaceutical Group Holding Co., Ltd. (哈藥集團有限公司), a limited liability company incorporated in the PRC, is an Independent Third Party;
“Hebei Aijia”	Hebei Aijia Pharmaceutical Co., Ltd. (河北醫藥愛家藥業有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Hebei Medicines”	Hebei Medicines Co., Ltd. (河北醫藥有限責任公司), a limited liability company incorporated in the PRC, is a Connected Person of the Company;
“HK\$” or “HK dollars” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong;
“HKFRS”	Hong Kong Financial Reporting Standards;
“HKIAC”	Hong Kong International Arbitration Centre;
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Hubei Century Longteng”	Hubei Century Longteng Trade and Development Co., Ltd. (湖北世紀龍騰經貿發展有限公司), a limited liability company incorporated in the PRC, is an Independent Third Party;

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

DEFINITIONS

“Hubei Yibao”	Hubei Yibao International Pharmaceutical Co., Ltd. (湖北怡保國際醫藥有限公司), a limited liability company established in the PRC, is a Connected Person of the Company;
“IMS”	IMS Health Incorporated, a global provider of market intelligence to the pharmaceutical and healthcare industries, which is an Independent Third Party;
“Independent Third Party(ies)”	a person or persons or a company or companies that is or are not Connected Person(s);
“Industry Company”	China National Pharmaceutical Industry Corporation Limited (中國醫藥工業有限公司), a limited liability company established in the PRC, is a Connected Person of the Company;
“Jiangsu Hengrui”	Jiangsu Hengrui Medicine Co., Ltd. (江蘇恒瑞醫藥股份有限公司), a joint stock limited company established in the PRC, is an Independent Third Party;
“Lancaster”	part of the Alfa Aesar, a Johnson Matthey Company, producing research chemicals catalogs that lead the market in technical content and unique products, is an Independent Third Party;
“Latest Practicable Date”	31 August 2009, being the latest practicable date before the printing of this document for ascertaining certain information in this document;
“Logistics Company”	China National Pharmaceutical Logistics Corp., Ltd. (國藥物流有限責任公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Macau”	the Macau Special Administrative Region of the PRC;
“Mandatory Provisions”	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former PRC Securities Commission of the State Council and the former State Commission for Restructuring the Economic Systems of the PRC on 27 August 1994;
“Master Agreements”	(i) the Master Chemical Reagent and Laboratory Supplies Sales Agreement with the Controlling Shareholder; (ii) the Master Chemical Reagent and Laboratory Supplies Sales Agreement with Fosun Pharma; (iii) the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Hainan Jiuyan; (iv) the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Shenyang Pharmaceutical; (v) the Master Pharmaceutical

DEFINITIONS

	Products, Healthcare Products and Medical Supplies Procurement Agreement with Shenyang Pharmaceutical; (vi) the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Zhejiang Intmedic; (vii) the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with the Controlling Shareholder; (viii) the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Fosun Pharma; (ix) the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Zhejiang Intmedic; (x) the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Fosun Pharma; (xi) the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Qianxitang Pharmaceutical; and (xii) the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with the Controlling Shareholder;
“Master Chemical Reagent and Laboratory Supplies Sales Agreement with the Controlling Shareholder”	the master chemical reagent and laboratory supplies sales agreement dated 31 August 2009 entered into between the Company and the Controlling Shareholder, as referred to in the section headed “Connected Transactions” in this document;
“Master Chemical Reagent and Laboratory Supplies Sales Agreement with Fosun Pharma” ..	the master chemical reagent and laboratory supplies sales agreement dated [●] 2009 entered into between the Company and Fosun Pharma, as referred to in the section headed “Connected Transactions” in this document;
“Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with the Controlling Shareholder”	the master pharmaceutical products, healthcare products and medical supplies procurement agreement dated 31 August 2009 entered into between the Company and the Controlling Shareholder, as referred to in the section headed “Connected Transactions” in this document;
“Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Fosun Pharma”	the master pharmaceutical products, healthcare products and medical supplies procurement agreement dated [●] 2009 entered into between the Company and Fosun Pharma, as referred to in the section headed “Connected Transactions” in this document;
“Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Qianxitang Pharmaceutical”	the master pharmaceutical products, healthcare products and medical supplies procurement agreement dated 31 August 2009 entered into between the Company and Qianxitang Pharmaceutical, as referred to in the section headed “Connected Transactions” in this document;
“Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Shenyang Pharmaceutical” ..	the master pharmaceutical products, healthcare products and medical supplies procurement agreement dated 31 August 2009 entered into between the Company and Shenyang Pharmaceutical, as referred to in the section headed “Connected Transactions” in this document;

DEFINITIONS

“Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Zhejiang Intmedic”	the master pharmaceutical products, healthcare products and medical supplies procurement agreement dated 31 August 2009 entered into between the Company and Zhejiang Intmedic, as referred to in the section headed “Connected Transactions” in this document;
“Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Hainan Jiyuan”	the master pharmaceutical products, healthcare products and medical supplies sales agreement dated 31 August 2009 entered into between the Company and Hainan Jiyuan, as referred to in the section headed “Connected Transactions” in this document;
“Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Shenyang Pharmaceutical”	the master pharmaceutical products, healthcare products and medical supplies sales agreement dated 31 August 2009 entered into between the Company and Shenyang Pharmaceutical, as referred to in the section headed “Connected Transactions” in this document;
“Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with the Controlling Shareholder”	the master pharmaceutical products, healthcare products and medical supplies sales agreement dated 31 August 2009 entered into between the Company and the Controlling Shareholder, as referred to in the section headed “Connected Transactions” in this document;
“Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Fosun Pharma”	the master pharmaceutical products, healthcare products and medical supplies sales agreement dated [●] 2009 entered into between the Company and Fosun Pharma, as referred to in the section headed “Connected Transactions” in this document;
“Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Zhejiang Intmedic”	the master pharmaceutical products, healthcare products and medical supplies sales agreement dated 31 August 2009 entered into between the Company and Zhejiang Intmedic, as referred to in the section headed “Connected Transactions” in this document;
“Medical Insurance Catalog”	the State Basic Medical Insurance Catalog (國家基本醫療保險藥品目錄) issued by the Ministry of Labor and Social Security of the PRC on 25 May 2000 and updated on 13 September 2004;
“Merck”	Merck & Co., Inc., a pharmaceutical company incorporated in the U.S., is an Independent Third Party;
“Ministry of Commerce”	the Ministry of Commerce of the People’s Republic of China (中華人民共和國商務部);
“Ministry of Environmental Protection”	Ministry of Environmental Protection Administration of the People’s Republic of China (中華人民共和國環境保護部);
“Ministry of Health”	the Ministry of Health of the People’s Republic of China (中華人民共和國衛生部);

DEFINITIONS

“Nanjing Medical”	Nanjing Medical Co., Ltd. (南京醫藥股份有限公司), a joint stock limited company established in the PRC, is an Independent Third Party;
“National Medicines”	China National Medicines Co., Ltd. (國藥集團藥業股份有限公司), a joint stock limited company established in the PRC whose A shares are listed on the Shanghai Stock Exchange, is a subsidiary of the Company;
“National Program”	National Medical Insurance Program;
“New Rural Insurance Scheme”	New Rural Cooperative Medical Insurance Scheme;
“Non-Competition Agreement”	the non-competition agreement dated 31 August 2009 entered into between CNPGC and the Company, as referred to in the section headed “Relationship with the Controlling Shareholder and Directors” in this document;
“North China Pharma”	North China Pharmaceutical Group Corp. (華北製藥集團有限責任公司), a limited liability company incorporated in the PRC, is an Independent Third Party;
“Novo Nordisk”	Novo Nordisk A/S, a healthcare company incorporated in Denmark, is an Independent Third Party;
“NPC”	the PRC National People’s Congress;
“NSSF”	National Council for Social Security Fund of the People’s Republic of China (中華人民共和國全國社會保障基金理事會), serving as a strategic reserve fund accumulated by the central government to support future social security expenditures;
“our Company”, “we” and “us”	Sinopharm Group Co. Ltd., (國藥控股股份有限公司), a joint stock limited liability company incorporated in the PRC, and except where the context otherwise requires, all of its subsidiaries from time to time;
“Parent Group”	CNPGC and its Associates, other than our Company;
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC;
“PBOC Rate”	the exchange rate for foreign exchange transactions set daily by the PBOC based on the previous day’s PRC inter-bank foreign exchange rates and with reference to prevailing exchange rates on the world financial markets;
“Pfizer”	Pfizer Inc., a pharmaceutical company incorporated in the United States, is an Independent Third Party;
“PRC” or “China” or the “People’s Republic of China”	the People’s Republic of China. Except where the context otherwise requires, references in this document to the PRC or China do not apply to Hong Kong, Macau or Taiwan;

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

DEFINITIONS

“PRC GAAP”	the PRC Accounting Standards for Business Enterprises, and the Application Guidance for Accounting Standard for Business Enterprises and Interpretation of Accounting Standards for Business Enterprises and other relevant regulations;
“PRC National Bureau of Statistics” or “Bureau of Statistics”	National Bureau of Statistics of the People’s Republic of China (中華人民共和國國家統計局);
“Promoters”	China National Pharmaceutical Group Cooperation and Sinopharm Industrial Investment Co., Ltd., being the initial promoters of the Company;
“Province” or “province”	each being a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC;
“PwC”	PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, our reporting accountant;
“Qianxitang Pharmaceutical”	Henan Qianxitang Pharmaceutical Co., Ltd. (河南仟禧堂藥業有限公司), a limited liability company incorporated in the PRC, is a Connected Person of the Company;
“Qishen Company”	Shanghai Qishen Investment Co., Ltd. (上海齊紳投資管理有限公司), a limited liability company incorporated in the PRC, is a Connected Person of the Company;
“Qualified Domestic Institutional Investors”	has the meaning ascribed to it under the Trial Measures of the Administration of Overseas Securities by Qualified Domestic Institutional Investors (合格境內機構投資者境外證券投資管理試行辦法) promulgated by CSRC, effective from 5 July 2007;
“Qualified Foreign Institutional Investors”	has the meaning ascribed to it under the Measures of the Administration of Securities Investment within the Borders of China by Qualified Foreign Institutional Investors (合格境外機構投資者境內證券投資管理辦法) (jointly promulgated by CSRC, PBOC and SAFE, effective from 1 September 2006);
“Qualified Foreign Strategic Investors”	has the meaning ascribed to it under the Measures of the Administration of Strategic Investment in Listed Companies by Foreign Investors (外國投資者對上市公司戰略投資管理辦法) (jointly promulgated by Ministry of Commerce, CSRC, SAT, State Administration of Industry and Commerce and SAFE, effective from 31 January 2006);
“Restructuring”	the restructuring of shareholding in the Company, the particulars of which are described in the sections headed

DEFINITIONS

	“History, Restructuring and Corporate Structure — Restructuring” and “Statutory and General Information — The Restructuring” in this document;
“revenue ratio”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“RMB” or “Renminbi”	Renminbi Yuan, the lawful currency of the PRC;
“Roche”	F. Hoffmann – La Roche, Ltd., a pharmaceutical company incorporated in Switzerland, is an Independent Third Party;
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局);
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會);
“SAT”	State Administration of Taxation of the People’s Republic of China (中華人民共和國國家稅務總局);
“SAWS”	State Administration of Work Safety of the People’s Republic of China (中華人民共和國國家安全生產監督管理總局);
“Servier”	Servier Laboratories, a pharmaceutical company incorporated in France, is an Independent Third Party;
“SFC”	the Securities and Futures Commission of Hong Kong;
“SFDA”	State Food and Drug Administration (中華人民共和國國家食品藥品監督管理局), the PRC governmental authority responsible for regulation of food and drugs;
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Shanghai Company”	China National Pharmaceutical Group Shanghai Corporation (中國醫藥集團上海公司), an enterprise owned by the whole people established in the PRC, is a subsidiary of the Company;
“Shanghai Friendship-Fortune”	Shanghai Friendship-Fortune Holding Co., Ltd. (上海友誼復星(控股)有限公司), a limited liability company incorporated in the PRC, is an Independent Third Party;
“Shanghai Guoda Chain Store”	Shanghai Guoda Pharmacy Chain Store Co., Ltd. (上海國大藥房連鎖有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Shanghai Ourchem”	Shanghai Ourchem Chemical Reagent Co., Ltd. (上海沃愷化學試劑有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;

DEFINITIONS

“Shanghai Pharma”	Shanghai Pharmaceutical Co., Ltd. (上海市醫藥股份有限公司), a joint stock limited company incorporated in the PRC whose A shares are listed on the Shanghai Stock Exchange and which is an Independent Third Party;
“Shares”	shares of the Company of nominal value RMB1.00 each, comprising both Domestic Shares and H Shares;
“Shareholder(s)”	holder(s) of our Shares;
“Shenyang Pharmaceutical”	Shenyang Pharmaceutical Co., Ltd. (瀋陽醫藥股份有限公司), a joint stock limited company incorporated in the PRC, is a Connected Person of the Company;
“Shenyang Tianyitang”	Shenyang Guoda Tianyitang Pharmacy Chain Store Co., Ltd. (瀋陽國大天益堂藥房連鎖有限公司), previously known as Shenyang Tianyitang Pharmacy Chain Store Co., Ltd. (瀋陽天益堂藥房連鎖有限公司), is a subsidiary of the Company;
“Shenzhen Accord Pharma”	Shenzhen Accord Pharmacy Chain Store Co., Ltd. (深圳市一致醫藥連鎖有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Shenzhen Kingworld”	Shenzhen Kingworld Medicine Co., Ltd. (深圳市金活醫藥有限公司), a limited liability company incorporated in the PRC, is an Independent Third Party;
“Shenzhen Main Luck”	Shenzhen Main Luck Pharmaceuticals Inc. (深圳萬樂藥業有限公司), a limited liability company incorporated in the PRC, is a PRC sino-foreign joint venture whose approximately 35.2% equity interest is held by Accord Pharma;
“Shenzhen TCM”	Sinopharm Holding Shenzhen TCM Co., Ltd. (國藥控股深圳中藥有限公司), a limited liability company incorporated in the PRC, which is a Connected Person of the Company;
“Sichuan Antibiotic Institute”	Sichuan Antibiotic Industrial Institute of Antibiotic Co., Ltd., (四川抗菌素工業研究所有限公司), a limited liability company incorporated in the PRC, is a Connected Person of the Company;
“Sigma”	Sigma-Aldrich Corporation is a leading biochemical and organic chemical company incorporated in the United States, is an Independent Third Party;
“Sinopharm Anhui”	Sinopharm Holding Anhui Co., Ltd. (國藥控股安徽有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;

DEFINITIONS

“Sinopharm Beijing”	 Sinopharm Holding Beijing Co., Ltd. (國藥控股北京有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Sinopharm Beijing Huahong”	 Sinopharm Holding Beijing Huahong Co., Ltd. (國藥控股北京華鴻有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Sinopharm Guangzhou”	 Sinopharm Holding Guangzhou Co., Ltd. (國藥控股廣州有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Sinopharm Guoda”	 Sinopharm Holding Guoda Drug Store Co., Ltd. (國藥控股國大藥房有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Sinopharm Henan”	 Sinopharm Holding Henan Co., Ltd. (國藥控股河南股份有限公司), previously known as Sinopharm Holding (Zhengzhou) Jiurui Co., Ltd. (國藥控股（鄭州）九瑞股份有限公司) and Zhengzhou Jiurui Medicine Co., Ltd. (鄭州九瑞藥業股份有限公司) respectively, a joint stock limited company established in the PRC, is a subsidiary of the Company;
“Sinopharm Hubei”	 Sinopharm Holding Hubei Co., Ltd. (國藥控股湖北有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Sinopharm Hubei Xinlong”	 Sinopharm Holding Hubei Xinlong Co., Ltd. (國藥控股湖北新龍有限公司), a limited liability company incorporated in the PRC, is an Independent Third Party;
“Sinopharm Hunan”	 Sinopharm Holding Hunan Co., Ltd. (國藥控股湖南有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Sinopharm Investment”	 Sinopharm Industrial Investment Co., Ltd. (國藥產業投資有限公司), a limited liability company incorporated in the PRC, is a Connected Person of the Company;
“Sinopharm Jiangsu”	 Sinopharm Holding Jiangsu Co., Ltd. (國藥控股江蘇有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Sinopharm Liuzhou”	 Sinopharm Holding Liuzhou Co., Ltd. (國藥控股柳州有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Sinopharm Logistics”	 Sinopharm Logistics Co., Ltd. (國藥集團醫藥物流有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;

DEFINITIONS

“Sinopharm Shanxi”	 Sinopharm Holding Shanxi Co., Ltd. (國藥控股山西有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Sinopharm Shenyang”	 Sinopharm Holding Shenyang Co., Ltd. (國藥控股瀋陽有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Sinopharm Suzhou”	 Sinopharm Holding Suzhou Co., Ltd. (國藥控股蘇州有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Sinopharm Tianjin”	 Sinopharm Holding Tianjin Co., Ltd. (國藥控股天津有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Sinopharm Tianyuan”	 Beijing Sinopharm Tianyuan Real Estate & Property Management Co., Ltd. (北京國藥天元物業管理有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Sinopharm Waigaoqiao”	 Shanghai Sinopharm Waigaoqiao Co., Ltd. (上海國藥外高橋醫藥有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Sinopharm Zhejiang”	 Sinopharm Holding Zhejiang Co., Ltd. (國藥控股浙江有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“SIPO”	 the State Intellectual Property Office of the People’s Republic of China (中華人民共和國國家知識產權局);
“Southwest Pharmaceutical”	 China National Pharmaceutical Group Southwest Medicine Co., Ltd. (國藥集團西南醫藥有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“South Trade”	 Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd. (廣東南方醫藥對外貿易有限公司), a limited liability company established in the PRC, is a Connected Person of the Company;
“Special Regulations”	 the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on 4 August 1994, as amended, supplemented or otherwise modified from time to time;
“sq.m”	 square meter;
“State”, “state”, “PRC Government” or “government”	 the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local

DEFINITIONS

	government entities) and their instrumentalities thereof or, where the context requires, any of them;
“State Council”	State Council of the People’s Republic of China (中華人民共和國國務院);
“Supervisors”	the members of the Supervisory Committee of the Company;
“subsidiary”	has the meaning ascribed to it in the Hong Kong Listing Rules;
“Substantial Shareholder”	has the meaning ascribed to it in the Hong Kong Listing Rules;
“Suzhou Zhijun Wanqing”	Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd. (蘇州致君萬慶藥業有限公司), previously known as Suzhou Wanqing Pharmaceutical Co., Ltd. (蘇州萬慶藥業有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company;
“Tianjin Company”	China National Pharmaceutical Industrial Tianjin Co., Ltd. (中國醫藥工業公司天津聯營公司), an enterprise owned by the whole people (全民所有制企業) established in the PRC, is a Connected Person of the Company;
“Track Record Period”	the period comprising the three years ended 31 December 2008 and the five months ended 31 May 2009;
“Trademark License Agreement” ...	the trademark license agreement dated 31 August 2009 entered into between the Company and CNPGC, as referred to in the section headed “Connected Transactions” in this document;
“Trademark Office”	Trademark Office of the State Administration for Industry and Commerce of the People’s Republic of China;
“Trading Company”	China National Pharmaceutical Foreign Trade Corporation (中國醫藥對外貿易公司), an enterprise owned by the whole people (全民所有制企業) established in the PRC, is a Connected Person of the Company;
“Traditional & Herbal Medicine Company”	China National Group Corp. of Traditional & Herbal Medicine (中國藥材集團公司), an enterprise owned by the whole people established in the PRC, which is a Connected Person of the Company;
“United States” or “U.S.”	the United States of America, its territories and possessions, any State of the United States, and the District of Columbia;
“Urban Resident Program”	Urban Resident Basic Medical Insurance Program (城鎮居民基本醫療保險), which is part of the national health insurance program;
“Urban Worker Program”	Urban Worker Basic Medical Insurance Program (城鎮職工基本醫療保險), which is part of the national health insurance program;

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

DEFINITIONS

“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States;
“VAT”	value-added tax;
“WTO”	the World Trade Organization;
“Xinjiang Company”	China National Pharmaceutical Group Xinjiang Medicines Co., Ltd. (國藥集團新疆藥業有限公司), a limited liability company established in the PRC, is a Connected Person of the Company;
“Xinjiang Group”	Xinjiang Company and its subsidiaries;
“Xinjiang SASAC”	State-owned Assets Supervision and Administration Commission of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區國有資產監督管理委員會);
“Zhejiang Intmedic”	Zhejiang Intmedic Co., Ltd. (浙江英特藥業有限責任公司), a limited liability company established in the PRC, is a Connected Person of the Company; and
“Zhijun Pharmaceutical”	Shenzhen Zhijun Pharmaceutical Co., Ltd. (深圳致君製藥有限公司), a limited liability company incorporated in the PRC, is a subsidiary of the Company.

For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in the document in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

GLOSSARY

This glossary contains explanations of certain technical terms used in this document in connection with our Company and its business. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

“anesthetic(s)”	.....	a substance that decreases nerve sensitivity to pain;
“API”	.....	active pharmaceutical ingredients, which is the substance in a drug that is pharmaceutically active;
“capsules”	.....	a form in which medicines may be delivered for oral ingestion, produced by mixing extracted active medicinal ingredients with supplemental materials which are sealed in a gelatin capsule;
“cardiovascular”	.....	relating to or affecting heart and blood vessels, or circulatory systems;
“Cefazolin Sodium”	.....	an antibiotic that belongs to a group of drugs called cephalosporins, used to treat infections of the lungs, urinary tract, skin and soft tissue, gall, bladder and abdomen;
“Cefradine”	.....	a semisynthetic first-generation cephalosporin, effective against a wide range of gram-positive and a limited range of gram-negative bacteria;
“Ceftazidime”	.....	semisynthetic, broad-spectrum antibacterial derived from cephaloridine and used especially for pseudomonas and other gram-negative infections in debilitated patients;
“Cefuroxime Axetil”	.....	an antibiotic resistant to most betalactamases and active against a wide range of gram-positive and gram-negative organisms. The most important use of the drug is in treating meningitis caused by H. influenzae, meningococci and pneumococci;
“Cefuroxime Sodium”	.....	an antibiotic that eliminates bacteria that cause many kinds of infections, including lung, skin, bone, joint, stomach, blood, and urinary tract infections;
“cephalosporin”	.....	a large class of antibiotics similar both chemically and in their mode of action to penicillins;
“chemical reagents”	.....	chemicals added to a solution and consumed in a chemical reaction;
“Chinese medicines”	.....	medicines whose clinical function and application are expressed in terms of Chinese medicine theories originated from traditional medical practices in China and which are applied in accordance with Chinese medicine theories;
“Cilastatin Sodium”	.....	an inhibitor of the renal dipeptidase, dehydropeptidase 1, used in conjunction with antibiotics subject to metabolism in the kidneys to increase therapeutic response to the antibiotic;
“Cinnarizine”	.....	an anti-histaminic drug which is mainly used to control vomiting due to motion sickness;

GLOSSARY

“class-three hospitals”	largest and best regional hospitals in China designated as class-three hospitals by the Ministry of Health hospital classification system that have more than 501 beds and provide multiple regions with high-quality professional medical services and undertake higher education and scientific research initiatives and are followed by lower ranked class-two and class-one hospitals;
“class-two hospitals”	regional hospitals designated as class-two hospitals by the Ministry of Health hospital classification system that have 101 to 500 beds and provide multiple communities with integrated medical services and take certain educational and scientific research missions;
“Codeine Phosphate”	an alkaloid obtained from opium or prepared from morphine by methylation and occurring as white crystals;
“enterprise owned by the whole people”	a type of PRC state-owned enterprise. Under the relevant PRC law, it is stated that the assets of such enterprise is owned by the “whole people” (全民);
“front store products”	includes over-the-counter medicines, beauty products and cosmetics, seasonal merchandise, and convenience foods in retail drug stores;
“gastrointestinal”	relating to or affecting the stomach and intestines, which comprise the digestive system;
“GMP” or “Good Manufacturing Practices”	guidelines and regulations issued from time to time pursuant to the Law of the People’s Republic of China on the Administration of Pharmaceuticals (中華人民共和國藥品管理法) and to provide quality assurance and ensure that pharmaceutical products subject to the guidelines and regulations are consistently produced and controlled to the quality and standards appropriate for their intended uses;
“granules”	a form in which medicines may be delivered for oral ingestion, produced by mixing extracted active medicinal ingredients with supplemental materials or powdered medicines and formed into dry granules;
“GSP” or “Good Supply Practices”	guidelines and regulations issued from time to time pursuant to the Law of the People’s Republic of China on the Administration of Pharmaceuticals (中華人民共和國藥品管理法) to provide quality assurance and ensure that pharmaceutical distribution enterprises distribute pharmaceutical products in compliance with the guidelines and regulations;
“Hospital Information System”	a comprehensive, integrated information system designed to manage the administrative, financial and clinical aspects of a hospital, and generally encompassing paper- and electronic-based information processes; as well as data processing machines;

GLOSSARY

“ISO9000 Certificate”	ISO 9000 is a family of standards for quality management systems. ISO 9000 is maintained by ISO, the International Organization for Standardization and is administered by accreditation and certification bodies;
“ISO9001 Certificate”	ISO 9001:2000 specifies requirements for a quality management system where an organization: (1) needs to demonstrate its ability to consistently provide products that meet applicable customer and regulatory requirements; or (2) aims to enhance customer satisfaction through the effective application of the system, including processes for continual improvement of the system and the assurance of conformity to applicable customer and regulatory requirements;
“ISO14001 Certificate”	ISO 14001 is the international specification for an environmental management system. It specifies requirements for establishing environmental policy, determining environmental impact, setting up environmental objectives, implementing corrective actions and conducting management review;
“over-the-counter medicines”	pharmaceutical products which may, upon receiving SFDA approval, be sold over the counter in pharmacies or other retail outlets without requiring a prescription by a medical practitioner;
“powder injection”	a form in which medicines may be delivered for injection in liquid form after the powder is mixed with water;
“prescription medicines”	medicines which may only be prescribed by qualified medical practitioners;
“respiratory”	relating to or affecting the lungs and bronchial tubes, which comprise the breathing system;
“SARS”	Severe Acute Respiratory Syndrome;
“State Protected Chinese Medicines”	Chinese medicines certified as State Protected Chinese Medicine under the <i>Regulations on the Protection of Chinese Medicine</i> (中藥品種保護條例) promulgated on 14 October 1992 and effective on 1 January 1993;
“tablets”	a form in which medicines may be delivered for oral ingestion, produced by mixing extracted active medicinal ingredients with supplemental materials or powdered medicines, which are formed into tablets;
“third-party logistics services provider”	a company that provides outsourced or “third-party” logistics services to companies for part or sometimes all of their supply

GLOSSARY

chain management functions. Third-party logistics providers typically specialize in integrated warehousing and transportation services that can be scaled and customized to customer’s needs based on market conditions and the demands and delivery service requirements for their products and materials;

“Warehouse Management System” or a value-added information system that controls typical
“WMS” warehouse operations such as receiving, storing, replenishing, packing and shipping of goods, as well as efficient sequencing and scheduling of work activities; and

“Western medicines” encompasses a range of medicines and practices evolved to maintain and restore human health, including theories, diagnosis and treatments derived from dissection, microscopic analysis and chemical derivation, other than Chinese medicines.

FORWARD-LOOKING STATEMENTS

We have included in this document forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

These forward-looking statements include, without limitation, statements relating to:

- our business prospects;
- our future debt levels and capital needs;
- future developments, trends and conditions in China’s pharmaceutical industry;
- rules and regulations on the pharmaceutical industry imposed by the PRC Government;
- our strategies, plans, objectives and goals;
- general economic conditions;
- changes to regulatory or operating conditions in the markets in which we operate;
- our ability to reduce costs;
- capital market developments;
- the actions and developments of our competitors;
- certain statements in “Financial Information” with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this document that are not historical fact.

In some cases, we use the words “aim”, “anticipate”, “believe”, “continue”, “could”, “estimate”, “expect”, “going forward”, “intend”, “ought to”, “may”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “will”, “would” and similar expressions to identify forward-looking statements.

These forward-looking statements are based on current plans and estimates, and speak only as of the date they are made. We undertake no obligation to update or revise any forward-looking statement in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statement.

Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to this cautionary statement.

RISK FACTORS

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

RISKS RELATING TO OUR BUSINESS OPERATIONS

We may not be able to sufficiently and promptly respond to rapid changes in government regulation, treatment of diseases and customer preferences in the PRC pharmaceutical industry, which may adversely affect our business, financial condition and results of operations.

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.

RISK FACTORS

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

RISK FACTORS

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.

RISK FACTORS

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.

RISK FACTORS

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.

RISK FACTORS

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.

RISK FACTORS

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

RISK FACTORS

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

RISK FACTORS

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

RISK FACTORS

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

RISK FACTORS

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;

RISK FACTORS

- 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

RISK FACTORS

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.

RISK FACTORS

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,

RISK FACTORS

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

RISK FACTORS

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.

RISK FACTORS

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.

RISK FACTORS

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

RISK FACTORS

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

RISK FACTORS

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

RISK FACTORS

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

RISK FACTORS

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.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED

DIRECTORS

<u>Name</u>	<u>Position</u>	<u>Address</u>	<u>Nationality</u>
Mr. She Lulin (余鲁林)	Non-executive Director	Room 501 Unit 2, Building No. 6 Wanliuwanquan Xinxinjiayuan Haidian District Beijing China	Chinese
Mr. Guo Guangchang . . . (郭廣昌)	Non-executive Director	Room 24B Building No. 55, Lane 800 Zhongshan Road West Changning District Shanghai China	Chinese
Ms. Fu Mingzhong (付明仲)	Executive Director	Room 401 Unit 4, Building No. 1 Shanghecun Village 2nd Haidian District Beijing China	Chinese
Mr. Wang Qunbin (汪群斌)	Non-executive Director	Room 201 Building No. 11, Lane 240 Zhengtong Road Yangpu District Shanghai China	Chinese
Mr. Deng Jindong (鄧金棟)	Non-executive Director	Room 1705 Building No. 9 Bei Wa Xi Li Haidian District Beijing China	Chinese
Mr. Fan Banghan (范邦翰)	Non-executive Director	Room 1802 Building No. 10, Lane 160 Changningzhi Road Changning District Shanghai China	Chinese
Mr. Liu Hailiang (柳海良)	Non-executive Director	Room 2406 Building No. 12, Lane 320 Meiling Road South Putuo District Shanghai China	Chinese

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED

Mr. Lian Wanyong (連萬勇)	Non-executive Director	No.10 Qinglong Hutong Dongcheng District Beijing China	Chinese
Mr. Wei Yulin (魏玉林)	Executive Director	Room 3-101 Wenshanli Building No. 4 Guiyang Road Heping District Tianjin China	Chinese
Mr. Wang Fanghua (王方華)	Independent Non-executive Director	Room 1905 Building No. 550 Hongqiao Road Xuhui District Shanghai China	Chinese
Mr. Tao Wuping (陶武平)	Independent Non-executive Director	Room 10 Building No. 4, Lane 86 Yongfu Road Xuhui District Shanghai China	Chinese
Mr. Xie Rong (謝榮)	Independent Non-executive Director	Room 602 Building No. 10, Lane 289 Ouyang Road Hongkou District Shanghai China	Chinese
Mr. Zhou Bajun (周八駿)	Independent Non-executive Director	Flat F, 3/F, Tower 22, South Horizons Hong Kong	Chinese

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED

SUPERVISORS

<u>Name</u>	<u>Position</u>	<u>Address</u>	<u>Nationality</u>
Mr. Chen Qiyu (陳啟宇)	Chief Supervisor	Room 205 Building No. 59, Lane 88 Huanzhen Road South Minhang District Shanghai China	Chinese
Mr. Xing Yonggang (邢永剛)	Supervisor	Room 603 Gate 3 Building No. 2 Xiao Xia Dong Li Haidian District Beijing China	Chinese
Ms. Zhang Jian (張健)	Supervisor	Room 1705 Building No. 27, Lane 701 Lingshan Road Pudong New District Shanghai China	Chinese

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED

PARTIES INVOLVED

Legal Advisers to the Company

As to PRC law:

Chen & Co. Law Firm
Suite 1901 North Tower, Shanghai Stock Exchange
Building, 528 Pudong Nan Road
Shanghai 200120, PRC

Auditor and Reporting Accountant

PricewaterhouseCoopers
Certified Public Accountants
22/F Prince’s Building,
Central, Hong Kong

Property Valuers

Jones Lang LaSalle Sallmanns Limited
17/F, Dorset House
Taikoo Place, 979 King’s Road
Quarry Bay, Hong Kong

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

CORPORATE INFORMATION

Registered Office and Headquarters	No. 221 Fuzhou Road Shanghai 200002, China
Principal Place of Business in Hong Kong	Flat/Room A, 17th Floor Victor Court, 18 Wang On Road North Point, Hong Kong
Joint Company Secretaries	Mr. Wu Aimin Mr. Ngai Wai Fung <i>FCIS, FCS(PE), CPA, ACCA</i>
Authorized Representatives	Ms. Fu Mingzhong Room 401 Unit 4, Building No. 1 Shanghecun Village 2nd Haidian District Beijing China Mr. Wu Aimin No. 660 Shangcheng Road Pudong New District Shanghai China
Audit Committee	Mr. Xie Rong (Chairman) Mr. Wang Fanghua Mr. Fan Banghan Mr. Deng Jindong Mr. Zhou Bajun
Remuneration Committee	Mr. Tao Wuping (Chairman) Mr. Wang Fanghua Mr. Xie Rong Mr. Fan Banghan Mr. Liu Hailiang
Nomination Committee	Mr. She Lulin (Chairman) Mr. Wang Fanghua Mr. Tao Wuping Mr. Xie Rong Mr. Fan Banghan
Compliance Adviser	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street Central, Hong Kong
Company’s Website	<u>www.sinopharmholding.com</u> (information contained in this website does not form part of this document)

INDUSTRY OVERVIEW

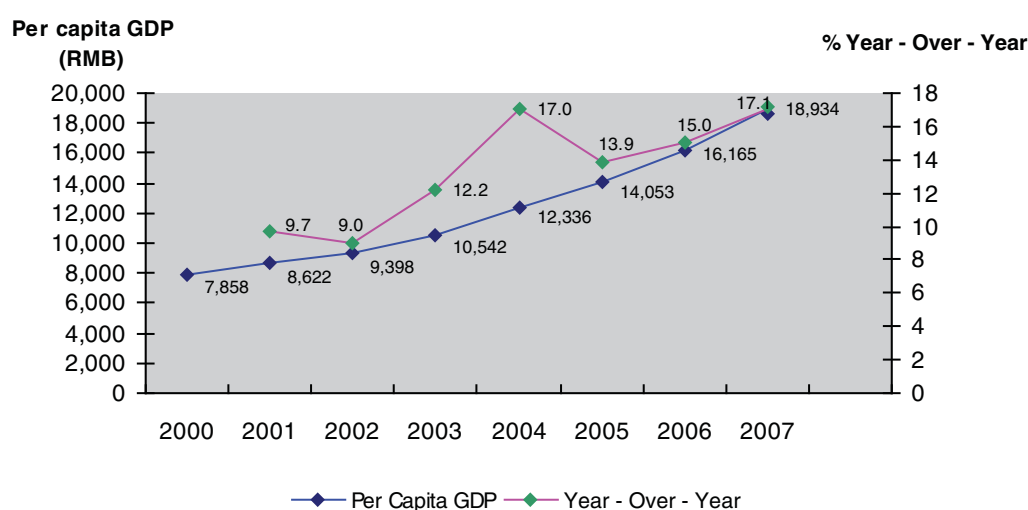
OVERVIEW OF THE PRC HEALTHCARE MARKET

We operate in the large and rapidly growing healthcare industry in China. The healthcare industry in China is supported by a combination of favorable socioeconomic factors such as the growth of China’s economy, size of its overall population and the proportion of its population over the age of 60, improvement of living standards, increased health consciousness, an increase in lifestyle related disorders and active PRC Government support.

Primary Growth Drivers of the Healthcare Industry

Increasing disposable income and spending on healthcare

According to the China Statistical Yearbook 2008 (the “Yearbook”), from 2003 to 2007, the average per capita annual disposable income of China’s urban residents increased from approximately RMB8,472.1 to RMB13,785.8, representing a CAGR of approximately 12.9%. According to the Yearbook, China’s GDP grew at a CAGR of 16.4% from 2003 to 2007, and its per capita GDP grew from RMB10,542 in 2003 to approximately RMB18,934 in 2007, representing a CAGR of 15.8%. During this period, national income and disposable income levels increased significantly. The following chart illustrates the growth of China’s per capita GDP in the periods indicated:



Source: China Statistical Yearbook

INDUSTRY OVERVIEW

With rising living standards and increasing disposable income, people in China have become more health conscious. These developments have resulted in both Chinese urban and rural residents spending more on healthcare. According to the PRC National Bureau of Statistics, consumer expenditures on healthcare in China’s urban and rural areas increased from approximately RMB476.0 and RMB117.8 per person in 2003, respectively, to approximately RMB699.0 and RMB210.2 per person in 2007, respectively.

Population growth and increased life expectancy

The significant growth of China’s population aged 60 or above is expected to drive demand for healthcare in China. According to the PRC National Bureau of Statistics, the proportion of the population aged 60 or above in China has increased from 11.9% in 2003, or approximately 150.0 million people to 13.6%, or approximately 162.2 million people in 2007. Rising life expectancy is also expected to contribute to the growth of China’s aging population, both as an absolute number and as a percentage of the total population. We believe that the aging population in China, which historically spends the most on healthcare, will drive the growth of the PRC healthcare industry. The prevalence of chronic health problems, such as arthritis, cardiovascular diseases and cancer, is expected to increase with the growth of China’s population aged 60 or above. In addition, as living standards continue to improve and health consciousness grows in China, many lifestyle-related diseases are also increasing and becoming more widespread. For example, Business Monitor International estimates that sales of prescription cardiovascular medicines increased by 87% from US\$2,765 million in 2003 to US\$5,177 million in 2007, primarily as a result of the rising prevalence of heart disease in an aging population and increasingly unhealthy lifestyles in the population at large.

Active PRC Government support

As part of its Eleventh Five-Year Plan (2006-2010), the PRC Government has actively supported the PRC healthcare industry by providing a number of incentives and enacting programs, including increased funding for building additional hospitals, research centers and other healthcare facilities, enacting healthcare reforms and standards and subsidizing healthcare services for its citizens. The PRC Government has announced it will spend an additional RMB850 billion on healthcare programs from 2009 to 2011, which will significantly bolster the PRC healthcare market.

Increasing coverage of social medical insurance in China

The National Medical Insurance Program (“National Program”), which was introduced in 1999, is the largest medical insurance program in China. The National Program is funded with varying levels of contributions from the PRC Government, individual program participants and their employers.

In 1999, the National Program was originally launched as the Urban Worker Basic Medical Insurance Program (“Urban Worker Program”) (城鎮職工基本醫療保險), a mandatory scheme covering urban workers and their minor children. In 2007, a voluntary component called the Urban Resident Basic Medical Insurance Program (“Urban Resident Program”) (城鎮居民基本醫療保險) was further implemented as part of the National Program, to cover the rest of the urban residents that are not covered by the Urban Workers Program. The National Program provides guidance on which prescription and over-the-counter medicines are included in the program and to what extent the purchases of these medicines are reimbursable. See the section headed “Regulation — Reimbursement Under the National Medical Insurance Program” in this document for further information.

INDUSTRY OVERVIEW

We believe that only a small percentage of the Chinese population can afford commercial insurance plans. Therefore, the National Program coverage is expected to expand in the future. According to the PRC National Bureau of Statistics, the percentage of PRC urban residents grew from approximately 37.7% of the total population to 44.9% from 2001 to 2007. The number of people covered by the National Program increased from approximately 37.9 million in 2000 to 180.2 million in 2007, representing an CAGR of 25%. This trend is anticipated to continue as the Eleventh Five-Year Plan projects that the PRC urban population will increase from 45% to 47% of China's total population between 2007 to 2010. Furthermore, the provincial and municipal authorities who are responsible for administering social medical insurance funds to cover such reimbursements have been gradually increasing funding in recent years. According to the PRC Ministry of Labor and Social Security, total funding under the national insurance program reached RMB225.7 billion (approximately US\$28.9 billion) in 2008, representing an increase of 29.2% from 2007. The availability of funding is expected to increase significantly in the near future, primarily as a result of increased financial and policy support from various levels of the PRC Government.

Increasing access to healthcare in rural areas

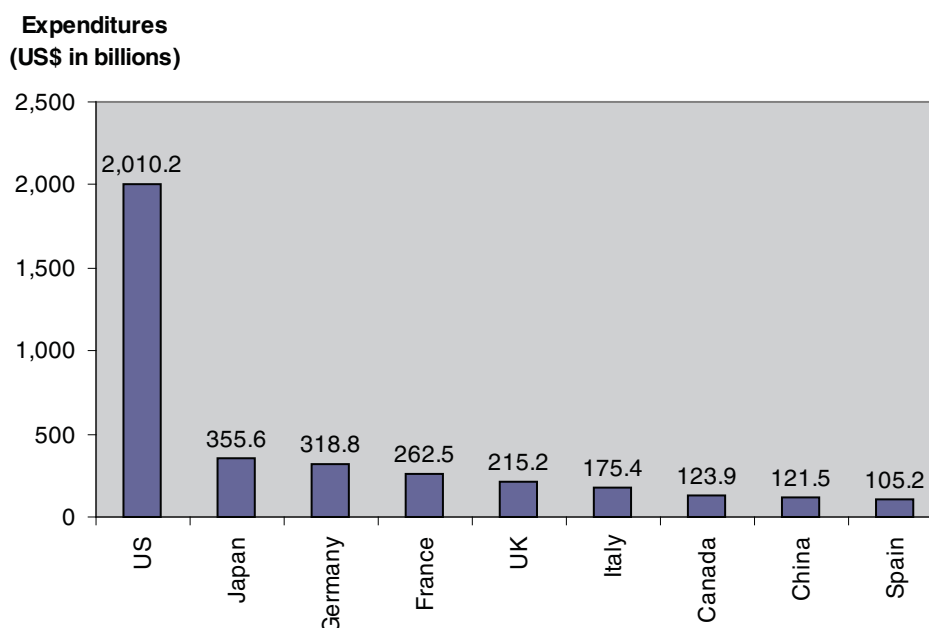
At the fifth meeting of the tenth National People's Congress held in March 2007, the PRC Government announced its goal to accelerate the reform and development of healthcare services in the PRC and focus on building a basic healthcare system that covers both rural and urban areas. The PRC Government's plans include providing expanded healthcare services for its rural citizens and establishing comprehensive community healthcare service centers that would provide basic medical treatment and pharmaceutical services, as well as upgrading existing class-two hospitals and state-owned medical facilities. The public health service centers would be allocated based on demand and population.

In addition, the PRC Government has actively promoted the implementation of the New Rural Cooperative Medical Insurance Scheme ("New Rural Insurance Scheme") (新型農村合作醫療保險), which seeks to provide healthcare services to the vast rural areas of China. The program extends to cover approximately 2,729 counties in the PRC, which account for 95.4% of the total number of counties in the PRC. In addition, the program covers approximately 814 million rural residents, which accounts for approximately 91.5% of the total population engaged in the agricultural industry in China as of 31 December 2008.

INDUSTRY OVERVIEW

Healthcare Spending and Development

According to information jointly provided by the World Health Organization and Ministry of Health, China ranked eighth among the World Health Organization's member nations in terms of healthcare spending in 2006. Compared to the United States, which is currently the world's largest healthcare market, China spends a relatively small amount on healthcare. In 2006, China spent US\$121.5 billion (approximately RMB947.7 billion) on healthcare, compared to US\$2,010.2 billion (approximately RMB15,684.2 billion) spent by the U.S. in the same year. Nonetheless, the PRC healthcare spending has grown significantly, increasing from RMB502.6 billion in 2001 to RMB947.7 billion in 2006, representing a CAGR of 13.5%. The following chart sets forth the total expenditures of the largest healthcare markets in 2006:



Source: World Health Organization

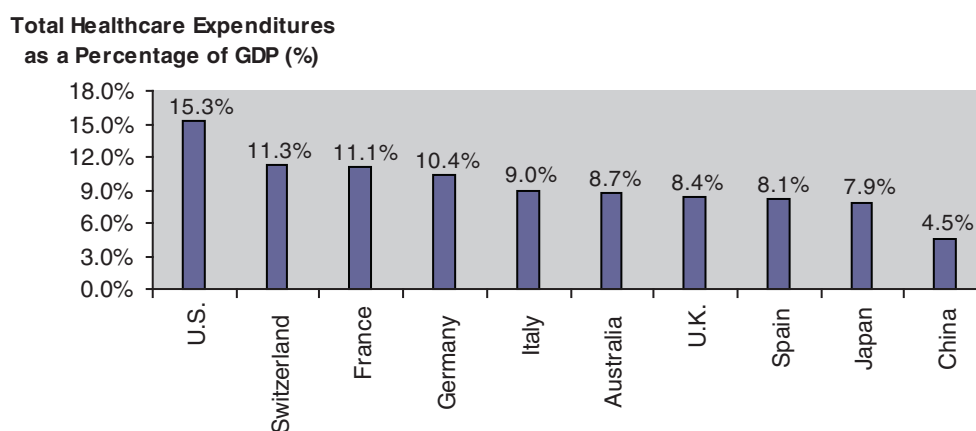
According to the World Health Organization, China has approximately one-fifth of the world's population and a per capita expenditure on healthcare is relatively low compared to other World Health Organization member nations, ranking only 101st among all member nations in 2006. China's per capita total expenditure on healthcare grew from approximately US\$50 per person (approximately RMB390) in 2001 to approximately US\$92 per person (approximately RMB718) in 2006, representing a CAGR of approximately 13.0%. The following table sets forth healthcare expenditure information for the ten largest markets during the periods indicated:

Country	Total expenditures	Per capita total expenditure on healthcare		CAGR of per capita total expenditure on healthcare from 2001 to 2006
	2006 (US\$ in billions)	2001 US\$	2006 US\$	%
United States of America	2,010.2	4,915.0	6,714.0	6.4
Japan	335.6	2,609.0	2,626.0	0.1
Germany	318.8	3,537.0	3,870.0	1.8
France	262.5	3,227.0	4,278.0	5.8
United Kingdom	215.2	2,478.0	3,552.0	7.5
Italy	175.4	2,358.0	3,002.0	4.9
Canada	123.9	2,853.0	3,799.0	5.9
China	121.5	50.0	92.0	13.0
Spain	105.2	1,596.0	2,387.0	8.4

Source: World Health Organization

INDUSTRY OVERVIEW

As a percentage of GDP, China’s expenditures on healthcare were also low compared to those of industrialized nations, amounting to approximately 4.5% in 2006, compared to 11.1% for France and 15.3% for the United States. According to the World Health Organization the healthcare spending of most developed countries accounts for 7% to 9% of GDP. We predict that China’s healthcare spending will rise significantly in relation to its rapidly growing GDP and become more aligned with international standards. In addition, we believe industry growth factors such as the rapidly growing economy of China, which has fueled rising living standards and increasing health consciousness, as well as China’s aging population and corresponding increase of lifestyle-related disorders and active PRC Government support, will positively affect China’s healthcare spending. The following chart sets forth the total healthcare spending of selected countries in 2006 as a percentage of their GDP:



Source: World Health Organization

Latest Healthcare Reform Plan

In September 2008, the State Council published a draft plan to ease the difficulties and minimize the costs for PRC citizens to obtain proper healthcare treatment. On 17 March 2009, the PRC Government issued the Opinion on Deepening the Healthcare System Reform (中共中央國務院關於深化醫藥衛生體制改革的意見) (the “Opinion”). The State Council subsequently released the Notice on Important Implementing Plans for the Healthcare System Reform 2009-2011 (國務院關於印發醫藥衛生體制改革近期重點實施方案 (2009-2011) 的通知) (the “Implementing Plan”). The goal of the healthcare reform plan is to establish a basic, universal healthcare framework to provide Chinese citizens with safe, efficient, convenient and affordable healthcare. The Opinion calls for healthcare reform to be carried out in two steps:

- Step One, which will be completed by 2011, aims to increase the accessibility while reducing the cost of healthcare. During this phase, the PRC Government will build up a network of basic healthcare facilities, expand the coverage of the public medical insurance system to cover 90% or more the population, as well as reform the drug supply and public hospital system.
- Step Two, which will take place between 2011 and 2020, envisions the establishment of a universal healthcare system. The entire population should be covered by public medical insurance; drugs and medical services should be accessible and affordable to citizens in all public healthcare facilities.

While the PRC Government has neither provided a concrete timetable nor steps to implement certain tasks, such as the public hospital reform, it has released execution guidance for other tasks. Most notably, the PRC Government has announced it will spend an additional RMB850 billion from

INDUSTRY OVERVIEW

2009 to 2011 on the healthcare industry. A significant portion will be expended to establish a basic healthcare medical insurance regime, which aims to cover over 90% of the national population by 2011, mainly through the Urban Worker Program, Urban Resident Program and the New Rural Insurance Scheme. The PRC Government further announced that the annual subsidy for each participant will be increased from RMB40 to RMB120 for Urban Resident Program participants, and from RMB80 to RMB120 for New Rural Insurance Scheme participants, starting from 2010. The reform plan will also raise the cap on claim payments from four times the local average annual income to six times such income. Another significant part of the spending plan focuses on healthcare facilities. The PRC Government plans to build 29,000 rural clinics in 2009. In the next three years, it plans to build an additional 5,000 rural clinics, 2,000 county-level hospitals and 2,400 urban community clinics in under-developed areas. This substantial increase in healthcare spending is expected to expedite the growth of the healthcare industry in China.

Under the healthcare reform plan, the additional funding for the healthcare industry will primarily target four fundamental healthcare systems in China:

- *The public health services system.* This system focuses on preventing disease and promoting health as a complementary alternative to medical treatment. The public health services system will provide services such as immunizations, regular physical check-ups (for senior citizens over 65 years of age and children under three years of age), pre-natal and post-natal check-ups for women, prevention of infectious or chronic diseases and other preventative and fitness activities.
- *The public medical insurance system.* This system covers drugs and medical treatments for the majority of the population. The healthcare reform plan will retain the framework of the current public medical insurance schemes under the National Program, but will expand them to cover more of the population and increase the scope of treatments, raise the cap on claim payments and cover more claims at higher percentages.
- *The public healthcare delivery system.* One of the primary goals of the Implementing Plan is to build more healthcare facilities and to improve the training of healthcare professionals. Beyond additional public wellness centers, the reform plan aims to place a medical clinic in every village and a hospital in every county by 2011. In addition, the PRC Government will encourage private investors to establish public non-profit hospitals.
- *The drug supply system.* This system regulates pricing and how drugs will be procured, prescribed and dispensed in healthcare facilities. The healthcare reform plan will focus on pricing, procurement, prescription and dispensing of essential drugs.

The Opinion and the Implementing Plan direct relevant governmental authorities, including the Ministry of Health, SFDA and the National Development Reform Commission, or NDRC, to adopt implementing regulations for the reforms outlined in the healthcare reform plan.

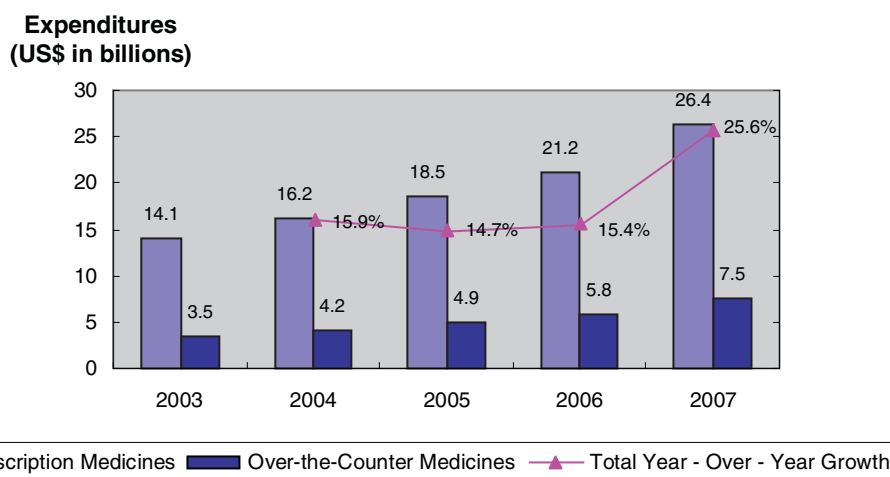
Although the healthcare reform plan is expected to benefit our pharmaceutical distribution, retail pharmacy and other business operations and improve our competitive position, the full effect of the healthcare reform plan on our operations is as yet unclear.

Pharmaceutical Sales in China

The pharmaceutical market in China has grown rapidly in recent years. According to Business Monitor International, the total sales of medicines in China, including prescription and

INDUSTRY OVERVIEW

over-the-counter medicines, was US\$33.9 billion (approximately RMB257 billion) in 2007, representing an increase of 25.6% from 2006 and a 2003-2007 CAGR of 17.8%. Business Monitor International estimates that the Chinese market became the eighth largest pharmaceutical market in the world in 2007 from ninth in 2006. The following chart sets forth the trend of PRC expenditures for prescription and over-the-counter medicines in the periods indicated:



Source: Business Monitor International

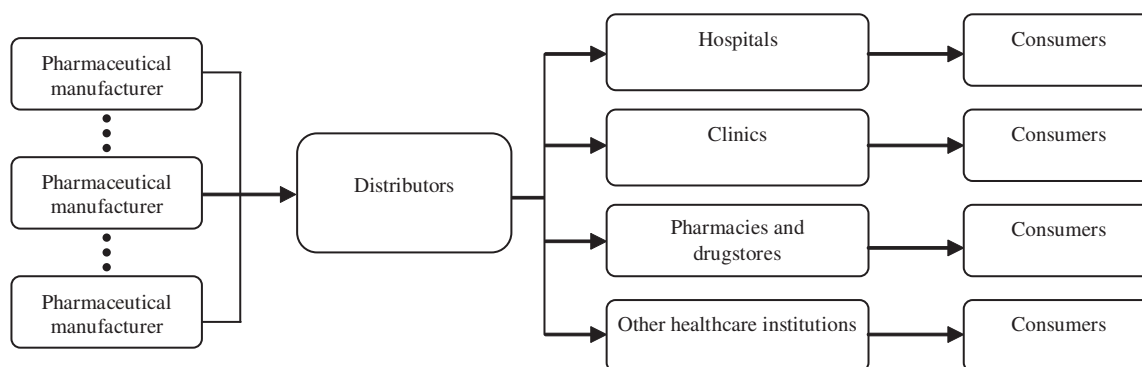
Sales of prescription medicines are the principal component of pharmaceutical expenditures in China and are mostly made in hospitals. According to Business Monitor International, sales of prescription medicines grew from US\$14.1 billion in 2003 to US\$26.4 billion in 2007, representing a CAGR of 17.0%. In 2007, total sales of prescription medicines represented 77.9% of China's total expenditures on medicine sales. The remaining expenditures were spent on over-the-counter medicines. In 2007, sales of over-the-counter medicines amounted to US\$7.5 billion, representing a CAGR of 21.0% from 2003 to 2007. In addition to the primary growth drivers of healthcare spending in China described above, another factor expected to increase the amount of healthcare spending in China is the growing trend of PRC consumers to purchase non-prescription, over-the-counter medicines in non-hospital retail pharmacies.

INDUSTRY OVERVIEW

PHARMACEUTICAL DISTRIBUTION IN CHINA

Overview of the Pharmaceutical Supply Value Chain

The pharmaceutical distribution market connects pharmaceutical manufacturers with pharmaceutical retailers, including hospital pharmacies, drugstore chains and independent community drugstores, community clinics and other points of sale retail outlets. Distributors play an important role in the pharmaceutical supply value chain by leveraging their economies of scale and operating expertise to purchase, store, resell and transport pharmaceutical products. In doing so, distributors ensure the prompt and efficient delivery of a wide range of products from thousands of manufacturers to numerous and dispersed points of sale, help reduce supply chain distribution costs and allow more cost-savings to be passed to consumers. Distributors can increase the operating efficiencies of manufacturers by acting as the latter’s direct customers and relieving them from the burden of delivery to, and collecting payment from, numerous retailers. On the other hand, by using distributors as suppliers, retailers benefit from reduced transaction costs and administrative burdens as well as improved confidence in their product supply. The chart below illustrates the distribution value chain of pharmaceutical products in China:



Typically, pharmaceutical distributors enter into agreements to purchase pharmaceutical products from manufacturers. In many cases, distributors also seek from manufacturers the right to be an exclusive distributor of a particular medicine or groups of medicines. They generate revenue by reselling these pharmaceutical products downstream and providing relevant services to customers in the retail market. In general, pharmaceutical distributors do not hire pharmaceutical sales representatives to promote medicines and healthcare products to physicians, pharmacists and other healthcare professionals. Promotional efforts are generally undertaken by the manufacturers or companies providing outsourced promotion services. However, sales teams of a distributor work with sales representatives of manufacturers to ensure that product demands are met.

In addition, large pharmaceutical distributors in China offer complementary logistics and value-added services to manufacturers and retailers. In the PRC market, the ability to provide these services is highly valued and increasingly required by many larger customers, such as hospitals. As a result, a distributor’s ability to provide services constitutes a competitive advantage and enhances its relationships with customers and suppliers. These logistics and value-added services include electronic purchase orders confirmation, tailored packaging, repackaging and reprocessing services, product insurance brokerage, payment collection on behalf of manufacturers, product return, replacement or recall mechanisms, inventory tracking and management, delivery of specialty pharmaceutical products, technical support and sales assistance, import agency, customs clearance, free trade zone warehousing and other services.

INDUSTRY OVERVIEW

Hospitals and Retail Pharmacies

Hospitals

Traditionally, out-patients in China typically filled their prescriptions at hospital pharmacies, unlike in the United States and in other developed countries, where patients typically fill their prescriptions at pharmacies unaffiliated with hospitals. Although the latest healthcare reform plan aims to reduce hospitals’ reliance on sales from hospital pharmacies, out-patients still primarily fill their prescriptions at hospital pharmacies.

Most hospitals in China are owned and operated by the PRC Government. In addition, the vast majority of hospitals in China are located in urban areas, with rural areas suffering from both a lack of hospitals and clinics as well as qualified medical staff and resources at the facilities they do have. Hospitals in China are classified under the Ministry of Health-administered hospital classification system into three classes based upon a number of factors, including reputation, the number of doctors and nurses, total number of in-patient beds, equipment and expertise. The best and largest hospitals are designated as “Class-three” hospitals, and the second and third tiers as “Class-two” and “Class-one”, respectively. In 2008, 1,192, 6,780 and 4,989 were designated as “Class-three”, “Class-two”, and “Class-one” hospitals, respectively, according to Ministry of Health statistics.

Retail pharmacies

While out-patients in China generally fill their prescriptions at hospital pharmacies, they primarily purchase over-the-counter medicines from retail pharmacies. To the extent that a medical condition can be treated with an over-the-counter medicine, many Chinese people choose to purchase an over-the-counter medicine instead of seeing a doctor in a hospital for a prescription medicine.

The retail pharmacy sector in China is highly fragmented. Retail pharmacies in China include pharmacy chain stores, individual stores, retail chain stores with over-the-counter medicine counters, and over-the-counter medicine counters in supermarkets. While they are expanding quickly, neither pharmacy chain stores nor retail chain stores with over-the-counter medicine counters have developed a nationwide presence in China.

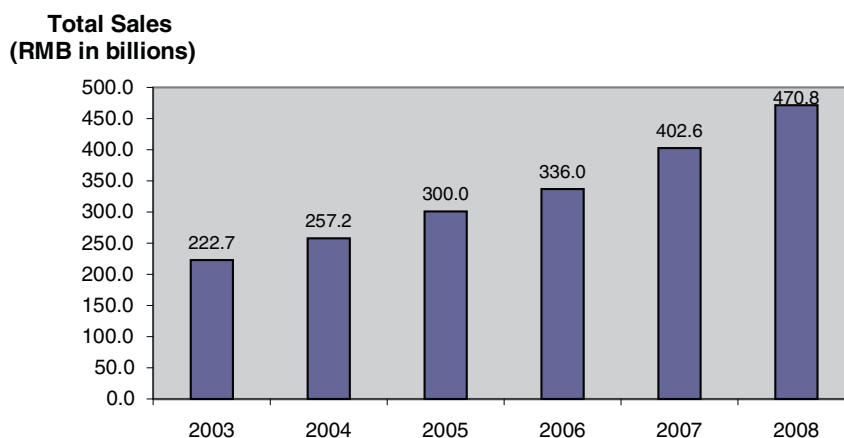
A small portion of retail pharmacies in China is authorized under the National Program. A program participant may be reimbursed for the cost of a medicine included in the provincial medicine catalog only if he or she purchases that medicine from an authorized retail pharmacy. We refer to these pharmacies as authorized pharmacies.

Development of Pharmaceutical Distribution in China

The PRC pharmaceutical distribution market has evolved in the past 30 years from a complex, multi-tiered system that was subject to strict control at every governmental level to a competitive and increasingly market-oriented industry. From 1950 to 1979, all Chinese pharmaceutical distributors were state-owned and categorized into national, provincial and municipal-level distributors. The price markup at each level, from pharmaceutical manufacturer to end-consumer, was subject to a total markup cap of 28%. During the 1980s, the rigid three-level distribution system gave way to a more open and decentralized network. Driven by increasing demand for pharmaceutical products in the past three decades, the PRC pharmaceutical industry has experienced rapid growth. The numbers of pharmaceutical manufacturers and distributors have also increased significantly until recent years, when competition and government regulations and policies started to drive consolidation in the industry. As a result of these developments, the market volume of the PRC pharmaceutical distribution

INDUSTRY OVERVIEW

market has steadily increased. The following chart shows the development of the PRC pharmaceutical distribution sector in terms of total sales:



Source: China Association of Pharmaceutical Commerce

Mostly due to the market’s historical roots in the multi-tiered system and the large number of pharmaceutical distributors in China, the direct channel to a particular point-of-sale, such as a hospital or a drug store, is often controlled by a few distributors with strong local presence. Therefore, distributors, especially the larger ones, typically make part of their sales through other distributors. In order to increase their profitability, we believe all the leading distributors aim to expand their control of these direct channels to the points-of-sale.

Fragmentation of the Pharmaceutical Distribution Industry and the Trend Toward Consolidation

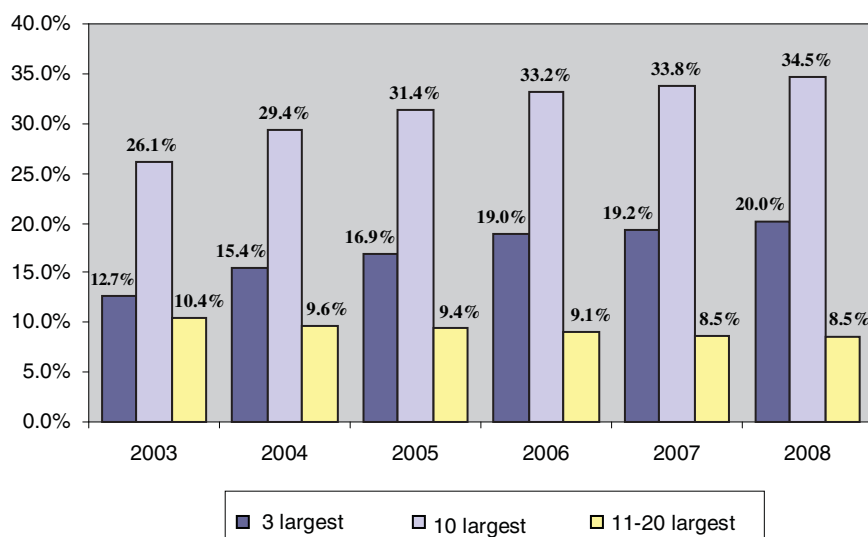
The pharmaceutical distribution industry in China is currently highly fragmented. There were more than 9,000 GSP-certified pharmaceutical distributors as of 2007 according to the South Medicine Economics Research Institute, an affiliate of the SFDA. According to CAPC, the three largest pharmaceutical distributors in China accounted for only approximately 20.0% of the PRC pharmaceutical distribution industry in 2008, in terms of their share of the total revenues of the pharmaceutical distribution industry in China. This fragmentation of the pharmaceutical industry has resulted in an inefficient supply chain for the distribution of most pharmaceutical products without the advanced logistics services featured in more developed markets. Given the level of fragmentation in the pharmaceutical distribution industry, we believe that only large distributors with effective nationwide distribution capabilities, value-added supply chain services and large-scale operations will thrive.

Due to competitive pressures caused by the fragmentation of the industry, the introduction of GSP requirements and other increased PRC regulatory requirements, as well as continuing price controls imposed by the PRC Government and the centralization of tender and bidding processes among public hospitals, there has been a trend towards consolidation of the pharmaceutical distribution industry in recent years. According to CAPC, the combined market share of the top three pharmaceutical distributors in China increased from 12.7% in 2003 to approximately 20.0% in 2008. The market share of the top 20 pharmaceutical distributors in the industry increased from 36.5% to 43.0% in the same period. Furthermore, the data suggest that the largest distributors benefit more from consolidation. The total market share of the ten largest distributors grew from 26.1% in 2003 to 34.5% in 2008, while that of the 11 to 20 largest companies decreased from 10.4% to 8.5% over the same period. The following chart

INDUSTRY OVERVIEW

shows the market share of the three largest, ten largest and 11 to 20 largest distributors in China's pharmaceutical distribution industry in the periods indicated:

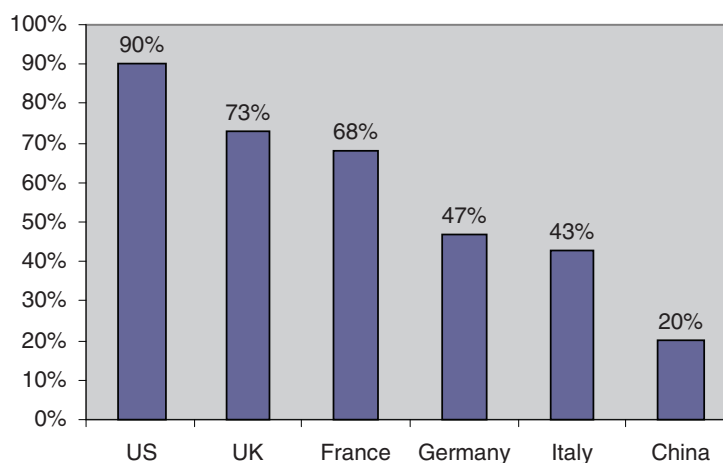
Market Share (%)



Source: China Association of Pharmaceutical Commerce

Consolidation has also occurred in the pharmaceutical distribution industries of other countries as a natural part of their evolution and development into a mature market. According to the Kaiser Foundation, a non-profit private foundation focusing on healthcare issues, between 1975 and 2000, the number of pharmaceutical distributors in the United States declined from approximately 200 to fewer than 50. Similarly, according to Booz Allen Hamilton, an international consulting firm, between 1979 and 2005, the number of pharmaceutical distributors decreased from 25 to 10 in France, from 32 to 12 in the United Kingdom, from 41 to 16 in Germany, and from 279 to 138 in Italy. The three largest pharmaceutical distributors in the U.S. held 90% of the U.S. market in terms of their share of total revenues in 2005, and the three largest European pharmaceutical distributors had 73%, 68%, 47% and 43% of the market in the United Kingdom, France, Germany, and Italy, respectively, in 2005. Overall, these three leading European pharmaceutical distributors held a market share of 64% of the pharmaceutical distribution industry in Europe in 2005. The following chart sets forth the market share of the top three largest distributors in each country in the years indicated:

Market Share (%)



Sources: US: 2005 data from Kaiser Foundation; UK, France, Germany, Italy: 2005 data from Booz Allen Hamilton; and China: 2008 data from China Association of Pharmaceutical Commerce

INDUSTRY OVERVIEW

We expect that, over time, the PRC pharmaceutical distribution industry will experience consolidation in the manner experienced in North America and Europe, as distributors seek to achieve economies of scale and optimize their resources. The trend towards consolidation in the PRC pharmaceutical industry has also been intensified by increased regulatory requirements and policies imposed by the PRC Government on market participants in order to implement uniform quality control criteria for the distribution of pharmaceuticals and ensure a stable supply of safe, effective medicines throughout the country. For example, in 2003 the SFDA adopted and strictly enforced GSP certification as the relevant standard for quality control in pharmaceutical distribution. A number of smaller distributors were forced to exit the market due to the associated higher compliance costs following the adoption of GSP certification and other regulatory standards. We believe that the more rigorous regulatory standards and policies imposed by the PRC Government will accelerate the trend towards consolidation in the pharmaceutical industry, and favor the continued growth of pharmaceutical distributors with large-scale, nationwide pharmaceutical distribution operations and effective quality controls that are positioned to benefit from the changes in PRC regulatory requirements and policies. In addition, the imposition of price controls imposed by the PRC Government, the centralization of tender and bidding processes among public hospitals and consolidation among drug manufacturers are additional factors that will also contribute to the trend towards consolidation in the industry.

Major pharmaceutical distributors in China

In 2008, the aggregate revenues of the ten largest distributors of pharmaceutical products in China accounted for approximately 35% of the total revenues of the PRC pharmaceutical distribution industry. The following table sets forth the market share of the ten largest pharmaceutical distributors in China for 2008:

Distributors	Percentage of total distributors' market share (%)
China National Pharmaceutical Group Corporation⁽¹⁾	11.3
Shanghai Pharmaceutical Co., Ltd.	4.8
Jointown Group Co., Ltd.	4.0
Nanjing Medical Co., Ltd.	3.1
Guangzhou Pharmaceutical Corporation.	2.7
Anhui Huayuan Pharmaceutical Co., Ltd.	2.6
Beijing Pharmaceutical Co., Ltd.	1.7
Chongqing Medicine Co., Ltd.	1.7
Chongqing Tongjunge Ltd.	1.5
Sichuan Kelun Medicine & Trade Co., Ltd.	1.2

Source: China Association of Pharmaceutical Commerce

(1) We contributed over 90% to the revenue of our parent company, CNPGC.

Increased cooperation with international pharmaceutical distributors and manufacturers

To expedite the expansion and enhance the competitiveness of the PRC pharmaceutical industry, and adhere to its World Trade Organization obligations, China has opened up certain segments of the manufacture, distribution and sale of pharmaceutical products to selected foreign investors since 2005. Encouraged by incentives offered by the PRC Government and the PRC market's potential, foreign pharmaceutical manufacturers increasingly view China as a place to conduct drug discovery, clinical trial research and sell their products. A number of foreign-invested distributors have entered the market, bringing with them advanced logistics and management systems. The first domestic joint venture with an international pharmaceutical distributor, China Zuellig Xinxing

INDUSTRY OVERVIEW

Pharmaceutical Co., Ltd., was established by a Swiss company, Zuellig Pharma Group, and the China Xinxing Group in December 2003. In January 2007, the large British pharmaceutical supply chain service provider Alliance Boots PLC formed a joint venture with Guangzhou Pharma to engage in the distribution of pharmaceutical products. At the same time, PRC distributors seek to cooperate with global pharmaceutical companies in order to improve their operational technologies and information management systems. Although the number of foreign distributors has increased and foreign investment in China has intensified the level of competition in the PRC market, further market development and trends with respect to foreign participation in the PRC pharmaceutical industry are difficult to predict.

Competition in the PRC Pharmaceutical Distribution Industry

Given the fragmentation in the Chinese pharmaceutical distribution industry, distributors are under intense pressure to compete for business and maintain their profits, and must focus on a number of competitive issues, including:

- *Scale.* Given the low margins of the distribution business, achieving economies of scale is crucial for distributors to maintain a sustainable and profitable business.
- *Quality and range of services.* Customers and suppliers of pharmaceutical distributors increasingly value pharmaceutical distributors that are able to deliver one-stop shop pharmaceutical distribution services, which comprise high-quality traditional distribution services and logistics and other value-added services.
- *Geographic coverage.* China’s vast territory presents significant geographical challenges that require manufacturers and distributors to develop their distribution networks and penetrate as many local markets as possible to take advantage of the growth of the Chinese market.
- *Product portfolio.* The breadth of products that distributors offer is an important factor for their customers. For example, a large hospital typically needs thousands of different types of prescribed drugs. As such, distributors with an extensive portfolio are generally preferred.
- *Creditworthiness and financial stability.* To minimize supply disruptions and bad debt, customers and suppliers generally select pharmaceutical distributors that are reliable commercial partners with strong financial capabilities and proven track records.
- *Price.* Price competition is intense in the pharmaceutical distribution industry. However, customers and suppliers generally do not make purchasing decisions solely based on price, as they will consider the foregoing factors as well. As a result, the leading and established distributors are able to leverage their strengths to obtain better pricing terms than their weaker competitors.

Regulatory Regime

The PRC Government has increased its regulation of the pharmaceutical industry in China with a series of initiatives, including promoting equal opportunity for non-hospital drugstores, actively cracking down on corruption and increasing its enforcement of existing laws and regulations, and implementation of new laws and regulations, with respect to intellectual property. This intensified regulation has greatly altered the market and competitive landscape. Drugstores and pharmacies that are not associated with hospitals are predicted to benefit from anti-corruption regulations that encourage the separation of a hospital’s pharmaceutical dispensing function from its provision of medical services.

INDUSTRY OVERVIEW

Equal opportunity for non-hospital drugstores

On 14 February 2007, the Ministry of Health promulgated *Measures for the Administration of Prescriptions* (處方管理辦法) requiring hospitals to allow prescriptions to be filled at non-hospital drugstores. The implementation of this regulation is expected to increase drug sales, especially prescription drug sales, in drugstores chains and independent drugstores that are not affiliated with hospitals. According to a 2009 report by Frost & Sullivan, of the total drug expenditures in China in 2008, hospital pharmacies and non-hospital drugstores accounted for 84.9% and 15.1%, respectively.

Commercial anti-corruption measures

Most hospitals in China are owned and operated by the PRC Government, and revenue from its hospital pharmacies constitute a significant portion of the total revenue of the hospitals. Hospitals procure their supplies of pharmaceutical products in bulk from manufacturers or distributors of pharmaceutical products, and generally decide whether to include a particular medicine in their pharmacy based upon a number of factors, including doctors' preferences in prescribing the medicine, the cost of the medicine, the perceived efficacy of the medicine and the hospital's budget. Decisions by hospitals regarding whether to include a particular medicine in their pharmacies may be affected by corrupt practices. These practices generally include illegal kickbacks and other benefits offered by manufacturers or distributors of pharmaceutical products, and are primarily utilized by smaller manufacturers and distribution companies. These corrupt practices may also affect doctors' decisions regarding which types of medicine to prescribe.

The PRC Government has strengthened its anti-corruption measures and has organized a series of government-sponsored anti-corruption campaigns in recent years. In particular, the Standing Committee of NPC amended the Criminal Law of PRC in 2006, increasing the penalties for corrupt business practices. The amendment of the Criminal Law of the PRC enhances regulation of pharmaceutical product suppliers to ensure they conduct business on fair and equal terms and, as a result, is expected to result in the standardization of the competitive market, increase consumer confidence and promote the further development of the pharmaceutical industry.

Protection of intellectual property

China has recently passed amendments to its patent laws in order to promote protection of intellectual property, including stricter standards of novelty and implementation of the WTO compulsory license regime. However, counterfeit pharmaceutical products remain an issue in China. In addition to financial losses, counterfeit drugs also pose public health concerns as well. In recent years, the Chinese government has tightened regulation and monitoring aimed to prevent piracy or counterfeiting activities. China has created a comprehensive regulatory and legal structure to better deal with the counterfeit drug issue, and also has joined the International Medicinal Products Anti-Counterfeiting Taskforce, a global partnership created by the World Health Organization. However, as the PRC Government is still building up its experience in dealing with the issue, clearer interpretation of the relevant laws and regulations as well as more effective enforcement are still needed.

SOURCE OF INFORMATION

The information and statistics set out in this section have been extracted or derived from public and private publications of information providers, including CAPC, Business Monitor International, South Medicine Economics Research Institute, Kaiser Foundation, Booz Allen Hamilton and Frost & Sullivan. All of these information providers are independent third parties and the reports and sources used by such information providers have not been commissioned by us.

HISTORY, RESTRUCTURING AND CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

We were established as a limited liability company under PRC law on 8 January 2003, with CNPGC, our largest shareholder, holding a 51% equity interest and Fosun Investment holding a 49% equity interest. We had a registered capital of RMB1,028.0 million at the time of our establishment, of which CNPGC contributed net assets amounting to RMB524.3 million and Fosun Investment contributed RMB503.7 million in cash. As approved in a general meeting of shareholders in February 2004, Fosun Investment then transferred 40% and 9% equity interests in the Company to Fosun Grand Medicine, a then subsidiary of Fosun Pharma, and Fosun Pharma, respectively. After the transfers, CNPGC, Fosun Grand Medicine and Fosun Pharma held equity interests in the Company of 51%, 40% and 9%, respectively.

The ultimate holding company of Fosun Investment, Fosun Grand Medicine and Fosun Pharma is Fosun International Holdings, which is incorporated in the British Virgin Islands.

In April 2006, the shareholders of the Company approved to increase the registered capital by RMB609.1 million, from RMB1,028.0 million to RMB1,637.0 million with each equity holder making a prorated contribution based on its respective equity interest. Pursuant to this arrangement, CNPGC contributed 78,036,600 shares of National Medicines (a listed company on the Shanghai Stock Exchange, stock code: 600511) based on the appraised value of RMB310.6 million, Fosun Pharma contributed RMB56.9 million in cash to subscribe for the newly increased registered capital of the Company in the sum of RMB54.8 million and Fosun Grand Medicine contributed RMB252.7 million in cash to subscribe for the newly increased registered capital of the Company in the sum of RMB243.6 million to maintain their respective share of equity interest in the Company.

From May 2008 to October 2008, shareholders of the Company and the Company itself underwent a number of restructuring steps set out in “Restructuring” below and the section headed “Statutory and General Information — The Restructuring” in this document.

CNPGC and Sinopharm Investment owned 100% of the issued share capital of the Company after the Restructuring.

Business Development

The key milestones in our business development are as follows:

- 2003
- Our Company was established by CNPGC and Fosun Investment in January. Our principal businesses included the distribution of pharmaceutical and healthcare products, operation of retail pharmacies and chemical reagents manufacturing. After our establishment, we commenced integration of administration, logistic arrangements, information system and financial resources for our pharmaceutical distribution operations conducted through our 11 distribution centers in six provinces to enhance our operating efficiency.
 - We established our subsidiary, Sinopharm Holding Beijing Huahong Co., Ltd., to expand our distribution operations in Beijing.

HISTORY, RESTRUCTURING AND CORPORATE STRUCTURE

2004	• We expanded the geographic coverage of our distribution operations to Shanxi and Guangxi provinces by establishing Sinopharm Medicine Holding Shanxi Co., Ltd. in January and Sinopharm Holding Nanning Co., Ltd. in March. • We established Sinopharm Holding GuoDa Drug Store Co., Ltd. in March to enhance our retail pharmacy operations. • We acquired a 38.9% equity interest in Sinopharm Holding Jiangsu Co., Ltd. from independent third parties in August to expand our distribution operations as well as to commence our retail pharmacy operations in Jiangsu Province. The purchase price was approximately RMB16.2 million which was reached after negotiations made on arm-length basis. • We acquired Sinopharm Holding Hunan Co., Ltd. from independent third parties in October to expand our distribution operations in Hunan Province. The purchase price was approximately RMB7.2 million which was based on the audited asset value of the target. • We acquired approximately 43.33% of the outstanding shares of Shenzhen Accord Pharmaceutical Co., Ltd. (a listed company on the Shenzhen Stock Exchange, stock code: 000028/200028) in December to expand our distribution operations in Shenzhen, to commence our operations in manufacturing and establish our research and development center. • In December, we completed the expansion of our Beijing logistics hub and fully commenced operations to support and further expand our pharmaceutical distribution operations in Beijing.
2005	• We established Sinopharm Holding Beijing Kangchen Bio-medicine Co., Ltd. to increase our product variety. • We acquired additional equity interests in Sinopharm Holding Zhejiang Co., Ltd. from China National Pharmaceutical Group Shanghai Corporation and other independent third parties and increased our equity interest to 86.1% in the company to expand our distribution operations in Zhejiang Province. The purchase price was approximately RMB6.2 million which was reached after negotiations made on arm-length basis. • We established a new research and development center, under Shenzhen Zhijun Pharmaceutical Co., Ltd., to continue the development of our manufacturing operations.
2006	• We expanded our pharmaceutical distribution operations by acquiring approximately 58.67% of the outstanding shares of China National Medicines Co., Ltd. • In February, we completed the expansion of our Shanghai logistics hub and fully commenced operations to support our pharmaceutical distribution operations.
2007	• In October, our Tianjin logistics hub commenced operations to support our pharmaceutical distribution operations.

HISTORY, RESTRUCTURING AND CORPORATE STRUCTURE

2008	• In December, we acquired an additional 25.9% equity interest in Sinopharm Holding Jiangsu Co., Ltd. from individual shareholders. • To expand our operations in Henan, Liaoning and Zhejiang provinces, we acquired Sinopharm Holding Henan Co., Ltd. (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.), a regional pharmaceutical distributor, as well as Shenyang Guoda Tianyitang Pharmacy Chain Store Co., Ltd. (formerly known as Shenyang Tianyitang Pharmacy Chain Store Co., Ltd.), an operator of retail pharmacies in Liaoning Province, and Zhejiang Intmedic Drug Store Co., Ltd., an operator of retail pharmacies in Zhejiang Province. • We converted into a joint stock limited company in October. • In December, we centralized the management of the distribution and agency agreement for our products.
2009	• In January, we completed the expansion of our Guangzhou logistics hub and fully commenced operations to support our pharmaceutical distributions. • In March, we acquired Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd., a pharmaceutical manufacturer in Jiangsu Province. • In April, we acquired Sinopharm Holding Anhui Co., Ltd. to expand our pharmaceutical distribution operations in Anhui Province.

Share Reforms of Accord Pharma and National Medicines

In December 2004, we acquired 124,864,740 non-tradable shares, representing approximately 43.33% of the outstanding shares of Accord Pharma from Shenzhen Municipal Investment Management Co., Ltd for a purchase price paid in cash of approximately RMB187.9 million, which was determined based on its audited net asset value. In June 2006, we acquired 78,036,600 non-tradable shares, representing approximately 58.67% of the outstanding shares of National Medicines from CNPGC as the consideration that CNPGC paid to subscribe for 310,632,700 new shares of the Company. When we acquired our interests in Accord Pharma and National Medicines, they had tradable shares issued in the PRC, including A shares or B shares, as well as non-tradable shares held by us. At that time, under PRC Government policies, the A shares and the non-tradable shares issued in the PRC were a separate class of shares and were not freely convertible into each other. The A shares and B shares of Accord Pharma are listed on the Shenzhen Stock Exchange in the PRC, and the A shares of National Medicines are listed on the Shanghai Stock Exchange in the PRC.

In order to increase the number of tradable shares in the market, the PRC Government in 2004 implemented a share reform scheme and regulations, pursuant to which non-tradable shares of listed companies in the PRC may be converted to tradable A shares. Under the PRC share reform regulations and PRC securities laws and regulations, the share reform plan of a listed company must be approved by the shareholders of the company at a shareholders’ meeting. Typically, as consideration for the shareholders to approve the share reform plan, the holders of the non-tradable shares offer to pay to the holders of the tradable A shares of a listed company bonus shares and/or cash.

Under the share reform plan for Accord Pharma, we paid, as consideration for the shareholders to approve the share reform plan, bonus shares of three non-tradable shares for every 10 A shares held by any holder of Accord Pharma’s A shares. Under the share reform plan for National Medicines, we

HISTORY, RESTRUCTURING AND CORPORATE STRUCTURE

paid, as consideration for the shareholders to approve the share reform plan, bonus shares of three non-tradable shares for every 10 A shares held by any holder of National Medicines’ A shares. The share reform plans were implemented on 28 April 2006 for Accord Pharma and 23 August 2006 for National Medicines, after approvals from the relevant shareholders at the shareholders’ meetings and PRC Government authorities were obtained. Following the implementation of the share reform plans, we held approximately 39.14% and 47.60% of the equity interests in Accord Pharma and National Medicines, respectively. Because they are A share listed companies and significant business platforms for us in the Bohai Bay and Pearl River Delta areas, National Medicines and Accord Pharma are among our most important subsidiaries. They also serve as our financing platform in the PRC capital markets. We intend to maintain National Medicines and Accord Pharma as our subsidiaries. However, we may from time to time, after considering capital market conditions and our funding requirements for business development, sell a portion of the shares of National Medicines and Accord Pharma in the stock market as part of our financing activities.

Acquisitions and Divestitures

Acquisitions

During the Track Record Period, excluding the acquisition of National Medicines, we completed nine acquisitions, that individually were not significant. The aggregate purchase price of the nine acquisitions, which was paid in cash, was approximately RMB237.4 million. These acquisitions include the following: In January 2006, we acquired 80.11% equity interest in Jiangsu Dadesheng Pharmacy Chainstore Co., Ltd., an operator of 98 retail pharmacies in Jiangsu Province, from independent third parties for a purchase price of RMB22.9 million. In January 2007, individual shareholders that are independent third parties conferred 25.9% voting rights in Sinopharm Holding Jiangsu Co., Ltd, a regional pharmaceutical distributor, to us without consideration pursuant to a written agreement, through which the shareholders benefited from the management support and resources provided by us. After such transfer, we obtained a controlling right in Sinopharm Holding Jiangsu Co., Ltd. In December 2008, we completed the acquisition of a 25.9% equity interest in Sinopharm Holding Jiangsu Co., Ltd. for a purchase price of RMB10.7 million from the same individual shareholders who previously conferred their voting rights to us in 2007. In May 2008, we acquired a 20% equity interest in Sinopharm Holding Henan Co., Ltd. from individual shareholders that are independent third parties and subsequently injected additional capital into Sinopharm Holding Henan Co., Ltd. The purchase price was approximately RMB42.6 million. After completion of such acquisition and capital injection, we own, in aggregate, a 51% equity interest in Sinopharm Henan. In addition, we acquired a 51% equity interest in Shenyang Tianyitang Pharmacy Chain Store Co., Ltd., an operator of 19 retail pharmacies in Liaoning Province, from independent third parties in May 2008, and a 51% equity interest in Zhejiang Intmedic Drug Store Co., Ltd., an operator of 27 retail pharmacies in Zhejiang Province in June 2008 from independent third parties. The purchase price paid for the Shenyang Tianyitang Pharmacy China Store Co., Ltd. acquisition was approximately RMB6.4 million, and the purchase price paid for the Zhejiang Intmedic Drug Store Co., Ltd. acquisition was approximately RMB7.0 million.

In January 2009, we acquired a 100% equity interest in Dongguan Accord Pharmaceutical Co., Ltd, a local pharmaceutical distributor in Dongguan, Guangdong Province for a purchase price of approximately RMB2.7 million. In February 2009, we acquired a 80% equity interest in Hebei Aijia Pharmaceutical Co., Ltd., a regional pharmaceutical distributor in Hebei Province. The purchase price paid for such acquisition was approximately RMB5.0 million. In March 2009, we acquired a 75% equity interest in Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd., a pharmaceutical manufacturer with national operations and the purchase price for such acquisition was approximately RMB103.5 million. In April 2009, we acquired a 67% equity interest in Sinopharm Holding Anhui Co., Ltd., a

HISTORY, RESTRUCTURING AND CORPORATE STRUCTURE

regional pharmaceutical distributor in Anhui Province for a purchase price of approximately RMB36.6 million. Each of these acquisitions was also made from an independent third party.

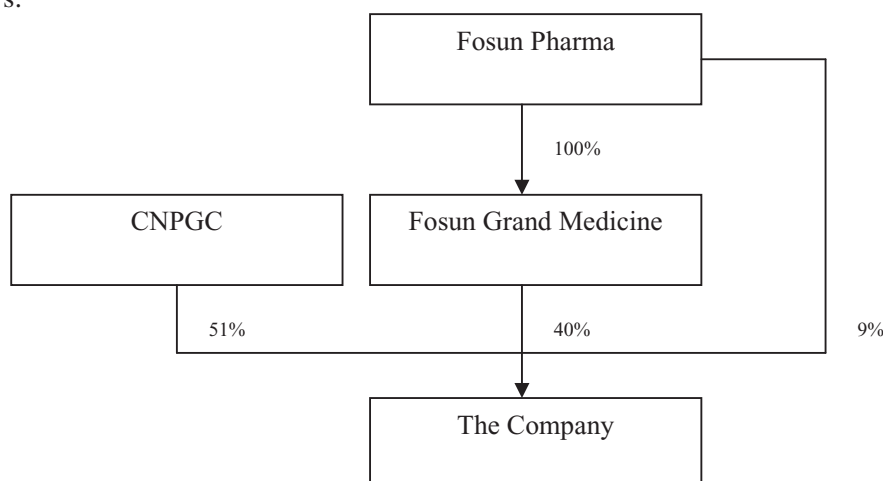
The purchase price of the acquisitions from these independent third parties was reached after negotiations made on an arm’s length basis, and reflects fair market valuations conducted by a third-party valuer or the audited asset value of the target. For further information on our acquisitions made during the Track Record Period, see Note 38 to the Accountant’s Report of our Company in Appendix I to this document.

Divestitures

During the Track Record Period, we sold equity interests in six of our subsidiaries to independent third parties as well as to related parties, consisting of the entire amount of our interest in Shanxi Guoda Pharmacy Chainstore Co., Ltd., Yangzhou Pharmaceutical Group Guangning Co., Ltd. and Tianjin Sinopharm Bohai Pharmaceutical Co., Ltd. and portions of our interests in the other subsidiaries. In each case, following the sale, our equity interest in the company sold was reduced to below 50% and the company was no longer our subsidiary. The total consideration received from the disposals of the equity interests was approximately RMB80.7 million. We recognized a net loss of approximately RMB5.8 million from these transactions. The purchase price of the sales to independent third parties was reached after negotiations made on an arm’s length basis, and reflects fair market valuations conducted by a third-party valuer or the audited asset value of the target. The purchase price of the sales to related parties also reflects fair market valuations conducted by a third-party valuer or the audited asset value of the target. For further information on these disposals, see Note 36 to the Accountant’s Report of our Company in Appendix I to this document.

RESTRUCTURING

The simplified shareholding structure of the Company immediately before the Restructuring was as follows:



HISTORY, RESTRUCTURING AND CORPORATE STRUCTURE

Shareholders of the Company and the Company itself have undergone the Restructuring, details of which are set out below. As confirmed by Chen & Co. Law Firm, our legal advisers as to PRC law, our Restructuring complies with all applicable PRC laws and regulations, and all necessary approvals from relevant PRC regulatory authorities required for the implementation of the Restructuring have been obtained.

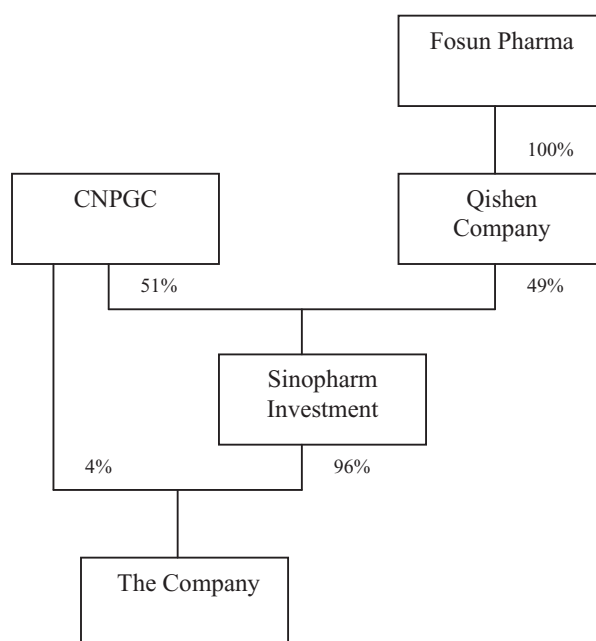
- (1) Pursuant to the resolution of the board of directors of CNPGC dated 23 April 2008, CNPGC contributed RMB10 million to establish Sinopharm Investment. On 6 May 2008, Sinopharm Investment obtained a business license issued by the Pudong New District Branch of the Shanghai Administration of Industry and Commerce.
- (2) Pursuant to an equity transfer agreement entered into between Qishen Company, a wholly-owned subsidiary of Fosun Pharma and Fosun Pharma dated 21 May 2008, Fosun Pharma transferred to Qishen Company 7.04% out of the 9% equity interest held by it in the Company for a consideration of RMB120,890,000, which was calculated based on the original amount contributed by the transferor. Pursuant to an equity transfer agreement entered into between Qishen Company and Fosun Grand Medicine dated 21 May 2008, Fosun Grand Medicine transferred to Qishen Company 40% equity interest held by it in the Company for a consideration of RMB686,840,000, which was calculated based on the original amount contributed by the transferor. On 11 June 2008, the Company completed the registration of the above changes in equity interest and obtained the business license reissued by the Huangpu Branch of the Shanghai Administration of Industry and Commerce. After the above transfers of equity interest, the shareholding of the Company was as follows: 51% held by CNPGC; 1.96% held by Fosun Pharma and 47.04% held by Qishen Company.
- (3) Pursuant to the resolution of the board of directors of CNPGC dated 23 April 2008, CNPGC subscribed for the newly increased registered capital of Sinopharm Investment in the amount of RMB41.0 million, by using 48.96% equity interest held by it in the Company, together with RMB5.3 million in cash. On 20 June 2008, the Company completed the registration of the above change in equity interest and obtained the business license reissued by the Huangpu Branch of the Shanghai Administration of Industry and Commerce. After the above increase in registered capital, the shareholding of the Company was as follows: 2.04% held by CNPGC; 1.96% held by Fosun Pharma; 47.04% held by Qishen Company and 48.96% held by Sinopharm Investment.
- (4) Pursuant to an equity transfer agreement in respect of the Company and its supplemental agreement entered into between Fosun Pharma and CNPGC dated 20 June 2008, Fosun Pharma transferred to CNPGC 1.96% equity interest held by it in the Company for a consideration of RMB43.0 million, which was calculated based on the appraised net asset value of the Company as of 30 September 2007 attributable to such equity interest. On 14 July 2008, the Company completed the registration of the above change in equity interest and obtained the business license reissued by the Huangpu Branch of the Shanghai Administration of Industry and Commerce. After the above transfer of equity interest, the shareholding of the Company was as follows: 4% held by CNPGC; 47.04% held by Qishen Company and 48.96% held by Sinopharm Investment.
- (5) Pursuant to a capital increase agreement in respect of Sinopharm Investment entered into between CNPGC and Qishen Company dated 20 June 2008, Qishen Company

HISTORY, RESTRUCTURING AND CORPORATE STRUCTURE

contributed to Sinopharm Investment an additional registered capital of RMB49.0 million, by contributing 47.04% equity interest held by it in the Company, and RMB14.7 million in cash. On 21 July 2008, the Company completed the registration of the above change in equity interest and obtained the business license reissued by the Huangpu Branch of the Shanghai Administration of Industry and Commerce. After completion of the above capital increase, the shareholding of the Company was as follows: 4% held by CNPGC and 96% held by Sinopharm Investment.

- (6) On 6 October 2008, the Company was converted into a joint stock limited company.

The simplified shareholding structure of the Company immediately after the Restructuring is as follows:



Other than the joint investment in Sinopharm Investment, the Company is not aware of any other relationship between CNPGC and the Fosun Group.

BUSINESS

OVERVIEW

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

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

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

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

We believe that we are well-positioned to benefit from the healthcare reform plan and PRC pharmaceutical industry trends, and add to our leading market position in China. With our

BUSINESS

geographically diverse distribution network of 25 distribution centers, spanning 19 provinces, municipalities and autonomous regions in China, we are able to provide our products and services to our customers across China in a timely and cost-effective manner. In particular, in 2008, over 80% of pharmaceutical sales in China were made at hospital pharmacies, rather than at unaffiliated retail pharmacies, and we sold, directly or indirectly through our distributor customers, our pharmaceutical and healthcare products to hospitals in every region and province of China. As of 31 May 2009, our direct customers included approximately 36.4% of all hospitals in China, encompassing 56.2% of the largest, most highly ranked class-three hospitals, and over 24,000 other customers, such as pharmaceutical distributors, retail pharmacies and other healthcare institutions. The following table sets forth a breakdown of our direct customers in our pharmaceutical distribution segment as of 31 May 2009:

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

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

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

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

BUSINESS

grown, our increased economies of scale and measures to improve our cost and operating efficiencies have allowed us to continue to improve our operating and net margins. Our operating margins were 2.0%, 2.5%, 3.1% and 3.9% in the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, respectively. In the same periods, our net margins were 0.4%, 1.2%, 1.5% and 2.3%, respectively.

OUR COMPETITIVE STRENGTHS

We are the industry leader in the distribution of pharmaceutical and healthcare products in China both in terms of our market share and the geographical range of our distribution network.

We are the largest and leading national distributor of pharmaceutical and healthcare products, and we operate the most expansive distribution network in China according to CAPC. Our industry standing has made us a preferred distributor for leading Chinese and international manufacturers and suppliers of pharmaceutical and other healthcare products. According to CAPC, we have been the largest distributor of pharmaceutical products in China since 2003, and we have steadily increased our lead in market share over our nearest competitor. According to CAPC, our market share, measured as a percentage of the total revenues of pharmaceutical distributors in China, was 10.8% in 2008, which is more than twice that of our nearest competitor and the largest overall in China.

As China's leading pharmaceutical distributor, we are well-positioned to benefit from the strong growth, consolidation, and regulatory reform in the PRC pharmaceutical and healthcare industry.

The PRC healthcare market is one of the fastest-growing healthcare markets in the world, driven by China's rapidly growing economy, rising living standards, increased health consciousness, large aging population and proactive government policies. Furthermore, the PRC Government recently announced a reform plan to spend RMB850 billion on healthcare in addition to the regular healthcare budget from 2009 to 2011, in order to increase the availability of healthcare, basic medicines and health insurance coverage for people in China. As a comparison, in 2007, the total healthcare expenditure in China was approximately RMB1.1 trillion, of which approximately RMB230 billion was government spending, according to the Ministry of Health. The healthcare reform plan is expected to accelerate growth in the PRC pharmaceutical industry not only by the increased government spending, but also by the expected increases in private healthcare spending stimulated by larger government subsidies to PRC residents, as per capita healthcare spending remains much lower than in developed countries. We are well-positioned to capture business opportunities resulting from this fast-growing market.

In addition, China's pharmaceutical distribution market is highly fragmented and is characterized by inefficient supply chains. The highly fragmented pharmaceutical distribution industry has recently commenced a process of consolidation, which has led to an increase in market share of the three largest pharmaceutical distributors, from 12.7% in 2003 to 20.0% in 2008. As was the case in the development of the currently mature U.S. and European pharmaceutical distribution markets, we expect the PRC pharmaceutical distribution market to continue to consolidate into one with larger and more efficient distributors. In addition, we expect the healthcare reform plan to promote further consolidation, as it calls for reducing the number of layers between manufacturers and consumers of medicines. We believe that we have the scale, industry standing, brand and financial strength to compete effectively during this process of consolidation.

The PRC Government has also adopted measures to raise the operating standards of pharmaceutical companies and promote the quality of distribution of pharmaceutical products in China, in order to ensure a stable supply of safe, effective medicines at reasonable prices. We believe we will

BUSINESS

benefit from future regulatory reforms, which require pharmaceutical manufacturers and distributors to implement more stringent standards on the manufacturing and distribution of pharmaceutical products. Unlike smaller distributors, we have a large-scale distribution network, high quality equipment and facilities, leading management and qualified personnel, which are required to satisfy the higher standards. These attributes also provide us with a competitive edge over our competitors.

In addition to growing organically, we have also grown through acquisitions in a consolidating industry and possess significant experience in integrating acquired targets.

In addition to growing organically, through expanding our distribution network and increasing our sales volumes, we have also grown through acquisitions. We have achieved success in completing acquisitions of pharmaceutical companies in China. Through past successful acquisitions, we have demonstrated our ability to effectively integrate acquisition targets in different market segments and regions. We have seamlessly combined the resources and strengths of the acquired businesses with our existing operations. Since 2003, we have acquired several pharmaceutical distributors in China from independent third parties as part of our focus to expand our business operations in, and the geographic coverage of, our pharmaceutical distribution segment. Notable acquisitions include regional pharmaceutical distributors such as Accord Pharma, Sinopharm Suzhou, Sinopharm Henan, Sinopharm Hubei, Sinopharm Jiangsu, Sinopharm Hunan and Sinopharm Anhui. We offer acquisition targets a variety of benefits such as our extensive pharmaceutical distribution network, broad product portfolio, well-established brand name, full range of logistics services, our advanced operation model and information management system and economies of scale. We believe we have successfully integrated our past acquisition targets and such experience will enable us to capture and integrate additional opportunities that may arise, allowing us to continue growing our pharmaceutical distribution network and our business scale.

We believe we have the most competitive pharmaceutical distribution network in China, due to our broad geographic and market coverage, strong relationships with customers and suppliers, comprehensive logistics arrangements, advanced value-added supply chain services and infrastructure, and well-established “Sinopharm” brand name.

We believe the market leading position of our distribution network is due to the following factors, which provides us with a sustainable business advantage over existing and prospective competitors:

- *Broad geographic and market coverage.* We have a nationwide geographically diverse distribution network of 25 distribution centers, spanning 19 provinces, municipalities and autonomous regions in China. We also have a broad product portfolio of over 22,000 different types of pharmaceutical and healthcare products. We believe our distribution network and product portfolio is broader than those of our competitors.
- *Strong relationships with customers and suppliers.* As of 31 May 2009, we had contracts with 30 of the top 50 international and 95 of the top 100 domestic manufacturers of pharmaceutical and healthcare products and have established close business relationships with these leading manufacturers. We also enjoy strong relationships with our customers, often serving as one of the primary sources of pharmaceutical and healthcare products for them. We have a stable and diverse customer base, comprising hospitals, other distributors, retail drug stores and other entities that sell pharmaceutical and healthcare products, located throughout China. The breadth of our distribution network and product portfolio, and our advanced value-added and logistics services, which we believe to be limited to the leading distributors in China, strengthens our existing supplier and customer relationships, allows us to respond quickly and efficiently to our customers’ pharmaceutical requirements and enables us to pursue new relationships with key pharmaceutical and healthcare product suppliers.

BUSINESS

- *Comprehensive logistics arrangements.* We provide comprehensive logistics arrangements, consisting of storage, warehousing, and long-distance, regional and local transportation and delivery services through our well-established and improving logistics infrastructure. Our logistics arrangements aim to manage the flow of products and information with high efficiency and precision, as well as minimize our inventory holding costs.
- *Advanced value-added supply chain services.* We provide advanced value-added supply chain services, such as supplier solutions, online product ordering, inventory tracking and management, distribution center management and supply chain management consulting. Our value-added services benefit our customers by improving the delivery of pharmaceutical and healthcare products to patients, lowering their overall costs in the pharmaceutical supply chain, and benefit our suppliers by ensuring the quality and timely distribution of their products and meeting their needs for operational flexibility, efficiency and cost-effectiveness. We believe the strength of our advanced value-added supply chain services differentiates ourselves from our competitors.
- *Well established brand name.* As a result of our leading market position, consistent high service quality and commitment to provide superior services, the "Sinopharm" brand is widely recognized. We believe that the well established "Sinopharm" brand name plays an important role in our ability to maintain and enhance strong relationships with our suppliers and customers and contributes to the strength of our distribution network.

We believe these factors constitute a competitive advantage, differentiate us from our competitors and allow us to achieve and benefit from economies of scale and operating efficiencies.

We continue to increase operational and cost efficiencies due to our economies of scale, integrated logistics systems and modern information management systems.

Our distribution network and large-scale operations offer us enhanced operational and cost efficiencies and position us favorably against other distributors in China's highly fragmented pharmaceutical distribution market. In particular, our senior management, recognizing that controlling costs is an important aspect of operational efficiency, has focused a significant amount of its attention on reducing our cost structure. Our distribution and selling expenses and general and administrative expenses as a percentage of our total revenue decreased from 6.4% in 2006, to 5.1% in 2008 and to 4.2% in the five months ended 31 May 2009. As a result, our operating margins increased from 2.0% in 2006, to 3.1% in 2008 and to 3.9% in the five months ended 31 May 2009 and our net margins increased from 0.4% in 2006, to 1.5% in 2008 and to 2.3% in the five months ended 31 May 2009.

We place particular emphasis on integrating our logistics systems and information management systems with the consistent expansion of our services and products to operate cost-competitively and to increase our profitability. In order to further increase our operational efficiencies, we have implemented chain management and warehouse management solutions systems. These information management systems allow us to provide services spanning the entire pharmaceutical supply chain in a timely, cost-effective and efficient manner. At the same time, we are able to increase the precision of our inventory control systems and enhance the planning of our logistics resources with our integrated logistics systems. We are committed to establish uniform and computerized information management systems to improve our financial risk management and to oversee our overall capital investments, financial accounting and business operations. These systems also allow us to share consolidated sales and marketing information with our suppliers and customers. We view the continuing improvement of our logistics and information management systems as critical to our future profitability, growth and cost competitiveness. These systems also provide us with a competitive edge over our competitors.

BUSINESS

We have an experienced and committed professional management team and highly-qualified employees.

We are led by a strong team of highly experienced professionals in the fields of pharmaceutical supply chain management. The majority of our senior management team possesses an average of 15 years of related experience. Many of our directors and senior management are elected to serve as high-ranking officers of various major pharmaceutical industry and trade organizations, such as CAPC, China Anesthetics Association, China Pharmaceutical Entrepreneur Association and China Pharmaceutical Enterprises Management Association, and have the opportunity to participate and advise on industry policy initiatives. Our strong management team has extensive experience in mergers and acquisitions in the pharmaceutical and healthcare industry, and has been active in capturing market opportunities, forming and implementing successful business strategies, assessing and managing risks, directing our expansion efforts to high growth areas and increasing our overall profitability. We believe that we have the requisite leadership to continue to build upon our core strengths to execute our business strategies.

OUR BUSINESS STRATEGIES

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

Continue to expand our geographic reach and optimize our distribution operations, customer composition and product portfolio to add to our leading position in the pharmaceutical distribution industry.

We intend to continue to improve our operations, exploit our competitive strengths, and expand our operations to add to our leading position in the pharmaceutical distribution industry. We aim to extend our direct geographical reach in China through establishing new distribution centers or by completing acquisitions, with the goal of having a facility in every province and region in China, other than Tibet, in the next two years. We intend to bolster our direct selling efforts to hospitals, in order to build stronger relationships with these significant customers. We also expect to enhance our penetration into new customer categories and demographics. For example, we intend to continue to improve our relationships with hospitals in urban areas, community clinics at the provincial and municipal levels, and other customers in rural areas. We plan to optimize our pharmaceutical distribution operations by further centralizing our procurement, establishing standard operating procedures, consolidating our financial management system and logistics resources and enhancing our internal controls. We will also seek to optimize our product portfolio, include more products with higher margins, expand our service offerings and leverage our leading position in the distribution of anesthetics, vaccines and specialty medicines.

As we do so, we believe our greater sourcing capability and cost-efficiency will make us a more attractive distribution channel for many pharmaceutical and healthcare product manufacturers. Further, we intend to distinguish ourselves through the variety and depth of our products and value-added services, operational flexibility and rapid and responsive customer support that we can provide seamlessly to our customers. We also believe we can capitalize on significant market opportunities in the rapidly growing PRC pharmaceutical industry by expanding our existing market coverage and enhancing strategic cooperation with our suppliers and customers. Although we expect to continue to increase the volume of imported pharmaceutical products used in our pharmaceutical distribution operations, reflecting the growth of our distribution network and sales in our pharmaceutical

BUSINESS

distribution business segment, we intend to maintain our current procurement arrangements and inventory policies with respect to purchasing imported pharmaceutical products from foreign suppliers.

Grow further through acquisitions.

In addition to growing organically, we plan to take advantage of the fragmented nature and rapid growth of the pharmaceutical industry in China to continue to acquire additional pharmaceutical businesses and form partnerships that complement our existing operations, align with our expansion strategies and increase our revenues and profits. We aim to expand and optimize our pharmaceutical distribution operations by capturing merger and acquisition opportunities in order to take advantage of the trend towards consolidation in the PRC pharmaceutical industry. We will select strategic partners and acquisition targets based on a candidate’s respective market share, capabilities and reputation in the markets that we seek to enter or where we have not yet established a strong presence. We plan to leverage on the strengths of potential partners and targets to expand our existing market position or establish a presence in a new market. We also believe our past successes in completing and integrating acquisitions, our relationships with many industry participants and our knowledge of, and experience in, the PRC pharmaceutical industry, will attract potential partners and acquisition targets to cooperate with us. Although we currently do not have any specific acquisition plans or targets and have not entered into any definitive agreements with any potential targets, we believe we will be able to identify attractive acquisition targets that complement our existing capabilities and businesses and allow us to continue to grow.

Continue to invest in our efficient logistics and information management systems to improve cost and operating efficiencies.

We intend to continue investing significant resources to upgrade our logistics and information management systems and processes to ensure our competitiveness. As efficient logistics and information management systems are critical to our business and networks, we have invested in advanced logistics systems and taken significant steps to reengineer and integrate our logistics process and reorganize our logistics network. For example, we have utilized distribution order management and warehouse management solution systems in our modern logistics hubs in Beijing, Tianjin, Shanghai, Guangzhou and Shenyang and have integrated those systems with our Enterprise Resource Planning System, or ERP. We also plan to establish regional and provincial logistics facilities equipped with leading technology and information systems. These improvements have provided a direct and high-speed information exchange channel that connects us to our customers and suppliers throughout China, covering each stage of our pharmaceutical distribution operations, including electronic order entry, invoice preparation, purchasing, inventory tracking, GSP-certified warehousing and logistics and delivery arrangements. As a result, we have shortened delivery lead-times, increased responsiveness to customer demands and reduced distribution and selling expenses. We intend to continue to implement new technologies and upgrades in order to obtain additional benefits. In order to capitalize upon the trend to outsource logistics services in the PRC pharmaceutical industry, our subsidiary Sinopharm Logistics is dedicated to logistics arrangements, and will further enhance our logistics service capacities and quality, both for our pharmaceutical distribution operations and third-party logistics customers.

Expand and streamline our total-solution and value-added services.

To enhance the value of our pharmaceutical distribution business, we intend to expand and streamline our value-added services to improve our customers’ businesses and reduce their costs. We offer a variety of supplier solutions and advanced logistic services, such as bonded logistics, cold chain warehousing and storage, supply chain consulting, inventory tracking, distribution center management

BUSINESS

and technical support and sales assistance to our suppliers and customers. Such a wide range of service offerings not only allows our customers and suppliers to streamline and increase the efficiency of their business by receiving all their desired services in one place, but also further strengthens our relationships with them. We also provide other value-added services, such as electronic purchase order management, quality inspection for imported pharmaceuticals, packaging services, product insurance arrangements, product returns and transportation and delivery services for specialty pharmaceutical products. We will continue to expand our value-added services offerings, as well as to develop our high-end and one-stop shop services, which we believe will enhance our relationships with existing customers and allow us to build relationships with new customers. Further, we will continue to enhance our outsourced third-party logistics services offerings to further diversify our business and create new sources of income. We believe that the continued development of these diversified services will enhance our overall profitability and brand.

Continue to build upon our integrated business platform in order to enhance the synergies between our pharmaceutical distribution, retail pharmacy and other businesses.

We will continue to build upon our integrated business platform in order to enhance the synergies that arise from our pharmaceutical operations spanning the distribution, retail and manufacturing of pharmaceutical and healthcare products and expand our reach to end-customers. We plan to leverage our existing businesses to capitalize on particular opportunities that may arise and create efficiencies and cost savings in our business operations. We also plan to utilize our extensive distribution network to provide reliable supply channels for our retail drug stores which, in turn, will sell the pharmaceutical and healthcare products supplied by our distribution network. Further, we intend to utilize our pharmaceutical manufacturing operations to produce private-label products for our retail pharmacy operations. We expect to maintain the flexibility to reallocate manufacturing capacity of our products in response to potential changes in supply and demand, as well as to control inventory in a way that enables us to meet expected demand for our products.

With operations in multiple segments of the pharmaceutical industry, we are able to maintain control over the quality, supply chain management and marketing of our products. We believe that our integrated business platform maximizes the synergies between our businesses by optimizing our operational efficiency while reducing the costs of our customers, allowing us to further solidify our leadership in the PRC pharmaceutical distribution industry.

OUR BUSINESS SEGMENTS

We are a leading provider of pharmaceutical supply chain services with integrated operations in the following business segments.

- *Pharmaceutical distribution.* This is our principal business. We provide distribution, logistics and other value-added services for pharmaceutical and healthcare products of domestic and international manufacturers and other suppliers.
- *Retail pharmacy.* We have a network of retail drug stores that we directly operate or franchise in major cities throughout China.
- *Other business operations.* In our other business operations, we are engaged in the manufacturing or selling of pharmaceutical products, chemical reagents and laboratory supplies.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

BUSINESS

The following table sets forth the external segment revenue generated from each of our business segments and the percentage of these revenues to our total revenue for the periods indicated:

	Year ended 31 December						Five months ended 31 May			
	2006		2007		2008		2008		2009	
	(RMB)	(%)	(RMB)	(%)	(RMB)	(%)	(RMB)	(%)	(RMB)	(%)
	(unaudited)									
(in millions, except for percentages)										
External Segment Revenue: ⁽¹⁾⁽²⁾										
Pharmaceutical distribution	21,927.2	92.4	28,997.3	93.2	35,745.1	93.6	14,017.7	93.4	16,845.7	93.3
Retail pharmacy	823.1	3.5	835.6	2.7	952.2	2.5	389.0	2.6	463.2	2.6
Other business operations	986.3	4.2	1,277.3	4.1	1,490.2	3.9	600.5	4.0	739.1	4.1
Total external revenue	23,736.6	100.0	31,110.2	100.0	38,187.4	100.0	15,007.2	100.0	18,048.0	100.0

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

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

PHARMACEUTICAL DISTRIBUTION

Our pharmaceutical distribution operation is our principal business, accounting for more than 90% of our total revenues each year during the Track Record Period. We primarily distribute a full line of prescription and over-the-counter pharmaceutical products, consisting of branded and generic Western and Chinese medicines, as well as healthcare products and medical supplies through a geographically diverse distribution network of 25 distribution centers spanning 19 provinces, municipalities and autonomous regions in China. The ability to control the movement of large volumes of pharmaceutical products, while maintaining product safety and efficacy in a cost-efficient and timely manner, is one of our core competencies. As of 31 May 2009, our direct-sale customers included 4,723 hospitals nationwide, which represented 36.4% of all hospitals in China, encompassing 56.2% of the largest, most highly ranked class-three hospitals. We also distribute prescription and over-the-counter pharmaceutical and healthcare products through our distribution network to other distributors, retail drug stores and other customers, including retail chain stores, independent pharmacies, community clinics and other healthcare institutions. We are one of the only three licensed nationwide anesthetics distributors in China, and we currently hold approximately 90% of the PRC market share of this product. In recent years, we have made intensified efforts to coordinate our nationwide distribution activities by sourcing pharmaceutical products on a centralized basis from domestic and international pharmaceutical manufacturers.

The PRC Central Government has recognized our capability, reliability and efficiency in the distribution of large volumes of pharmaceutical products by including the CNPGC Group, the largest pharmaceutical group in China, in its emergency management and disaster response efforts. Since 1960, the PRC Central Government has allocated to CNPGC central medical reserve funds in order for it to purchase medical products (including medicines) required to respond to major disasters, epidemics and other emergencies. CNPGC is one of the companies designated by the PRC Central Government for management and operation of the central medical reserve funds. Since the principal business of our Company is the distribution of medicines, while that of the other members of the CNPGC Group are other types of businesses, the Controlling Shareholder considers that it is appropriate to re-allocate the funds in relation to medicines to our Company. Please refer to paragraph (1) of the section headed “Relationship with the Controlling Shareholder and the Directors — Independence from the Controlling Shareholder — Financial independence” for further details of the medical reserve funds received by our Company.

BUSINESS

Under a responsibility letter dated 4 January 2006 entered into between CNPGC and the Company, we are responsible for (i) strictly implementing the central medical reserve plan and not changing the types and quantities of medical products purchased and kept without prior permission; (ii) making timely allocations of such medical products in accordance with CNPGC’s instructions, which are received from the relevant PRC Government department; (iii) ensuring the quality of such medical products; (iv) ensuring the security of the central medical reserve funds; (v) returning the medical reserve funds to CNPGC unconditionally upon revocation of our duties; (vi) establishing various kinds of rules, policies and measures to manage the central medical reserve funds; and (vii) submitting various kinds of reports to CNPGC in relation to the use of the medical funds and medical products. Other than being responsible for these matters, we do not have any additional costs, benefits, obligations and liabilities after re-allocation and payment of the medical reserve funds to us by CNPGC.

The medical products sold under the responsibility letter to specific customers during major disasters, epidemics and other emergencies were priced at cost. As of 31 December 2006, 2007 and 2008 and 31 May 2008 and 2009, the sale of such medical products by us amounted to nil, RMB507,500, RMB54,970,000, RMB51,615,400 and RMB7,200, respectively.

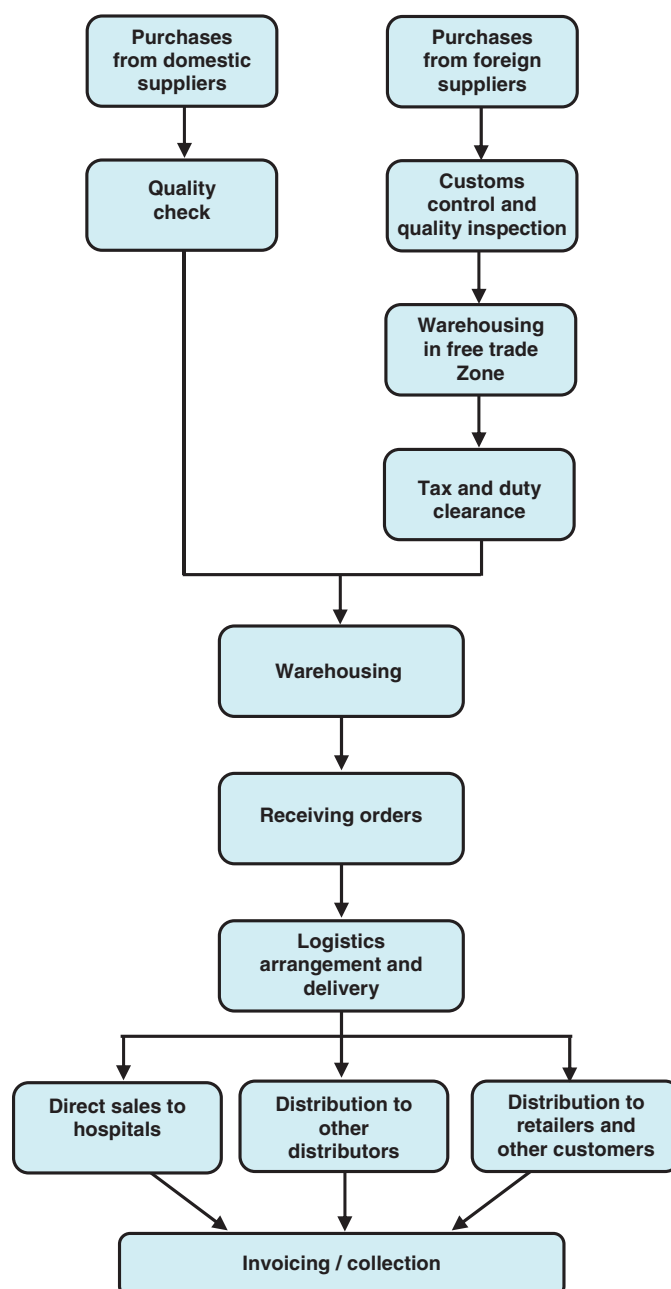
The following table sets forth a breakdown of the external revenue of our pharmaceutical distribution operations by type of customer during the periods indicated:

	Year ended 31 December						Five months ended 31 May			
	2006		2007		2008		2008		2009	
	(RMB)	(%)	(RMB)	(%)	(RMB)	(%)	(RMB)	(%)	(RMB)	(%)
	(in millions, except for percentages)						(unaudited)			
Hospitals	9,642.2	44.0	13,216.6	45.6	16,719.0	46.8	6,563.4	46.8	8,129.7	48.3
Other distributors . . .	10,927.3	49.8	13,753.8	47.4	16,263.6	45.5	6,372.0	45.5	7,134.2	42.3
Retail drug stores and other customers	1,357.7	6.2	2,026.9	7.0	2,762.5	7.7	1,082.3	7.7	1,581.8	9.4
Total	21,927.2	100.0	28,997.3	100.0	35,745.1	100.0	14,017.7	100.0	16,845.7	100.0

BUSINESS

Operating Process

The following diagram illustrates the core operating process of our pharmaceutical distribution operations:

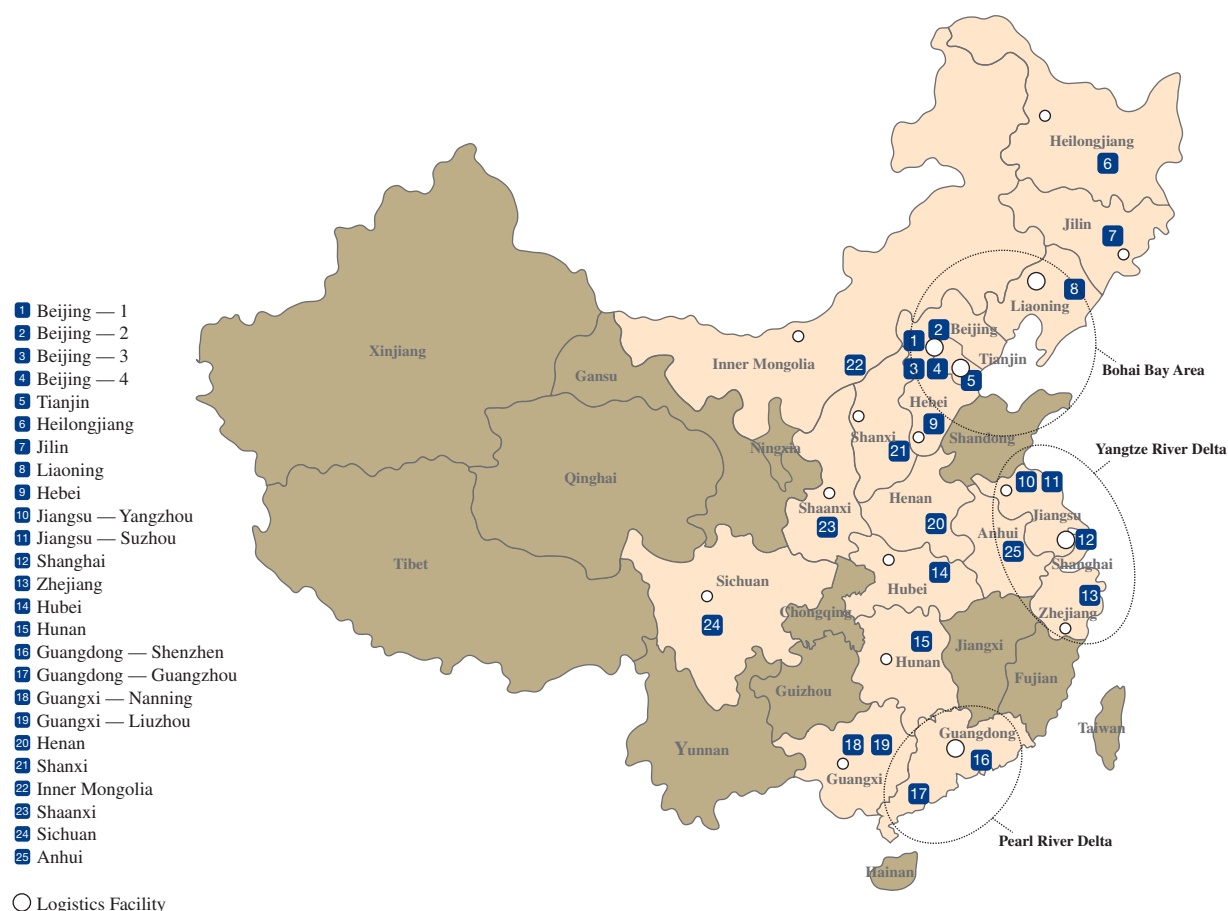


Our pharmaceutical distribution operations involve several integrated procedures that allow for enhanced efficiency and quality control of our products at every stage of our operations, from procurement to delivery to our customers. We purchase products from domestic or foreign suppliers and submit such products through a quality control inspection and assist in clearing any customs and tax matters, if relevant. We warehouse our products in a climate-controlled environment until the receipt of customer orders, during which time we arrange for providing logistics services and the timely delivery of our products. The operating process concludes with the invoicing of, and payment collection from, our customers.

BUSINESS

Distribution Network

As of 31 May 2009, we owned and operated 25 distribution centers in 19 provinces, municipalities and autonomous regions across China. The following map illustrates our distribution centers, logistics facilities and the regions directly covered by our sales and marketing teams:



We conduct our pharmaceutical distribution operations through our 25 distribution centers. The primary functions of our distribution centers are to generate sales and manage the daily operations of our operating subsidiaries, such as processing the products received from our suppliers and distributing the products ordered by our customers, as well as storage and warehousing functions. Each distribution center is responsible for sales and marketing activities, such as securing new customers, providing sales and customer support and maintaining existing customer relationships in its operating region. Currently, most distribution centers also serve as coordination centers for the warehousing and transportation logistics of our pharmaceutical distribution operations. We are in the process of centralizing all of our logistics operations in an integrated logistics system under the control of a logistics subsidiary, which we expect to complete in 2010. The distribution centers generally consist of a multifunctional office area, information system, supporting logistics, warehouse facilities and receiving and shipping docks. Our distribution centers generally range in size from 5,000 sq.m to 20,000 sq.m of gross floor area and our warehouses range in size from 3,000 sq.m to 20,000 sq.m of gross floor area.

BUSINESS

Sales and Marketing

We make our pharmaceutical distribution sales primarily in China. The following table sets forth a geographical breakdown of the revenue, after inter-segment elimination, from our pharmaceutical distribution operations for the periods indicated:

	Year ended 31 December						Five months ended 31 May			
	2006		2007		2008		2008		2009	
	(RMB)	(%)	(RMB)	(%)	(RMB)	(%)	(RMB)	(%)	(RMB)	(%)
	(in millions, except for percentages)									
Bohai Bay Area	8,373.9	38.2	12,707.9	43.8	15,214.6	42.6	6,043.9	43.1	7,291.9	43.2
Yangtze River Delta	5,888.6	26.9	6,896.8	23.8	8,754.1	24.5	3,513.9	25.1	3,743.3	22.2
Pearl River Delta	5,324.8	24.3	6,196.3	21.4	8,117.0	22.7	3,138.7	22.4	3,764.8	22.4
Other regions	2,339.9	10.6	3,196.4	11.0	3,659.4	10.2	1,321.3	9.4	2,045.7	12.1
Total	21,927.2	100.0	28,997.3	100.0	35,745.1	100.0	14,017.7	100.0	16,845.7	100.0

As of 31 May 2009, our direct customers included 4,723 hospitals, including 670 class-three hospitals, 2,545 distributors, over 22,000 retail pharmacies and other customers. The following table sets forth below a geographical breakdown of our customers:

	Hospitals	Distributor customers	Retail pharmacies and other customers
Bohai Bay	1,218	388	7,652
Yangtze River Delta	782	313	3,961
Pearl River Delta	880	557	6,191
Other Regions	1,843	1,287	4,351
Total	4,723	2,545	22,155

As of 31 May 2009, we had approximately 1,651 sales and marketing representatives for our pharmaceutical distribution operations, who were located at our head office as well as in our regional distribution centers.

Our 256 sales and marketing representatives located at our head office are primarily responsible for the sales and marketing activities of the daily distribution operations of the Company as well as developing general marketing and promotional plans for our pharmaceutical distribution business on a company-wide basis. The corporate sales and marketing department at our head office also designs and develops service packages to provide value-added services. These service packages are tailored to specific customer groups and can be further customized at the distribution facility level to adapt to local market conditions. Further, our corporate sales and marketing department at our head office serve national account customers in close cooperation with our local distribution centers. Each of our distribution centers is electronically linked to our central computer system and information management network, thus facilitating our control over purchasing, shipping and billing.

Our 1,395 sales and marketing representatives located at our distribution centers are primarily responsible for undertaking regional sales, marketing and customer support activities directly to customers. Because our sales and marketing representatives are located in our distribution centers, which are strategically located close to customers in each of the regions where we do business, they are able to respond promptly to customer needs in an effective manner. Our sales and marketing representatives at our distribution centers carry out the marketing and promotional plans developed at our head office, and conduct a review process to screen customers before engaging in sales and marketing efforts.

BUSINESS

Our sales personnel in our sales and distribution centers are organized by the geographical coverage of our distribution network and are further specialized by particular type of customer, sale method and product category. We mainly provide pharmaceutical distribution services through: (i) a direct sales force that primarily sells prescription medicines to national and regional hospitals; (ii) a sales force that primarily sells pharmaceutical and healthcare products to other distributors; (iii) a general sales force that primarily sells pharmaceutical and healthcare products to retail drug stores and other end-customers; and (iv) sales teams that specialize in the distribution of anesthetics and vaccines.

Manufacturers generally sell their products exclusively to pharmaceutical distributors, such as ourselves, which in turn sell their products to hospitals, other distributors, retail pharmacies and other customers. We believe they do so because it is a cost-effective way to reach a broad end-user base.

Sales and Distribution Agreements

The majority of our product sales are based on recurring customer purchase orders. Generally, we do not enter into any long-term contracts. In addition, we utilize different sales and distribution agreements for different types of customers.

Hospital customers

Our direct sales to public hospitals are primarily channeled through the PRC Government-mandated collective hospital tendering process, through which a hospital solicits public bids from pharmaceutical manufacturers as part of its pharmaceutical procurement process. See the section headed “Regulation — Tendering Requirements for Hospital Purchases of Medicines” in this document. The tendering process generally takes three to six months to complete. The collective bidding process covers multiple categories of medicines used by public hospitals and, although the number varies by geographic region, approximately thousands of pharmaceutical manufacturers generally participate in the collective hospital tendering process. The supply of a particular type of medicine is generally made on a non-exclusive basis by multiple manufacturers and distributors. We enter into distribution agreements with the manufacturers and advise them in the collective hospital bidding process. We work closely with the manufacturers to improve their bidding position and number of successful bids by providing industry expertise, market intelligence, competitive price suggestions, documentation support and other administrative services. We typically advise and assist multiple manufacturers in the same hospital tendering process, including our own pharmaceutical manufacturing subsidiaries. The duly organized bidding evaluation committee of pharmaceutical and clinical medical experts determines which manufacturers win bids and hospitals determine the dosage form, manufacturer and brand of a particular drug delivered through placing purchase orders with us after the bidding process. After the tendering process, we distribute products of the pharmaceutical manufacturers that win bids upon purchase orders provided by the hospital, which will specify the brand, volume and types of pharmaceutical products. The pricing of these products will be determined in accordance with the collective hospital bidding process. As a result, during the Track Record Period, we did not experience any material conflicts from advising both our subsidiaries as well as other independent third-party pharmaceutical manufacturers in the same tendering process.

Distributor customers

We sell our products to distributor customers because we currently do not directly cover every province or autonomous region in China and some distributors have sale channels to reach hospitals, retail pharmacies and other healthcare institutions that are not in our customer base.

Our distribution and sales of pharmaceutical products to distributor customers are generally governed by three-party negotiations among pharmaceutical manufacturers, us and the downstream

BUSINESS

distributors. From time to time, pharmaceutical manufacturers will enter into written three-party agreements with us and our distributor customers. However, under prevailing industry practice in the PRC, entry into a written three-party agreement is optional, and the parties will not necessarily enter into a written three-party agreement. The three-party agreements generally specify the suggested selling price of pharmaceutical products, which is ultimately subject to price ceilings or other forms of price controls set by the PRC Government, upon their subsequent sale and distribution by the distributor customer, the qualifications of the distributor customer and the exclusivity, term period and geographic coverage of the distribution and sales of such products by our distributor customers, as well as order, delivery and payment arrangements between us and the distributor customers. Pharmaceutical manufacturers will generally specify different suggested selling prices for hospitals and retail pharmacies in the three-party agreements. Our selling price of the pharmaceutical products to the pharmaceutical distributor customers is governed by distribution and agency agreements entered into separately between us and the pharmaceutical manufacturers. Downstream distributors order products from us and we are responsible for the supply and delivery of such products. In certain three-party agreements, our distributor customers are required to submit monthly sales and inventory reports to the pharmaceutical manufacturers for review. The terms of the three-party agreements range from one year to three years. However, the majority are for a term of one year and are renewable for one year or more upon their expiration.

Except for 36 distributor customers which are our connected persons, our distributor customers are independent third parties. Sales of pharmaceutical products, healthcare products and medical supplies to these 36 distributor customers for the years ended 31 December 2006, 2007, 2008 and the five months ended 31 May 2009 were approximately RMB674 million, RMB751 million, RMB902 million and RMB323 million, respectively, representing approximately 3.1%, 2.6%, 2.5% and 1.9% of our total revenue in our pharmaceutical distribution segment.

We select our distributor customers based on a variety of criteria, such as their credit record, customer portfolio and distribution network. The following table sets forth the changes in the number of our distributor customers during the Track Record Period:

	<u>Year ended 31 December</u>			<u>Five months ended 31 May</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Additions of new customers	327	148	102	267
Termination of existing customers	(391)	(703)	(758)	(725)
Net decrease in distributor customers	(64)	(555)	(656)	(458)
At the end of year/period	4,214	3,659	3,003	2,545

The decrease in the number of our distributor customers during the Track Record Period was primarily due to our stricter standards to select and maintain distributor customers and the expansion of our own direct geographical coverage of pharmaceutical customers. The decrease was also consistent with the trend towards consolidation in the pharmaceutical distribution industry in China.

Other customers

In addition, we have direct sales to retail drug stores and other customers such as retail chain stores, independent pharmacies, community clinics and other healthcare institutions. The majority of our product sales to these customers are based on recurring customer purchase orders.

Revenue recognition and pricing

We recognize revenue from the sales of goods to our customers when our products are delivered to the hospital, retail pharmacy or distributor customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the

BUSINESS

customer’s acceptance of the products. As our products are often sold with volume discounts, sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts at the time of sale.

In principle and customary with market practice, the price of our products is determined through the PRC Government-mandated collective tender process and/or negotiations with our suppliers and customers. Negotiations take into account various factors, including our procurement costs and gross margin levels, our extensive distribution network and bargaining power, government policies and regulations, competition, customer preferences and market considerations.

Payment

Our customers are generally invoiced at the time of delivery of their order, with varying credit terms, generally ranging from 30 to 120 days. Our extension of credit terms depends, in part, on the creditworthiness of certain customers, the location of customers and the products being sold. We accept payments from our customers in the form of bank note, wire transfer or cash.

Sales returns

For sales returns, our customers may return products that are damaged, with incomplete packages, unclear labels or missing contents or inconsistent with the specifications on the purchase orders. In addition, our customers may return the products which cease to be on public hospitals’ pharmaceutical procurement lists or have expired or are close-to-expiry. For certain pharmaceutical products, we are required to obtain pharmaceutical manufacturers’ prior approval before accepting sales returns from our customers. For products that are not damaged, that are complete, that are consistent with the specifications on the purchase orders and that expire more than six months following the date of the requested sales return, we only accept the sales return if the products may be resold or returned to the supplier for full credit. During the Track Record Period, our monthly sales to our customers, including downstream distributors, were generally stable and we did not have a material amount of sale returns from our customers. Our sales returns were approximately RMB362.2 million, RMB468.4 million, RMB615.0 million and RMB271.2 million for the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, respectively.

Product Portfolio

We leverage our extensive pharmaceutical expertise and capitalize on our close relationships with key suppliers to offer quality products and services to our customers. As of the Latest Practicable Date, we distributed 46 of the 50 international top-selling pharmaceutical products in China. As of 31 May 2009, we distributed over 22,000 different types of pharmaceutical and healthcare products, including prescription medicines, consisting of branded and generic medicines, and over-the-counter medicines as well as personal care products and medical supplies. During the Track Record Period, our sales of personal care and medical supplies products accounted for less than 0.2% of our total revenue generated from pharmaceutical distribution operations. Our products are provided by over 3,300 suppliers, comprising both international and domestic pharmaceutical companies. Our suppliers include 30 of the top 50 international pharmaceutical companies, such as Roche, AstraZeneca, Pfizer, GlaxoSmithKline, Novo Nordisk, Merck and Eli Lilly, and 95 of the top 100 domestic pharmaceutical companies, such as Jiangsu Hengrui, Harbin Pharma and North China Pharma. In addition, we are also one of the only three licensed nationwide anesthetic distributors in China, and we currently hold approximately 90% of the PRC market share for anesthetics.

As of 31 May 2009, we managed the storage and transportation of approximately 17,600 prescription medicines and approximately 4,300 over-the-counter medicines in our pharmaceutical distribution operations. We distribute these prescription and over-the-counter medicines to hospitals,

BUSINESS

other distributors, retail pharmacies, community clinics and other healthcare institutions. We believe we are currently the only distributor in China appointed by the relevant suppliers with respect to 162 of our pharmaceutical products, although, consistent with market practice for suppliers in China, our distribution agreements with these suppliers are not stated to be on an exclusive basis. The table below sets forth the major treatment areas of our prescription and over-the-counter pharmaceutical products, the number of products for each treatment area and the major products in each category:

Product category	Number of products ⁽¹⁾	Major products
Medicines for digestive and metabolic diseases	4,400	Ademetionine for injection, Gemcitabine Hydrochloride for injection, Montmorillonite powder, Domperidone tablet, Esomeprazole Magnesium enteric-coated tablet, Omeprazole Sodium for injection, Hydrotalcite tablet, Ademetionine Enteric-coated tablet, Ursodeoxycholic Acid capsule
Medicines for cardiovascular diseases	3,300	Atorvastatin Calcium tablet, Felodipine sustained release tablet, Telmisartan tablet, Levamlodipine Besylate tablet, Valsartan capsule, Metoprolol Tartrate sustained release tablet, Nifedipine controlled-release tablet, Metoprolol Tartrate sustained release tablet, Metoprolol Tartrate tablet and Losartan Potassium tablet
Anti-infection medicines	3,200	Imipenem and Cilastatin Sodium for injection, Meropenem for injection, Cefaxolin Sodium for injection, Vancomycin Hydrochloride for injection, Ceftazidime for injection, Teicoplanin for injection, Ceftriaxone sodium for injection, Cefoperazone Sodium/Sulbactam Sodium for injection, Meropenem for injection and Cefaclor for suspension
Medicines for cancer and immune system diseases	600	Mycophenolate Mofetil capsule, Gefitinib tablet, Capecitabine tablet, Gemcitabine Hydrochloride for injection, Paclitaxel injection, Letrozole tablet, Rituximab injection, Pemetrexed disodium for injection, and Mycophenolate Mofetil capsule
Medicines for psychiatric diseases	1,100	Olanzapine tablet, Fluoxetine Hydrochloride dispersible tablet, Proxetine Hydrochloride tablet, Levodopa and Benserazide tablet, Risperidone tablet, Sertraline Hydrochloride tablet, Sodium Valproate sustained release tablet, Oxiracetam injection, Bromocriptine Mesilate tablet and Almitrine Bismesylate/Raubasine tablet
Medicines for respiratory system	2,000	Ambroxol Hydrochloride injection, Ambroxol Hydrochloride tablet, Ambroxol Hydrochloride oral solution, Myrtil Standardized enteric-coated soft capsule, Ipratropium Bromide solution for inhalation, Compound Codeine Phosphate solution, Compound Ipratropium Bromide solution for inhalation, Salmeterol Xinafoate and Fluticasone Propionate powder for inhalation
Medicines for blood and hemoglobin producing system	500	Clopidogrel Hydrogensulfate tablet, Octreotide Acetate injection, Mecobalamin tablet, Mecobalamin injection, Hydroxyethyl Starch 130/0.4 and Sodium Chloride injection, Cobamamide for injection and Alteplase for injection Succinylated Gelatin injection
Medicines for muscular and skeleton system	700	Glucosamine Hydrochloride capsule, Calcium Carbonate and Vitamin D3 tablet, Compound Calcium Gluconate oral solution, Meloxicam tablet, Calcitriol Soft capsule, Alendronate Sodium tablet, Diclofenac Sodium enteric-coated tablet and Calcitriol soft capsule

(1) Figures provided are approximate figures.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

BUSINESS

Product category	Number of products ⁽¹⁾	Major products
Hormone preparation (excluding sex hormone)	300	Isophane Protamine Biosynthetic Human Insulin injection (Pre-mixed 30R), Repaglinide tablet, Gliclazide tablet (II), Repaglinide tablet, Acarbose tablet, Isophane Protamine, Biosynthetic Human Insulin injection (Pre-mixed 50R), Salcatonin injection, Gliclazide preparation powder, Mixed Protamine Zinc Recombinant Human Insulin injection and Biosynthetic Human Insulin injection
Dermatology Medicines	1,000	Miconazole Nitrate cream, Mupirocin cream, Triamcinolone Acetonide and Econazole cream, Halometasone/Triclosan cream, Mometasone Furoate cream Halometasone cream, Minocycline Hydrochloride ointment, Compound, Dexamethasone Acetate cream, Halometasone cream, Ketoconazole
Medicines for sensing system	900	Verteporfin for injection, Weianlin eye drop, Sodium Hyaluronate eye drop, Sodium Hyaluronate injection, Iodized Lecithin tablet, Ofloxacin eye drop, Levofloxacin Hydrochloride eye drop, Pirenexine eye drop, Vitamin A palmitate gel and Compound Chondroitin Sulfate eye drop
Medicines for reproductive and urinary system and sex hormone	700	Finasteride tablet, Alprostadil injection, Goserelin Acetate sustained release depot, Epristeride tablet, Prostat tablet, Ethinylestradiol and Cyproterone Acetate tablet, Desogestrel and Ethinylestradiol tablet, Valerate tablet, Conjugated Estrogens tablet, Dydrogesterone tablet
Parasiticide, insecticide and insect repellent	200	Abendazole tablet, Ornidazole injection, Ornidazole and Sodium Chloride injection, Ornidazole for injection, Hydroxychloroquine Sulfate tablet, and Ornidazole capsule
API and medicines not for direct intake	30	Iodine, Sirolimus oral solution, Basiliximab for injection, Sirolimus tablet, Misoprostol HPMC and Sirolimus oral solution
Miscellaneous	100	Peginterferon alfa-2a solution for injection, Peginterferon alfa-2a solution for injection Trastuzumab injection, Sevoflurane, Propofol injection, Iopromide injection, Propofol injection, Iopromide injection and Recombinant Coagulation Factor VIII for injection

(1) Figures provided are approximate figures.

The following table sets forth our personal care and medical supplies products, the number of products and the major products in each category:

Product category	Number of products ⁽¹⁾	Major products
Personal care products	700	Throat lozenges, Liquid dosage supplements, Health supplements and Dietary supplements
Medical supplies products	600	Syringes, Needles, Blood sugar testing paper and Compressors

(1) Figures provided are approximate figures.

Value-added Services

We provide value-added supply chain services, such as supplier solutions, certain advanced logistics and other value-added services. For example, we utilize packaging, processing, storage and transportation methods designed especially for specialty medicines that are valuable, fragile, perishable

BUSINESS

or require specific handling methods. The depth and breadth of our services reduce our customers’ inventory and fulfillment costs and other operational expenses. In addition, we are able to provide our suppliers with valuable market data and information that we collect during the course of our operations with our information management system, as well as certain advanced services of inventory tracking and management, distribution center management and supply chain management consulting. Our value-added services benefit our customers by allowing them to efficiently deliver healthcare products, while lowering their overall costs that are associated with the pharmaceutical supply chain. In addition, our value-added services benefit our suppliers by setting strict quality control measures and ensuring the timely distribution of their products. We generally do not charge our customers or suppliers separate fees for our value-added services, and thus do not receive material revenues from these services; however, we have a long-term plan to generate additional revenues in the future from value-added services as part of our existing pharmaceutical distribution operations. These services have also strengthened our existing supplier and customer relationships, differentiated us from our competitors and enabled us to pursue new relationships with key healthcare product suppliers.

The following table sets forth our value-added services, supply-side solutions and advanced logistics services:

Category	Services
Supplier solutions	Import agency Customs clearance Free trade zone warehousing Pharmaceutical inventory management Collection services on behalf of the suppliers
Advanced logistics services	Inventory analysis report Design and establishment of supply chain Technical support and sales assistance Inventory tracking and management
Other value-added services	Electronic purchase orders and confirmation Quality inspection for imported pharmaceuticals Packaging, repackaging and reprocessing services Product insurance arrangement Product return or replacement Delivery of specialty pharmaceutical products

Supplier Arrangements

We categorize our suppliers into different levels for the purpose of supplier management, such as strategic alliance suppliers, agreement suppliers and suppliers on a transaction-to-transaction basis. We maintain relationships with our strategic alliance suppliers by entering into annual agency or distribution agreements. Under these agreements, we enhance the product promotion of such suppliers, provide feedback on sales of their products and maintain close communications with these suppliers. Our agreement suppliers are characterized as parties with whom we have had multiple agreements or repeat transactions with, but with whom we do not cooperate at the same level as we do with our strategic alliance suppliers. Our transaction-to-transaction suppliers are generally newer, less familiar suppliers that have smaller agreements with us in terms of volume.

The cost of purchasing merchandise paid to our suppliers is generally determined through negotiation, which generally involves our suppliers and customers, during the procurement process. Currently, the procurement of our products is mainly conducted by our subsidiaries with the assistance and guidance of our head office, and partially through centralized procurement coordinated by our head office. In order to enhance our economies of scale, we have begun to implement measures to

BUSINESS

coordinate our nationwide distribution activities by sourcing pharmaceutical products on a consolidated basis and to centralize procurement from our regional subsidiaries to our national head office. We believe that a centralized procurement policy will enable us to exercise more bargaining power with respect to price and other contract terms, strengthen our negotiating position with our suppliers and integrate our logistics services. An integrated purchasing network will also make us more attractive to our customers and enhance the competitiveness of our pharmaceutical distribution operations.

We have had business relationships with most of our suppliers since the incorporation of the Company in 2003. The terms of the agreements we enter into with our suppliers for pharmaceutical distribution operations range from one year to three years. However, most are for a term of one year and are renewable for one year or more upon their expiration. During the Track Record Period, we did not experience any difficulty in renewing our agreements with suppliers.

These agreements set out the specifications and prices for the suppliers' pharmaceutical products, credit periods, guidelines for the sale and distribution of their products, including restrictions on the regions in which the products may be sold, as well as the terms of any logistics services that may be provided. Under the agreements, the suppliers are responsible for ensuring the quality of, and the validity of its intellectual property rights to, their pharmaceutical products. We are responsible for timely delivery of products and payments to the suppliers as well as compliance with guidelines set by our suppliers, especially the suggested selling price. Suppliers also typically prescribe a minimum or target purchase amount, and may engage our assistance in the hospital tendering process and in their sales and promotion activities. In general, the suppliers will not terminate the agreements if we fail to meet such target purchase amount. The agreement may be renewed or extended upon mutual agreement in writing before its expiration date. The suppliers may terminate the agreements if we breach major contract terms, such as if we fail to comply with the guidelines of the distributor specified in the agreements, or if we delay the product delivery to our customers or if we are delinquent in making payment.

The credit terms granted by our suppliers are generally up to 180 days. We settle outstanding payables with our suppliers through bank note and wire transfer. Certain suppliers will provide us rebates for early payments.

For purchase returns, we are able to return products that are damaged, have incomplete packages/unclear labels or are missing contents, have expired, are close-to-expiry or do not otherwise satisfy our quality standards by notifying the supplier during the specified return period. To a lesser extent, we may return certain pharmaceutical products back to suppliers if such products cease to be on public hospitals' pharmaceutical procurement lists. During the Track Record Period, we did not have a material amount of returns of purchases to our suppliers.

Logistics Arrangements and Infrastructure

As a part of our pharmaceutical distribution operations, we provide comprehensive and technologically-advanced logistics arrangements to our suppliers and customers which cover the entire range of the pharmaceutical supply chain in China. We generally do not charge separate fees for our logistics arrangements and facilities. Our logistics services help our customers improve their service quality and reduce costs, meet evolving demands in less time, synchronize their logistics with end-customers' demands, improve process efficiency and enhance supply chain visibility. Our pharmaceutical logistics arrangements mainly consist of storage, warehousing, and long-distance, regional and local transportation and delivery services. We are also a leading provider of outsourced logistics services to the pharmaceutical and healthcare industry. Our healthcare capability is integrated

BUSINESS

with national freight management, enabling our third-party customers to benefit from end-to-end supply chain management through a single point of contact. As a testament to our capabilities and services, we are the main national provider of outsourced logistics services for GlaxoSmithKline and Bayer. Other outsourced logistics services customers include domestic and international pharmaceutical companies such as Bausch & Lomb Incorporated, Eli Lilly, and Kangmei Pharmaceutical Co., Ltd.

Our demand-driven logistics arrangements aim to manage the flow of products and information with high efficiency and precision, as well as minimize our inventory holding costs. We typically deliver our products to our customers on a daily basis. Our integrated services are custom-designed to meet the unique requirements of the pharmaceutical and healthcare industry, and our operations have the stringent procedural controls and monitoring required in a regulated business environment. Our warehouses are equipped with comprehensive Warehouse Management Systems, or WMS, including automatic systems for the selection and transportation of goods, as well as climate control. We also use tracking systems employing radio-frequency identification, or RFID, which is an automatic product identification system that utilizes small transponders and radio signals to quickly retrieve product data and location in logistics facilities. We have further reduced the delivery lead-time in our logistics facilities by introducing a night shift to repackage and assemble orders. In general, orders generally leave our warehouses within six hours of our receipt of customer orders. During the Track Record Period, we did not encounter any material errors or delays in our logistic arrangements for our pharmaceutical distribution operations.

Our regional and local logistics facilities located at our distribution centers are primarily responsible for the coordination and provision of integrated regional logistics services. They generally consist of storage space and related logistics equipment and range in size from 5,000 sq.m to 20,000 sq.m in terms of gross floor area. We commenced an upgrade and integration plan for the infrastructure of our logistics facilities in 2007 with the aim to establish a fully centralized logistics system in 2010. Each facility is organized according to the volume of products distributed by, and total floor space of, the facility. This reflects whether the service area of the facility is regional, provincial or local. Our five integrated regional logistics hubs are located in Beijing, Tianjin, Shanghai, Guangzhou and Shenyang. These hubs directly serve our customers and act as coordination and planning centers for other logistics facilities. We are in the process of upgrading certain existing facilities to become integrated provincial facilities. They are located in the provinces or autonomous regions of Zhejiang, Jiangsu, Hubei, Hunan, Shanxi, Shaanxi, Henan, Sichuan, Guangdong, Liaoning, Jilin, Heilongjiang, Inner Mongolia and Guangxi. We also intend to establish smaller local facilities in other selected cities across China to further extend our reach to end-customers. We believe this system will increase our scale of operations, broaden our geographical coverage and better serve our customers and suppliers.

Information System

Our logistics and information management system provides for, among other things, electronic order entry by customers, invoice preparation and purchasing and inventory tracking. The efficient distribution of small orders is possible through the extensive use of computerization and modern warehousing techniques, which include computerized and automated warehouse product location, bar-coding systems, routing and inventory notification and replenishment systems, gravity-flow racking, mechanized order selection and efficient truck loading and routing. We integrate various systems such as WMS, Chain Management System, or CMS, Hospital Information System, or HIS, and a centralized inventory system managing warehouses across different locations to establish a standardized platform for electronic business management which is used by various suppliers and hospitals. We also integrate distributed order management and warehouse management solution systems, which is utilized with our ERP system, providing a platform for a number of basic and value-

BUSINESS

added services provided to our customers, including marketing, product demand data, inventory replenishment, computer price updates and price labels, in turn realizing a direct and high-speed information exchange channel connecting us to our customers. Each of these functions enables us to exercise more precise control over our inventory flow, enhance our logistics and value-added services offerings, improve our operational planning and strengthen our customer relationships.

We are committed to the continuing development of our integrated information system. We have established four warehouses in Beijing, Shanghai, Tianjin and Guangzhou that are equipped with modern logistics information systems. We use the WMS, a comprehensive and powerful inventory management system with enhanced inventory tracking and analysis, in our regional and provincial logistics centers. Each of our logistics centers can process 100,000 purchase orders daily. Our developing information platform mainly consists of an integrated national platform, regional purchase order processing systems, inventory management systems and pricing management systems. Our information system is connected through CMS to the management systems of our end-customers, including the logistics centers of such end-customers. This integrated management system allows for expansive coverage of our information network as well as the sharing of information and resources. Our information system is utilized by domestic and international suppliers such as GlaxoSmithKline and Dainippon Sumitomo Pharmaceutical Co., Ltd. We aim to optimize the profitability of our operations by maintaining inventory specific to the requirements of the local market served by each facility.

Furthermore, in order to prevent any disruption of our information system as well as to respond to unforeseeable events or system failures and timely resume system operations, we have developed a disaster recovery plan for our information system. Upon the failure or disruption of our intranet, we may access a backup virtual private network system through the internet. We have also implemented a standby mechanism, through which we maintain primary and secondary information systems. All data is mirrored to the secondary server in real time so that both systems contain identical information. In this way, we are able to switch to the secondary system upon the failure or disruption of the primary system. During the Track Record Period, we did not encounter any significant system failures or disruptions to our information system.

RETAIL PHARMACY

We are one of the leading retail pharmacy operators in the PRC retail pharmacy market. According to China Pharmacy Magazine, we were among the top five pharmaceutical retailers in China, in terms of the number of retail stores in the year ended 31 December 2008. We have developed a number of retail pharmacy brand names such as 大德生 (Dadesheng) and 一致 (Accord) in many major cities in China. As of 31 May 2009, we directly operated 632 retail pharmacies and had 186 franchise retail pharmacies in premium locations situated in seven of the largest and most developed provinces and municipalities, including Zhejiang, Beijing, Shanghai, Tianjin, Jiangsu, Liaoning and Guangdong, as well as in two autonomous regions.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Information Pack.

BUSINESS

Retail Network

We believe we have succeeded in building a retail pharmacy chain with an extensive geographical reach throughout China. The following table sets forth the number of our self-operated and franchise retail drug stores by city or province as of the dates indicated:

City or Province	As of 31 December									As of 31 May		
	2006			2007			2008			2009		
	Directly owned	Franchise	Total	Directly owned	Franchise	Total	Directly owned	Franchise	Total	Directly owned	Franchise	Total
Guangdong												
Province . .	187	89	276	184	88	272	170	76	246	196	78	274
Shanghai . . .	53	112	165	68	115	183	76	56	132	81	58	139
Jiangsu												
Province . .	86	14	100	87	14	101	83	7	90	80	8	88
Beijing	44	0	44	51	0	51	37	0	37	41	0	41
Liaoning												
Province . .	5	0	5	6	0	6	30	33	63	43	34	77
Others	50	2	52	50	2	52	72	7	79	191	8	199
Total	425	217	642	446	219	665	468	179	647	632	186	818

The following table set forth the changes in the number of our retail drug stores during the Track Record Period:

	Year ended 31 December			Five months ended 31 May
	2006	2007	2008	2009
At the commencement of year/period	548	642	665	647
Additions of new retail drug stores	136	58	36	185
Termination of existing retail drug stores	(42)	(35)	(54)	(14)
Net increase in retail drug stores	94	23	82	71
At the end of year/period	642	665	647	818

The continued growth and success of our retail business will depend on the results of our expansion plan to add new pharmacy stores. Our expansion plan focuses on both entering new markets and adding stores within existing markets. We plan to focus on developing directly owned pharmacy stores. We also plan to add specialty stores that focus on high-end consumer health and cosmetic products to our retail network, and to a lesser extent, other retail operations such as discount stores. During the Track Record Period, the number of our directly owned stores increased, primarily due to the openings of our new directly owned stores and acquisitions of the retail pharmacy stores of Shenyang Tianyitang and Zhejiang Intmedic in 2008 and the State-owned Assets Supervision and Administrative Commission of the Ningxia Autonomous Region in 2009. This increase was partially offset by the closing of some directly owned stores following our review of the performance of our stores and in conjunction with PRC Government urban renewal and relocation policies. During the Track Record Period, the number of our franchise stores decreased, primarily due to (i) the expiration in November 2008 of our franchise agreement with Shanghai Shanghong Pharmacy Chain Store Co., Ltd., which operated 59 retail pharmacies in Shanghai, and (ii) the enhanced monitoring and management of our franchise stores with respect to their service quality and compliance with the terms of the franchise agreement. Because of these stricter monitoring and management measures, we disqualified certain franchise stores for their failure to comply with the terms specified in the franchise agreement or to meet our standards for operation and service and some franchise stores also voluntarily terminated their franchise arrangements with us.

BUSINESS

We believe that increasing our store base in, and relocating stores to, desirable geographical markets are essential strategies for competing effectively in the current environment and maintaining our leading position in the retail pharmacy market.

Directly owned stores

As of 31 May 2009, we had approximately 632 directly owned stores. We carefully select our store sites to maximize consumer traffic, store visibility and convenience for our customers. Substantially all of our stores are located in well-developed urban residential communities and prime retail locations in seven provinces and municipalities in China.

Franchises

As of 31 May 2009, we had 186 franchise stores primarily located in the city of Shanghai and Jiangsu, Guangdong, Liaoning, Guangxi and Zhejiang provinces. We identify and select independent local stores that maintain certain levels of sales volumes and are positioned in favorable locations to serve as our franchises. Franchise stores operate under our retail brands, and we receive a franchise fee that is calculated on the basis of the total revenue of such store as well as a fee for being the preferred supplier of products and logistics services for the franchise store. For the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, our franchise fees amounted to RMB11.6 million, RMB10.9 million, RMB15.3 million and RMB3.9 million, respectively. Through franchising, we are also able to increase our brand awareness among retail end-customers. To maintain our quality standards and brand reputation, we inspect our franchise stores on a regular basis.

Under the terms of our franchise agreements, we require our franchisees to fulfill a number of obligations, including: (i) operating under our retail pharmacy brand; (ii) sourcing all the products they carry from us; (iii) maintaining all necessary permits and licenses for operations and store facilities; (iv) recruiting qualified professionals and employees; (v) implementing our pricing policies; and (vi) maintaining our uniform store design and layout. However, in the franchise agreement, we do not prescribe any minimum purchase amount for our franchise stores to source products from us. Our franchise agreements generally have a termination date of five years from the date of the agreement, subject to renewal or extension of the franchise arrangement upon mutual agreement of the parties.

Pursuant to the franchise agreements, we provide various services for our franchisees to ensure the sale of our products, including management and employee training programs and advertising, marketing and promotional services. The franchise stores may return products before their expiration dates if such products are found damaged or incomplete, and may also return products that have expired. As our franchise stores must source all their products from us, we are fully responsible and liable for the products provided by us and sold through our franchise stores.

Store operations

We have developed a uniform and distinct layout, color scheme and design specifications, which promotes the corporate image of our retail drug stores. Our stores are staffed with an in-store pharmacist, who primarily consults with customers and assists with the dispensing of prescription drugs. In addition, we regularly carry out training programs on medicine information, nutritional information and selling skills and customer interaction for our store staff and pharmacists, as well as management training for our regional and senior managers and management officers.

Although we offer our retail customers the option to pay by cash or debit or credit cards, or by medical insurance cards, the substantial portion of retail sales are made in cash. As such, we have

BUSINESS

adopted strict cash control procedures in all of our retail drug stores. In particular, the details of each sale are recorded in our integrated information management system, and the cash generated from our stores is deposited in a controlled, on-premises safety-deposit box in each of our retail stores. Our finance department undertakes a daily reconciliation of sales data collected from cash deposit receipts that is subsequently confirmed by our banks.

We recognize revenue from the sale of goods to our retail customer in our directly owned stores when the products are sold to the customer. We recognize revenue from the sale of goods to our franchise stores when our products are delivered to the franchise stores. We recognize revenue from the fees paid by our franchise stores when all material services relating to the franchise agreement have been substantially performed.

We obtain reimbursements every one to three months from the relevant government social security bureaus for sales made to eligible participants in the national medical insurance program, depending on the province in which a store is located. Such reimbursements are the primary account receivables for our retail drug stores, as we generally do not grant credit to our retail customers. As of 31 May 2009, 361, or 44.1% of our stores, were designated stores under the PRC national medical insurance program.

Products and Services

We provide our customers with convenient and professional pharmacy services and a wide variety of healthcare products. Our typical retail drug store sells prescription medicines and a wide assortment of general healthcare products that are nationally advertised brands or our private-label products. Front store categories include many of the world’s well-known over-the-counter medicines, including medication for skin care, eye care, oral care, upper respiratory, gastrointestinal, hair growth and tobacco dependence as well as beauty products and cosmetics.

Product offerings

Our merchandise can be broadly classified into the following categories:

Prescription medicines. We offer a wide variety of medicines that comprise 19 of the 23 currently available classes of prescription medicines. We accept prescriptions only from physicians and other licensed healthcare service providers. Our in-store pharmacists verify the validity, accuracy and completeness of all prescription orders. Our pharmacists also perform a drug utilization review in which they cross-check every prescription against the customer’s submitted information for drug, disease and allergy interactions.

Over-the-counter medicines. We offer approximately 90 different classes of over-the-counter medicines, including Western medicines and Chinese medicines, for treatment of common diseases.

Consumer healthcare and personal care products. We offer approximately 160 types of personal healthcare products, including a variety of healthcare supplements, vitamins, minerals and dietary products, skin care, hair growth, beauty products and cosmetics and seasonal merchandise.

Private-label and exclusive products

We distinguish our retail drug stores from other chain pharmacies, in part, through our private-label products. We sell personal healthcare products under our private-label brand names, such as 妮可兒 (Nikeer) and 一致 (Accord), which provide a cost-effective alternative for consumers that offers the safety and effectiveness of comparable branded pharmaceutical products but at a lower retail price.

BUSINESS

We launched our first private-label products in 2006, and since then, our private-label lines have increased to over 207 products, covering most of the categories of over-the-counter products we offer. We intend to increase the sales of our private-label products in the future because they generally provide higher margins. The manufacture of all of our private-label products is outsourced to third-party manufacturers. Our manufacturing division in our other business operations does not supply to our retail stores any of the private-label products.

Exclusive products, which are provided by suppliers to us at preferential procurement prices, are available only in our retail drug stores in certain selected provinces. We launched our first exclusive products in 2006, and since then, our exclusive product lines have increased to over 608 products to date.

Pricing

We generally set the retail price of our products for our retail pharmacy operations based on the cost-plus method, including the cost of purchasing merchandise plus a standard mark-up for our operating costs. However, a portion of the pharmaceutical products that we sell through our retail pharmacy operations are, nonetheless, subject to price controls in the form of fixed prices or price ceilings. From time to time, the PRC Government will include new medicines in the Medical Insurance Catalog and adjust prices or set ceilings for the retail prices of such medicines to end-users. See “Financial Information — Factors Affecting Our Results of Operations — Policies and regulations of the PRC pharmaceutical industry” and “Regulation — Price Controls”.

Marketing and Promotion

Prior to 2007, the marketing departments of our retail pharmacy operations designed our regional promotions based on local demographics and market conditions. Our marketing department consists of 33 persons responsible for marketing strategies. Since 2007, marketing and promotion activities have been conducted by our head office, which allows us to centralize our marketing and promotion activities. We run advertisements periodically in selected newspapers, as well as on billboards and seating areas of public transportation systems, to promote our brand and the products carried in our retail drug stores. In addition, we have joint marketing and promotion programs with our product suppliers and manufacturers, which primarily consist of gift promotions, featuring customized design packaged products, in-store product sampling and displays and periodical special discounts.

Distribution

Our retail drug stores are supported by our pharmaceutical distribution operations across China which facilitate the warehousing and delivery of products for those stores. Our suppliers deliver our retail products to our local logistics facilities, from which we then distribute the products to our retail drug stores.

Information Management

Each of our directly owned and franchise retail drug stores is equipped with a computer terminal that is connected to our centralized information management system via internet. All merchandise offered by our retail pharmacies is affixed with a unique bar-coded item number for its identification in the point-of-sale system which, in turn, is linked to a real time information system. When a cashier scans merchandise being sold, the relevant data is recorded instantly. Our information system generates a daily sales report, which enables us to quickly collect sales information, track and analyze inventory levels and sales trends and optimize retail store stock levels. We also use this system

BUSINESS

to facilitate our category management decisions, fine-tune retail product selection and determine pricing, shelf space allocation and store replenishment triggers.

Currently, our retail drug stores and franchises which operate under the brand names 大德生 (Dadesheng) and 一致 (Yizhi) each uses different software for their respective information systems. We plan to implement a uniform information platform and data center for our retail pharmacy operations that standardizes the software used. We seek to fully integrate our merchandise selection, procurement, pricing, distribution and retail management on a single platform. We plan to upgrade our system and expect to complete the standardization by 2010. Upon such software standardization and system integration, we expect our retail information management system to become an intelligent information platform and portal, with the capacity to support the proposed expansion of our nationwide retail pharmacy operations. We also plan to share our logistics centers, inventory control and information management systems between our pharmaceutical distribution and retail pharmacy operations. We believe doing so will reduce our transportation, warehousing and logistics costs.

OTHER BUSINESS OPERATIONS

We also engage in the following businesses: (i) distribution and selling of laboratory supplies; (ii) manufacturing and distribution of chemical reagents; and (iii) production and sale of pharmaceutical products.

Chemical Reagents and Laboratory Supplies

We engage in the manufacturing and selling of chemical reagents and selling of laboratory supplies through our subsidiary, Sinopharm Chemical Reagent Co., Ltd.

Products

Our products include chemical, bio-chemical and diagnostic reagents, glassware supplies, laboratory equipment, apparatus and other laboratory products. These products are widely used in scientific research, environmental testing, chromatography, drug research and development, educational testing and fine and high-purity chemistry products. As of 31 May 2009, we had over 5,200 chemical reagents and over 6,000 laboratory products in our product catalog. In 2009, of our chemical reagent products, we manufactured over 40 chemical reagents products at our production facilities. Our other chemical reagent products and all of laboratory supplies are in each case manufactured by independent third parties. We have supplied chemical reagents and laboratory products to corporations, healthcare facilities, universities and other institutions for over 50 years.

We have an established position as a chemical reagents and laboratory supplies company in China. We sell our chemical reagents and laboratory supply products under our own and the third-party manufacturer's brand names. We have a number of chemical reagent and laboratory supply brands, including the following brands:

• 滬試  (Hushi)	• 申玻  (Shenbo)
• 沃凱  (Ourchem)	• SCRC 
• 京試  (Jingshi)	• BOTEK 

BUSINESS

In addition to products sold under our own brand names, we are an authorized dealer of internationally recognized chemical reagent and laboratory supply brands such as Fluka, Fisher Scientific and Hach, as a result of our extensive and stable distribution channels and our insistence on GSP-qualified imports and high quality manufacturing.

Sales and marketing

We primarily sell our products in China. We have an extensive nationwide sales network, consisting of a direct sales force and third-party distributors in major cities in China. In addition to our head office in Shanghai, we have sales points in Beijing, Xi'an, Shenyang, Suzhou and Taicang. Taking advantage of convenient local services and superior brand recognition, we believe that we have established a leading sales network and service system in the PRC pharmaceutical industry.

Our sales and marketing team consists of 187 professional and experienced sales representatives responsible for product distribution and direct sales to end-users. We market our chemical reagents and laboratory supplies by establishing our own website as a platform for the sales and promotion of our products and publishing our own magazine through our subsidiary, Beijing China Reagent & Fine Chemicals Consulting Co., Ltd. In addition, we publish annually a reagents catalog that lists the specifications of our chemical reagents, which we distribute to our customers as part of our marketing strategy.

Our revenue recognition policy for the products sold in our other business operations segment is the same as that in our pharmaceutical distribution segment. See “— Pharmaceutical Distribution — Sales and Distribution Agreements”.

Raw materials

The principal raw materials used for our chemical reagents are benzene, sulfuric acid, hydrochloric acid, nitric acid, sodium hydroxide, acetic acid, iodine, potassium hydroxide, sodium chloride and ethanol. We source our raw materials from independent third-party suppliers such as Fluka and Sigma. We store in inventory approximately 15 to 45 days of the raw materials used in the production of our chemical reagents. We enter into one-off spot contracts for the purchase of raw materials due to the nature of our business operations. Although we do not enter into long-term contracts with our suppliers, we have not experienced any supply shortages, and do not anticipate any difficulties obtaining the raw materials essential to our chemical reagent business.

Manufacturing

Production facilities. Currently, we have one manufacturing facility located in Taicang, China. It consists of three production lines, two of which are used for the manufacturing of organic and non-organic chemical reagents and one is used for the bottling of our chemical reagent products. To enhance our service to our customers, we also manufacture customized chemical reagents upon client's specific requests. Overall, we possess 102 manufacturing permits for chemical reagents.

Production capacity. Our manufacturing facility has an annual production capacity of (i) 640 tonnes of organic chemical reagents; and (ii) 320 tonnes of non-organic chemical reagents. Our bottling facility has a capacity to fill four million 500ml bottles per year.

Pharmaceutical Manufacturing

We are engaged in the research and development, manufacturing and sale of pharmaceutical products. We conduct these functions through three operating subsidiaries, namely Zhijun

BUSINESS

Pharmaceutical, Guorui Pharmaceutical and Suzhou Zhijun Wanqing, at their manufacturing facilities located in Shenzhen, Huainan and Suzhou, respectively. Our manufacturing capabilities have allowed us to develop high-quality product lines, which we believe will result in the growing reputation of our own brands.

Products

In our pharmaceutical manufacturing operations, we primarily manufacture and sell our own non-patented generic pharmaceutical products that we sell under various brand names. We also manufacture and sell patented pharmaceutical products that we sell under our brand names. As of the Latest Practicable Date, we manufactured and sold 138 branded pharmaceutical products, primarily generic medicines. The vast majority of these products are prescription pharmaceuticals. For our branded generic products, we primarily focus on therapeutic areas such as anti-infectives, respiratory systems, cardiovascular systems and pain management. Our patented pharmaceutical products are in the areas of cough and medicine absorption. We also manufacture 25 chemical intermediates and APIs.

In addition, as of 31 May 2009, we had obtained the relevant approvals from the SFDA to manufacture and sell approximately 292 pharmaceutical products.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

BUSINESS

The following table sets forth the product categories of our major products, the number of products for each category and the major products in the product category:

Product category	Number of products	Major products
Zhijun Pharmaceutical:		
Antibiotics	53	Cefazolin Sodium for injection; Cefradine for injection; Cefuroxime Sodium for injection; Cefuroxime Axetil tablets and capsules; Cefoxitin Sodium for injection; Cefixime granules and capsules; Cefminox Sodium for injection; Ceftizoxime Sodium for injection; Ceftazidime for injection (with pre-added Arginine); Ceftazidime for injection; Cefotaxime Sodium for injection, Cefoperazone Sodium & Sulbactam Sodium for injection(2:1); Cefepime HCl for injection (with pre-added Arginine); Ceftriaxone Sodium for Injection; Cefonicid Sodium for Injection
Respiratory System	4	Compound Codeine Phosphate oral solution; Pseudoephedrine HCl & Codeine Phosphate oral solution; Ambroxol HCl oral solution
Others	9	Diclofenac Sodium S.R.; Paracetamol & Codeine Phosphate Tablets; Calcium & Vitamin C Chewable Tablets
Guorui Pharmaceutical:		
Antivirus	4	Ganciclovir for Injection; Potassium Sodium Dehydroandroandrographolide Succinate for Injection; Ribavirin Dispersible Tablets;
Antibiotics	24	Netilmicin Sulfate for Injection; Clindamycin Phosphate for Injection; Azithromycin for Injection; Imipenem and Cilastatin Sodium for Injection; Spectinomycin Hydrochloride for Injection; Ceftriaxone Sodium for Injection; Cefotaxime Sodium for Injection; Cefoperazone Sodium and Sulbactam Sodium for Injection; Ceftazidime for Injection; Cefonicid Sodium for Injection; Cefpiramide Sodium for Injection; Cefradine for Injection; Cefminox Sodium for Injection
Cardiovascular and Cerebrovascular system	4	Betahistine Hydrochloride for Injection; Edaravone Injection
Pain relief	3	Lysine Acetylsalicylate for Injection;
Others	10	Metformin Hydrochloride and Glibenclamide Tablets (I); Pemirolast potassium tablets; Tiopronin Tablets; Sucralfate Tablets; Zoledronic Acid; Granisetron Hydrochloride for Injection; Fructose Sodium Diphosphate for Injection; Matrine for Injection
Suzhou Zhijun Wanqing:		
Antibiotics	26	Cefminox Sodium for Injection; Cefuroxime Sodium for Injection; Cefpirome Sulfate for Injection; Cefoxitin Sodium for Injection; Ceftriaxone Sodium for Injection; Cefonicid Sodium for Injection; Ceftazidime for Injection; Cefoperazone Sodium and Sulbactam Sodium for Injection; Cefoperazone Sodium for Injection; Cefotaxime Sodium for Injection
Pain relief	1	Oxoprofen
Others	25	Chemical Intermediate (including Cefoxitin Acid; Cefmetazole Acid; Cefixime) and API (including Cefminox Sodium; Cefuroxime Sodium; Cefathiamidine; Cefoxitin Sodium; Cefpirome; Cefamandole Nafate)

Sales and marketing

We primarily sell our pharmaceutical products in China. We sell substantially all of our products to local pharmaceutical distributors in China, including intersegment sales to our

BUSINESS

pharmaceutical distribution and pharmaceutical retail segment. These distributors in turn distribute our pharmaceutical products to hospitals, clinics, retail pharmacies and other retail outlets or distributors. Although we currently distribute our pharmaceutical products primarily through local distributors in China, we plan to leverage our nationwide distribution network to facilitate our pharmaceutical manufacturing business, and to increase the proportion of our intersegment sales to our pharmaceutical distribution segment. In addition to our sales in China, we also have a small amount of export sales. We leverage our pharmaceutical sales and marketing experience gained from our distribution and retail businesses to launch and promote our products to our customers.

We generally enter into sales and purchase agreements that stipulate the volume and price of the products sold. The term of such sales and purchase agreements is generally one year. We provide credit for certain customers, and to determine the applicable credit terms and limits, we assess our customer's financial credit history. We reserve the right to terminate the purchase and sale agreements with our customers in the event of default.

We have a professional and experienced sales and marketing team. As of 31 May 2009, our sales and marketing department had approximately 219 sales and marketing representatives, with responsibilities for product sales and the provision of after-sales services. Most of our staff possesses an educational background in medicine or a related field.

Our sales and marketing team is in charge of our overall marketing strategy, our branding efforts and market research. We market our prescription pharmaceutical products by hosting in-person product presentations, conferences and seminars for physicians, other healthcare professionals and research scholars, and we also use healthcare magazines and newspapers to promote and generate awareness of our pharmaceuticals. With respect to our over-the-counter pharmaceuticals, we distribute flyers, display billboards in our pharmacies, engage in the use of electronic media and we also engage in sponsorship of charitable events. We are devoted to providing services to the community, and provide complimentary medicines and host educational seminars.

Raw materials

The principal raw materials used for our products are the necessary active ingredients of our pharmaceutical products, such as cephalosporin. We source raw materials, as well as packaging materials and supplemental materials, from various independent third-party suppliers in China. In addition, we may cooperate with suppliers to produce certain active ingredients used for the production of some of our pharmaceutical products, such as Cefuroxime Sodium. When we source raw materials from third parties, the purchase price for the relevant raw materials is based on the prevailing market price for such materials of similar quality. We generally keep a raw material supply that ranges from approximately 12 days to 35 days for raw materials used in pharmaceutical products, and 15 days to 45 days for raw materials used in chemical reagents.

Customary with what we believe to be standard practice in the industry, we do not have long-term contracts with any of our suppliers of raw materials. However, the majority of our raw materials have been readily available, and we have not experienced any major disruption in electricity or water supplies. From time to time, we have experienced shortages or price fluctuations of our raw materials, electricity and water supplies. However, such shortages or price fluctuations have not had a material adverse effect on our business.

BUSINESS

Manufacturing

We have approximately 1,935 employees in our pharmaceutical manufacturing operations. Of these employees, 305 are experienced engineers as of 31 May 2009. We have obtained all relevant approvals and permits for our manufacturing facilities for our pharmaceutical products. These approvals and permits include the pharmaceutical production permit, the GMP certificate, a business license and the requisite production approval. See “Regulation - Manufacturing of Pharmaceutical Products”. We have obtained requisite licenses or permits for the sale of our manufactured pharmaceutical products from the SFDA at the national level that authorize our manufactured pharmaceutical products to be sold nationwide in China. We adhere to very stringent and closely monitored quality assurance and safety control processes in the manufacturing of our products. We are also expanding to the European market, and we aim to obtain European Union GMP approval by 2010 for our subsidiary Zhijun Pharmaceutical. Our manufacturing expertise and efficiency enables us to produce quality products cost-effectively and to sell such products at competitive prices.

In addition, from time to time, we outsource the manufacturing of some of our generic pharmaceutical and healthcare products to independent third-party manufacturers. We are therefore able to adjust our production capacity and our sales targets in response to market demands. The sales of products we outsourced to independent third parties for manufacturing accounted for approximately 2.9%, 6.6%, 7.3% and 4.3% of the total revenue of our pharmaceutical manufacturing operations in the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, respectively. We select our outsourced manufacturers based on a variety of criteria, such as their production capacity, quality control processes and reputation in the pharmaceutical manufacturing industry. All our outsourced manufacturers are bound by confidentiality obligations which prohibit them from revealing or using any confidential information relating to our products or production processes.

Production facilities. We currently have several GMP-certified production lines at our three manufacturing facilities in China located in Shenzhen, Huainan and Suzhou, respectively. See “— Properties”. We have equipped our manufacturing facilities with world-class equipment and automated machinery imported from the U.S., Germany, Japan, Denmark and Italy. Together with our quality assurance and control systems, all of which comply with GMP requirements, we are able to carry out more than ten production lines available for powder injection, oral solution, oral solid dosage forms and API.

BUSINESS

In order to meet the growing demand for antibiotic products in the PRC market, we plan to construct new manufacturing facilities for antibiotics products, which are expected to have an annual designed capacity of 500 million capsules and tablets and 100 million units in the form of granules and dried suspensions. Construction work is expected to be completed by the end of 2009. In addition, we also plan to upgrade our existing aseptic API and powder injection workshops by 2010 and 2011, respectively, to enhance our operating efficiency. The total construction costs and expenses for facility upgrades are approximately RMB81.7 million. We expect that we will finance the cost of upgrading existing and constructing new production facilities primarily from cash generated from our pharmaceutical manufacturing operations and bank borrowings. As of the Latest Practicable Date, we had no specific target for our acquisition of existing facilities from third parties.

INVENTORY

We actively manage and maintain our inventories to ensure cost-efficiency, quality control and the timely distribution, sales and manufacturing of our pharmaceutical and healthcare products. Our senior management is actively involved in setting inventory standards, and is continually seeking ways to further improve our inventory control.

Pharmaceutical Distribution

We manage our inventories with a focus on controlling our inventory holding costs, maintaining the variety of products available for our customers and ensuring the prompt delivery of our products to customers. We intend to conduct our inventory control through a centralized inventory management system. As of the Latest Practicable Date, five of our logistics hubs were integrated within one centralized inventory management system. We plan to integrate our entire network of distribution centers and logistics facilities into this centralized inventory management system by 2010.

We monitor the inventory levels of our operating subsidiaries by implementing a budgeted inventory turnover day and reviewing our inventory analysis reports. Our customers generally do not require us to maintain products at particular inventory levels as long as we are able to deliver products promptly. In addition, with the re-allocation of central medical reserve funds to our Company, we must maintain inventory at certain levels to meet emergency demands. Please refer to “— Pharmaceutical Distribution” for further information on the relevant arrangements between CNPGC and us. As of 31 May 2009, our inventories for emergency reserves had a total value of RMB132.2 million. We do not believe that the requirements of the PRC Central Government materially impact our inventory levels.

Retail Pharmacy

We manage our inventory to minimize inventory holding costs, ensure timely delivery of merchandise and maintain a variety of merchandise in our retail drug stores. We establish an inventory management target every year by reviewing our performance for past years and taking into consideration our data projections and market demographics. We perform monthly and ad hoc inventory counts in our stores and distribution centers, as well as perform daily inventory counts in stores for expensive merchandise. We monitor the shelf life of our pharmaceutical products by conducting a review six months prior to the expiration date of each pharmaceutical product. We utilize the data compiled to generate a monthly inventory analysis report, which is used to assess our inventory control measures and costs. We require that our store managers follow up on any inventory discrepancies discovered during each inventory count and report such results to the relevant operating subsidiaries.

BUSINESS

Other Business Operations

We maintain a database for our inventory of raw materials, packaging materials and finished products. Our production facilities in Huainan, Shenzhen and Suzhou have a total gross floor area of approximately 97,000 sq.m. We carefully monitor our inventory levels to ensure adequate levels of raw materials and finished products. Our finished products generally have a shelf life that ranges from 360 days to 720 days for our pharmaceutical products, laboratory supplies and chemical reagents. We have an inventory provisioning method to value our inventories and to write off inventories when they become obsolete or damaged, or when their market value is below their carrying costs.

CUSTOMERS

Our five largest customers in our pharmaceutical distribution segment, which are also our top five customers overall, in the five months ended 31 May 2009 were Zhejiang Intmedic, Liaoning Pharmaceutical Foreign Trade Co., Ltd., Harbin Pharma, Shanghai Pharmaceutical Co., Ltd. and Nanjing Medical. For the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, our sales to our five largest customers accounted for approximately 3.0%, 3.1%, 3.2% and 3.3% of our total sales, respectively. In the same periods, our sales to our largest customer overall, Zhejiang Intmedic, accounted for approximately 1.0%, 1.0%, 1.1% and 0.9% of our total revenue, respectively.

None of our Directors, Supervisors, their respective associates or CNPGC, Fosun Pharma or Sinopharm Investment (the only shareholders of the Company, which, to the knowledge of the Directors, directly or indirectly own more than 5.0% of our share capital) or their respective Associates has any interest in any of the above mentioned customers.

Our trade receivables mainly represent the credit sales of our products to be paid by our customers and consist of accounts receivables and note receivables. As of 31 December 2006, 2007 and 2008 and 31 May 2009, our trade receivables were approximately RMB4,871.5 million, RMB6,110.5 million, RMB7,911.8 million and RMB9,347.9 million. We monitor the recoverability of our overdue trade receivables on a regular basis and when appropriate, provide for impairment of such trade receivables. For the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, our provision for doubtful trade receivables were RMB25.0 million, RMB22.4 million, RMB10.9 million and RMB17.7 million, respectively. For further details of our provisioning policy for trade receivables and the amount of our provisions, please see the sections headed “Financial Information — Critical Accounting Estimates and Assumptions — Impairment of receivables” and “Financial Information — Liquidity and Capital Resources — Working capital — Trade receivables”.

Pharmaceutical Distribution

We have a broad customer base that includes hospitals and retail drug stores as well as other pharmaceutical distributors. Hospitals include general and specialty hospitals at the national, regional and municipal levels. Retail drug stores and other customers include national and regional retail pharmaceutical chain stores, independent pharmacies, community clinics and other healthcare institutions. Our retail customers include eight of the ten largest pharmaceutical retail chains in China, including China Nepstar Chain Drugstore, Cheng Da Fang Yuan Pharmaceutical Chain Co., Ltd., Hubei Tongjitang Pharmacy Co., Ltd., Chongqing Tongjunge Ltd., Kaixinren Drugstore, Guangdong Bencao Medicine Co., Ltd., Peace Drugstore and Shanghai Hua Shi Drugstore. Other pharmaceutical distributors include regional wholesalers or distributors at the provincial or municipal level which distribute pharmaceutical and healthcare products to end-customers. In addition, we offer a broad range of logistics and value-added services designed to enhance the operating efficiencies and competitive positions of our customers, thereby allowing them to improve the safety and effectiveness of healthcare services for their patients and consumers.

BUSINESS

Retail Pharmacy

Our typical retail drug store customers are urban residents living in a major city in China. We periodically conduct qualitative customer surveys and these customer surveys improve our understanding of our market position and our customers' needs and preferences.

Other Business Operations

Our direct customers in our other business operations consist primarily of third-party distributors. Our pharmaceutical products were sold to over 7,900 hospitals, over 20,000 clinics and more than 50,000 pharmacies throughout China, as well as to entities in the Philippines, Thailand, Pakistan, Vietnam, Guinea, Sierra Leone, Nigeria, Malta, Hong Kong and Macau. In addition, we are in the process of registering our products in more than seven countries in Asia, Africa and South America. For the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, our export sales accounted for less than 1% of our revenues generated from other business operations segment.

SUPPLIERS

In the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, our purchases from our five largest suppliers for our pharmaceutical distribution operations, which are also our five largest suppliers overall, accounted for approximately 12.3%, 11.7%, 12.9% and 15.0% of our total cost of sales. Our purchases from our single largest supplier, Roche, accounted for approximately 4.0%, 3.5%, 3.5% and 3.9% of our total cost of sales in these periods.

None of our Directors, Supervisors, their respective associates or CNPGC, Fosun Pharma or Sinopharm Investment (the only shareholders of the Company, which to the knowledge of the Directors, directly or indirectly own more than 5% of our share capital) or their respective Associates has any interest in any of the above mentioned suppliers.

Pharmaceutical Distribution

We obtain pharmaceutical and healthcare products, as well as personal care products and medical supplies, from over 3,300 manufacturers. Our suppliers include 30 of the top 50 international pharmaceutical companies or their PRC affiliates or subsidiaries, which include Roche, Novo Nordisk, AstraZeneca, Pfizer, Boehringer-Ingelheim, Merck, and Eli Lilly, and 95 of the top 100 domestic pharmaceutical companies, such as Jiangsu Hengrui, Harbin Pharma, and North China Pharma. We believe that we have strong relationships with our suppliers, as we are the only national distributor of 162 pharmaceutical and healthcare products in China and the preferred regional distributor of 1,534 pharmaceutical and healthcare products. We are the preferred distributor for Boehringer-Ingelheim and the sole distributors for certain products of Pfizer, Bayer and Servier in China.

Retail Pharmacy

The development of our retail pharmacy operations depends to a significant degree upon our ability to offer consumers a broad selection of high-quality pharmaceutical products. As a result, our success in our retail pharmacy operations is dependent upon maintaining beneficial and stable supplier relationships for our retail pharmacy operations. We purchase our retail merchandise primarily from numerous third-party manufacturers and distributors, as well as to a lesser extent from our own pharmaceutical distribution and pharmaceutical manufacturing segments. Third-party suppliers include Bayer, Xian-Janssen Pharmaceutical Ltd., Shanghai Pharma and Shenzhen Kingworld. We also cooperate extensively with several leading cosmetics brands such as La Roche, Avene and Vichy, and provide retail space for their products in our stores.

BUSINESS

We believe that alternative suppliers or alternative products are readily available for substantially all of the products we stock, and the loss of any one supplier would not have a material effect on our operations. Although we generally do not have long-term written contracts with our major suppliers, we have not experienced significant difficulty in maintaining reliable sources of supply, and we generally expect to be able to maintain adequate sources of supplies of pharmaceutical and other products sold in our retail pharmacies.

Other Business Operations

Our suppliers for our other business operations, which include Orchid Chemicals & Pharmaceuticals Ltd. and North China Pharma, Livzon Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Pharmaceutical Co., Ltd. and Gosun Pharmaceutical Co., Ltd., are carefully screened. We require that our suppliers provide us with evidence that they have all licenses and permits necessary to conduct their operations, which may include business license, pharmaceutical production manufacturing permit, import registration certificate, GMP or other relevant licenses and any other related documents. We usually purchase our raw materials and supplies from various suppliers to enhance our bargaining power and to avoid over-reliance on a single supplier. We generally do not have long-term written contracts with our major suppliers for our other business operations. However, we believe that we have maintained good relationships with our suppliers, which enable us to procure raw materials and supplies used for our manufacturing operations in a reliable manner.

As of the Latest Practicable Date, we had not experienced any major interruptions in the supply of raw materials and other supplies for our pharmaceutical manufacturing operations. We believe that our raw materials and supplies purchased from our suppliers are fungible, and therefore, we do not anticipate significant difficulties in obtaining alternative sources of supply.

COMPETITION

The pharmaceutical distribution, retail pharmacy and manufacturing of laboratory supplies, chemical reagents and pharmaceutical products industries are highly competitive. We compete with domestic and foreign competitors, which vary widely by region and size of operations.

Pharmaceutical Distribution

We face a variety of competition in the distribution of pharmaceutical and health care products. According to the South Medicine Economics Research Institute, the pharmaceutical distribution market in China is highly fragmented, consisting of more than 9,500 distributors. In 2008, the three largest distributors in China accounted for approximately 20.0% of the PRC market in terms of total pharmaceutical distribution revenues, according to CAPC. According to CAPC, our market share, measured as a percentage of the total revenues of pharmaceutical distributors in China, was approximately 10.8% in 2008.

We compete with our competitors on the basis of type of customer served, breadth of product portfolio, service and delivery, logistics and value-added service programs, geographic coverage, credit terms, customer support and pricing. We differentiate ourselves from our competitors in China by the breadth of our product portfolio, our geographic coverage and the strength of the supply chain services we provide to our customers and suppliers, which include logistics and other value-added services. Most pharmaceutical distributors in China target a limited number of products or services and limit their operations to specific geographic regions. We compete on a nationwide level primarily with the two other large pharmaceutical distributors that have relatively significant market share in China. However, neither of these two large pharmaceutical distributors offer the entire breadth of our product portfolio, as one of the distributors focuses on imported pharmaceutical and healthcare products while the other focuses on non-hospital customers. In addition, we compete with other pharmaceutical

BUSINESS

distributors on a regional or local level in the regions and local areas where these competitors engage in pharmaceutical distribution activities. When competing with regional and local competitors, we focus on attracting customers by offering our extensive distribution network, comprehensive product portfolio, stability and assurance brought by our scale and financial strength, as well as efficient and high-quality operation and service, which appeal to local customers. We also enhance our relationships with our local customers by assisting in their interaction with medical institutions across China. In addition, China’s admission to the World Trade Organization in 2001 and subsequent changes in PRC laws and regulations have resulted in increased competition from foreign distributors that have entered the PRC market. These competitors have introduced successful business models and advanced logistics and information management systems, which may lead to increased direct competition.

Regardless of the degree or type of competition, to remain competitive we must continue to explore new customer relationships and business opportunities and further serve our existing customers by providing a comprehensive product portfolio, maintaining efficient inventory controls, offering flexible and reliable delivery services and providing competitive pricing.

Retail Pharmacy

According to Status Quo of Drug Supervision in China (中國的藥品安全監管狀況), there were more than 340,000 retail pharmaceutical stores in China in 2007. In each of the markets we operate, we compete with certain regional and local retail pharmaceutical chains, as well as independent pharmacies, supermarket and convenience chains, discount merchandisers, mail order prescription providers, membership clubs and internet pharmacies.

We compete principally on the basis of store location and convenience, merchandise selection, customer service and satisfaction, including offering customers the ability to pay by medical insurance card, private-label product offerings, prices, and our brand name. We believe that the continued consolidation of the retail pharmacy market and continued new store openings by chain store operators will further increase competitive pressures in this market. Although the geographical dispersion of our retail pharmacies enables us to offset the impact of competitive conditions in individual markets, we believe that more new store openings in certain of our target cities such as Beijing, Shanghai, Shenzhen and Guangzhou may intensify competition. Local regulations in such targeted cities may prohibit the opening of new retail drug stores within certain distances of an existing store, and where competitors have occupied many prime locations, we expect to face additional competition in terms of finding suitable new store locations if we expand in these cities.

Other Business Operations

We compete with several manufacturers and distributors that produce or sell, as applicable, the same type of laboratory supplies, chemical reagents and pharmaceutical products that we produce or sell. The identities of our key competitors vary by product and, in certain cases, different competitors may have greater or lesser market shares by region in China. We compete primarily on the basis of brand recognition, product efficacy, safety, reliability, availability and price.

QUALITY CONTROL

We maintain a highly stringent quality control system and devote significant attention to quality control for our pharmaceutical distribution, retail pharmacy and other business operations. Our quality control team is also responsible for ensuring that we are in compliance with all applicable regulations, standards and internal policies. Our senior management is actively involved in setting quality policies and managing internal and external quality performance.

BUSINESS

Pharmaceutical Distribution

In our pharmaceutical distribution operations, we fully comply with all relevant PRC laws and regulations to ensure the quality of our operations. In addition, we obtained ISO9001 certification for quality control in 2007 for our distribution operations and logistics facilities. Further, we only use suppliers that have excellent credentials and product quality track records. Our quality control department at our head office and quality inspectors at each of our distribution centers and logistics facilities are responsible for implementing quality control measures in our pharmaceutical distribution operations. We also have climate-controlled warehouses to maintain suitable storage conditions for the quality and safety of pharmaceutical products.

We provide a pharmaceutical product examination report, or pharmaceutical report, for our different pharmaceutical products. We also provide “imported pharmaceutical products examination report” and “imported pharmaceutical product certification” for imported pharmaceutical products. When we receive products for distribution, we conduct spot inspections to examine such products in accordance with its pharmaceutical report. If the pharmaceutical products are qualified and have complete pharmaceutical reports, we will store them in our warehouse for distribution. If such products do not pass the examination, or if the pharmaceutical reports are incomplete, we will notify the supplier immediately without storing in our warehouse.

In addition, certain specialty medicines are stored separately in controlled settings and overseen by a specially-trained personnel. In order to comply with certain SFDA requirements, two specially-trained personnel generally escort the transport of such medicine. Expired medicine is stored in separate warehouses, and we immediately notify the relevant personnel to initiate the destruction procedures. Expired medicine is generally destroyed in two ways: (i) we return such medicine to where it originated; or (ii) we are given authorization to immediately destroy it in a controlled environment.

Retail Pharmacy

In our retail pharmacy operations, our quality control starts with procurement. In particular, we screen GMP-certified manufacturers in China and select a core group of suppliers to supply our private-label products after reviewing their product selection and quality, manufacturing, packaging, transportation and storage capabilities, as well as cost competitiveness. We conduct spot quality inspections of each batch of products we receive. We promptly replace our suppliers if they fail to pass our quality inspections. Since we maintain an extensive network of suppliers and standby suppliers, we believe we will not incur a material interruption to our business and operations if we choose to discontinue our cooperation with certain suppliers due to their unsatisfactory quality control record.

We place strong emphasis on the quality of the services rendered by our employees at all levels, including in-store pharmacists and store staff who directly interact with our customers. We regularly dispatch quality control inspectors to our stores to monitor the service quality of our staff. We take into account the feedback received during these inspections when determining employee promotions or bonuses. During the Track Record Period, we had not experienced any claim, litigation and arbitration or material adverse findings in investigation or audit by government authorities with respect to product liability, personal injury, wrongful death and negligent advice by our in-store pharmacist of our retail operations.

Other Business Operations

In our chemical reagents manufacturing operations, we have established quality control systems in accordance with all relevant national or industry guidelines. In addition, we also adhere to our internal quality control guidelines, which vary with different reagent products. We have obtained

BUSINESS

ISO9001 certification for quality management systems in research and development and manufacturing of the chemical reagents, as well as the wholesale and retail distribution of chemical reagents and laboratory supplies, which indicates our compliance with internationally-recognized standards for quality control. We also impose quality control standards for our raw materials suppliers. We constantly inspect the raw materials and supplies used in our manufacturing process, and inspect and test internally manufactured products. We can replace any supplier that fails to pass such inspections.

In our pharmaceutical manufacturing operations, we have established quality control systems in accordance with the relevant PRC laws and regulations. In addition, we obtained ISO9001 certification for quality management systems in manufacturing APIs, powder injections, tablets and capsules, which indicate our compliance with internationally-recognized standards for quality control. Our quality control measures cover all aspects of our pharmaceutical manufacturing operations including design and construction of manufacturing plant and facilities, the installation of manufacturing equipment, maintenance of manufacturing equipment, procurement of raw materials and packaging materials, quality checks of raw materials, work-in-progress and finished products, monitoring adverse drug reactions and verification of documentation to comply with GMP standards and requirements. As a result, we have not experienced any material safety problems of our products reported by our customers or relevant government authorities or any material product liability or legal claims due to the quality of our pharmaceutical products and have not been subject to any adverse findings in any investigation or audit by any government authority during the Track Record Period.

In recognition of our products, services and brand, we have received several awards, including the first place award for Standardization of Chemical Reagents in 2007, given by the National Chemical Standardization Technology Committee, Chemical Reagent Branch, recognizing our intensive efforts to standardize 8-hydroxyquinoline, a chemical reagent commonly used for antiseptic and disinfectant purposes, as well as second place at the National Commercial Technology Progress Awards in 2006, given by the China General Chamber of Commerce, which recognized our ground-breaking efforts to integrate our chemical reagents statistical database and improve service quality. In addition, during the Track Record Period, we received three first grade awards and one second grade award from the National Technical Committee on Chemicals Standardization for our achievements in the research and development of chemical reagents.

OCCUPATIONAL HEALTH AND SAFETY

The PRC Government imposes a number of regulatory requirements on pharmaceutical companies with regard to employee safety. See "Regulation — Occupational Health and Safety" for a discussion of these requirements. We regard occupational health and safety as one of our important social responsibilities and have implemented safety measures at our production facilities to ensure compliance with applicable regulatory requirements. We have established a safety supervision department at each of our operating business entities. These safety supervision departments conduct periodic inspections of operating facilities to ensure that our pharmaceutical distribution, retail pharmacy and other business operations are in compliance with existing laws and regulations. We believe that safe practices are the only means to ensure employee safety. Thus, our safety supervision departments conduct regular training sessions for employees on accident prevention and management.

We conduct periodic inspections of our logistics facilities to ensure that our logistics operations comply with existing laws and regulations. We also conduct regular training sessions for employees on accident prevention and management. We have adopted combustible air detection, emergency spray equipment and volume controls to minimize the risk of injury at our distribution centers, manufacturing facilities, warehouses and laboratories. Some of the products and chemicals we distribute or manufacture are inherently dangerous, and we have adopted strict policies in accordance

BUSINESS

with relevant national standards when handling such products. We have installed a safety monitoring system in each of our distribution centers, manufacturing facilities, warehouses and laboratories to regularly supervise our employees’ activities.

We have also adopted a safe production development and accident prevention implementation policy in March 2008, which provides comprehensive guidelines on occupational health and safety. Among other things, the policy: (i) identifies the personnel and department responsible for accident prevention; (ii) details each employee’s responsibility to prevent accidents and promote safety awareness; and (iii) requires safety performance reports on a regular basis.

We have implemented the Occupational Health and Safety Management System and obtained the OHSAS18001 certificate to improve our health and safety awareness, ability and operational skills in manufacturing our products. However, some of our business operations involve certain risks and hazards that are inherent in such activities and may not be completely eliminated by safety measures. These risks and hazards could result in damage to, or destruction of, properties or facilities, personal injury, environmental damage, business interruption and possible legal liability. See “Risk Factors — Risks Relating to Our Business Operations — Our operations are subject to operating hazards that may affect our operations and may not be fully covered by our insurance policies”.

RESEARCH AND DEVELOPMENT

As of the Latest Practicable Date, we had one chemical reagent and 29 pharmaceutical products under development, six of which are being jointly developed through external collaborations and the remaining 24 are being developed through our internal efforts. The pharmaceutical products under development are mainly in the areas of antibiotics and respiratory systems. Subject to the granting of new approvals, we expect three new products to be launched in the PRC market by 2009. Our research and development activities for our pharmaceutical production operations mainly focus on the improvement of our existing therapeutic products and antibiotics for respiratory, cardiovascular, gastrointestinal and infectious diseases. We also conduct research and development of new products. For the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, we developed 16, six, four and six new pharmaceutical products, respectively, and have commenced commercial production and sales of these new products. As of the Latest Practicable Date, we had obtained all the relevant approvals for these new products developed by us. Further, we seek to obtain licenses for international pharmaceutical products that are developed in other countries but commercially unavailable in China.

As of 31 May 2009, we had 74 research staff who hold bachelor or higher degrees in science, of which 38 are experienced engineers. We enter into agreements with our research staff which provide that all relevant intellectual property belongs to us and all research staff are bound by confidentiality obligations with respect to research and development activities. We primarily conduct our research and development activities through our two operating subsidiaries, Zhijun Pharmaceutical and Guorui Pharmaceutical, both of which feature functional testing laboratories and advanced equipment with automation and cryogenic capabilities, as well as GMP-compliant trial production areas. In the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, our research and development expenses were RMB18.2 million, RMB24.6 million, RMB34.9 million and RMB11.8 million, respectively.

ENVIRONMENTAL MATTERS

Our pharmaceutical distribution and retail pharmacy operations are primarily governed by general environmental protection laws and related regulations. We must comply with relevant

BUSINESS

provisions governing environmental protection and appraising of environmental impact as well as national and provincial standards of environmental quality established by various government authorities. For example, with respect to the development projects of our logistics facilities, we are required to carry out an environmental impact assessment and submit these assessment documents to relevant competent authorities for approval before we commence construction of these projects.

Our pharmaceutical manufacturing operations are governed by national, provincial and local environmental laws and regulations. The relevant laws and regulations applicable to pharmaceutical manufacturers in China include provisions governing air emissions, water discharge, prevention and treatment of sewage and exhaust fumes and the management and disposal of hazardous substances and waste. Manufacturers are also required to conduct an environmental impact assessment before engaging in new construction projects to ensure that the production processes meet the required environmental standards to treat wastes before the wastes are discharged. The primary wastes generated from our pharmaceutical manufacturing processes are air emissions, waste water, alcohol and organic waste, which are generated in compliance with all applicable environmental rules and regulations. PRC national and local environmental protection laws and regulations impose fees for the discharge of pollutants and, in cases where the pollutants have not been properly treated, fines for such discharge. The relevant environmental laws and regulations empower certain governmental authorities to shut down any enterprise that violates such laws and regulations through the discharge of pollutants.

During the Track Record Period, we carried out the relevant environmental impact assessments before commencing construction of our manufacturing facilities and have obtained all the required permits and environmental approvals for our manufacturing facilities. To ensure compliance with relevant laws and regulations on pollution control, we have established wastewater treatment and waste management facilities at our pharmaceutical production site to meet the requirements of the *Emission Standards of Pollutants for Pharmaceutical Manufacturers* (製藥工業污染物排放標準), which were effective on 1 August 2008. Our production facilities have obtained ISO9000 certification for our quality management system and ISO14001 certification for our environmental management system from the Universal Certification Service Co., Ltd., an organization authorized to issue quality-control certification, such as ISO certifications. In addition, our production facilities comply with all relevant environmental and manufacturing standards required by the GMP certification system.

We believe we are currently in compliance in all material respects with applicable national, provincial and municipal environmental laws and regulations and we have obtained all the relevant government approvals in relation to our operations. As of the Latest Practicable Date, we had not been the subject of any material environmental complaint or administrative penalties with respect to environmental violations. In this regard, our PRC legal counsel, Chen & Co. Law Firm, have confirmed that, during the Track Record Period, we complied with all applicable environmental laws and regulations in all material respects.

Our compliance with existing environmental laws and regulations has not had a material adverse effect on our financial condition and results of operations, and our management does not believe it will have such an impact on the future. We are not aware of any pending litigation or significant financial obligations arising from our current or past environmental practices that are likely to have a material adverse effect on our financial position. However, we cannot predict the impact that unforeseeable environmental contingencies or new or amended laws or regulations may have on us or our production facilities. In this regard, as PRC environmental compliance requirements continue to evolve, we may be required to make significant expenditures in order to comply with environmental laws and regulations that may be adopted or imposed in the future. We are also not able to predict our annual cost of compliance with respect to the environmental laws and regulations that may be adopted or imposed in the future. For further information on the environmental laws and regulations governing our operations, see “Regulation — Environmental Protection”.

BUSINESS

Our plans to address potential environmental laws and regulations that may be adopted in the future comprise the following: (i) empowering our legal and industrial departments to oversee and maintain our compliance with environmental protection policies; (ii) providing annual training to our staff regarding compliance with PRC environmental laws and regulations, and more frequent training, as required upon adoption of new environmental laws and regulations, and encouraging our staff to attend also environmental protection training sessions organized by the local environmental protection authorities; (iii) conducting weekly on-site inspections of our facilities; (iv) immediately reporting to our general manager any violation of PRC environmental protection laws and regulations; and (v) immediately reporting to and coordinating with the applicable PRC regulatory authorities in the event of environmental violations.

INSURANCE

We maintain property insurance policies covering our inventories, equipment and facilities in accordance with customary industry practice. We do not maintain product liability insurance or insurance covering potential liability relating to the release of hazardous materials as we believe maintaining product liability insurance for pharmaceutical products and insurance relating to the release of hazardous materials is not a common industry practice in China. In addition, the insurance policies of manufacturers generally cover potential product liability claims arising from the use of their pharmaceutical products that we distribute. Further, we do not maintain business interruption insurance or key-employee insurance for our directors as we believe it is not the normal industry practice in China to maintain such insurance. We carry occupational injury, medical pension, maternity and unemployment insurance for our employees, in compliance with applicable regulations. We consider our current insurance coverage to be adequate. However, we will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice aligned with our needs and with industry practice in China.

PROPERTIES

Our corporate head office is located in Shanghai, PRC and occupy a total gross floor area of 3,690 sq.m. As of 30 June 2009, we occupied 35 parcels of land, of which we have obtained the land use rights certificates for 30 parcels. We have not obtained the land use rights certificates for the remaining five parcels. As of 30 June 2009, we occupied 310 buildings or units, of which we have obtained the building ownership certificates for 254 buildings or units. We have not obtained the building ownership certificates for the remaining 56 buildings or units. In addition, we leased 611 properties in the PRC as of 30 June 2009.

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, valued the capital value of our real property interests attributable to our Company at approximately RMB810.6 million as of 30 June 2009. The text of the letter and the valuation certificates issued by Jones Lang LaSalle Sallmanns Limited in connection with its valuations are set out in Appendix V to this document.

Land Use Rights

As of 30 June 2009, we occupied 35 parcels of land with an aggregate site area of approximately 777,451 sq.m which are mainly used for storage and industrial purposes in the PRC. Of these parcels of land, except for certain portion of land parcels which need to change the title registration names, we have obtained land use rights certificates by way of land granting for 21 parcels, which have a total site area of approximately 589,139 sq.m and land use rights certificates by way of land allocated for nine parcels, which have a total site area approximately 66,593 sq.m. We have not

BUSINESS

obtained land use rights certificates for the remaining 5 parcels, which have a total site area of approximately 121,718 sq.m. The details of these land parcels are as follows:

- 21 parcels of land, with an aggregate site area of approximately 589,139 sq.m, are granted land with land use rights certificates. According to our PRC legal advisers, Chen & Co. Law Firm, we can legally occupy, use, receive benefit from, transfer, lease, mortgage or otherwise dispose of the above land.
- We are applying to the relevant local authorities for the grant of land use rights for three parcels of land, with an aggregate site area of approximately 79,298 sq.m. The land use rights of the above land are contracted to be granted to us and the relevant land premium has been fully paid. According to our PRC legal advisers, Chen & Co. Law Firm, there is no legal impediment for our Company in obtaining the land use rights certificates after completing the relevant procedures for the grant of land use rights.
- Nine parcels of land, with an aggregate site area of approximately 66,593 sq.m, are allocated land with land use rights certificates. According to our PRC legal advisers, Chen & Co. Law Firm, we can legally occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of the above land during the terms of holding the land use rights certificates. However, if we intend to transfer, lease or mortgage the above land, we should go through land grant procedures at the relevant land authority and pay additional land premium or land appreciation yields according to relevant laws and regulations.
- One parcel of land, with an aggregate site area of approximately 37,588 sq.m, has been listed in government planning policies and we cannot obtain the land use rights certificate. The land is mainly used for storage and is not material to our business operations. According to our PRC legal advisers, Chen & Co. Law Firm, we can not apply for the grant of land use rights at the present time but this will not affect our ability to occupy and use the land. We can apply for the land use right certificate only after the fulfillment of such policies. However, it is still uncertain when such government planning policies will be fulfilled. Therefore, as of the Latest Practicable Date, we had not applied for the land use rights certificate. We believe that the government planning policies will not adversely affect our operations.
- We are applying to the relevant local authority for the grant of land use rights for one parcel of vacant land, with an aggregate site area of approximately 4,832 sq.m. According to our PRC legal advisers, Chen & Co. Law Firm, we can legally occupy and use the land after completing the relevant procedures for the grant of land use rights. This vacant land is not material to our operations, we will try to obtain the land use right certificate before 31 December 2010.

Buildings

We currently occupy 310 buildings or units, with an aggregate gross floor area of approximately 425,100 sq.m, in the PRC. Of these buildings, except for certain portions of the buildings or units for which we need to change the names listed in the title registration, we have obtained building ownership certificates for 254 buildings or units, which have an aggregate gross floor area of approximately 376,794 sq.m. We have not obtained building ownership certificates for the remaining 56 buildings or units, which have an aggregate gross floor area of approximately 48,306 sq.m. The details of these buildings are as follows:

- We have obtained building ownership certificates and the corresponding granted land use rights certificates for 175 buildings or units, with a total gross floor area of approximately

BUSINESS

250,016 sq.m. According to our PRC legal advisers, Chen & Co. Law Firm, except for certain portions of buildings or units for which we need to change the names listed in the title registration, we can legally occupy, use, receive benefit from, transfer, lease, mortgage or otherwise dispose of the above buildings or units.

- We have obtained a building ownership certificate and land use rights certificate for the leased land for five buildings, with a total gross floor area of approximately 4,916 sq.m. According to our PRC legal advisers, Chen & Co. Law Firm, we can legally occupy and use the buildings and the corresponding land.
- We have obtained building ownership certificates for 74 buildings or units, with a total gross floor area of approximately 121,862 sq.m, but have not obtained the land use rights certificates, as the corresponding lands are allocated land. According to our PRC legal advisers, Chen & Co. Law Firm, we can legally occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of the above buildings or units and the corresponding land during the terms of holding the building ownership certificates. However, if we intend to transfer, lease or mortgage the above buildings or units, we should go through land grant procedures at the relevant land authority and pay additional land premium or land appreciation yields according to relevant laws and regulations.
- 25 buildings, with a total gross floor area of approximately 28,895 sq.m, are erected on the granted land which we have the land use rights certificate. These buildings are mainly used for industrial and storage purposes. We have not obtained the building ownership certificates for 24 buildings because we do not have relevant construction approvals. In March 2009, we acquired 75% of the equity interest in Suzhou Zhijun Wanqing. Before the acquisition, Suzhou Zhijun Wanqing had built 22 buildings prior to obtaining construction approvals. We also commenced construction of another two buildings of 926 sq.m. without applying for relevant approvals. We have decided to take remedial action to apply for ownership certificates of these buildings. The aggregate value of the 24 buildings is approximately RMB4.3 million. The use of these buildings is not in compliance with the relevant PRC laws and regulations. As a result, we may be subject to a penalty up to approximately RMB0.4 million and may be asked to demolish these buildings. We confirm the size of these buildings is relatively small and will not have any material adverse impact on our operations. For the remaining buildings, with a gross floor area of approximately 19,687 sq.m., we have obtained the relevant construction approvals and permits. According to our PRC legal advisers, Chen & Co. Law Firm, there is no legal impediment in obtaining the building ownership certificate.
- We have not obtained the relevant building ownership certificates and the relevant land use rights certificates for 31 buildings or units, with a total gross floor area of approximately 19,410.59 sq.m. According to our PRC legal advisers, Chen & Co. Law Firm, we can legally occupy and use these buildings after obtaining the building ownership certificates and land use rights certificates.

The abovementioned 56 buildings without title certificates are not material to our operations, and we will try to obtain the building ownership certificates before 31 December 2010.

As of the Latest Practicable Date, the following properties held by our subsidiaries were subject to encumbrances: a portion of one building and corresponding land located in Yangzhou, with an aggregate floor area of 3,411 sq.m. were subject to a mortgage with Bank of Communications Co., Ltd., Yangzhou branch.

BUSINESS

Buildings Currently under Construction

As of 30 June 2009, we had a building, with an aggregate planned gross floor area of approximately 16,003 sq.m, that is currently under construction. We have obtained the relevant construction approvals and permits for one building which is erected on a parcel of granted land with a site area of approximately 10,421 sq.m. According to our PRC legal advisers, Chen & Co. Law Firm, we have signed the land use rights grant contract and the relevant land premium has been fully paid. There is no legal impediment in obtaining the land use rights certificate and building ownership certificate upon the completion of the building.

Leased Properties

As of 30 June 2009, we also leased 611 properties, with an aggregate gross floor area of approximately 190,699 sq.m, in the PRC. The lessors have provided the building ownership certificates or registrations with local authorities for 474 properties with an aggregate gross floor area of approximately 138,647 sq.m. The lessors have not provided the building ownership certificates or the evidence showing the owners' agreement to the leases or the lessors have registered the leases with the local authorities for the remaining 137 properties, which have an aggregate gross floor area of approximately 52,053 sq.m. Details of these properties are as follows:

- 474 properties with an aggregate gross floor area of approximately 138,647 sq.m. The lessors have provided the building ownership certificates or the evidence showing the owners' agreement to the leases or the lessors have registered the leases with the local authorities. According to our PRC legal advisers, Chen & Co. Law Firm, the leases are lawful, valid and legally binding.
- 137 properties with an aggregate gross floor area of approximately 52,053 sq.m. The lessors have not provided the building ownership certificates or the evidence showing the owners' agreement to the leases nor have the lessors registered the leases with the local authorities. We believe the leased properties without registered agreements are not material to our operations for the following reasons: (a) most of these leased properties are used for office, storage and retail purposes, it is convenient for us to find property nearby for replacement and relocation; (b) during the Track Record Period, we did not experience any incident where we were required to evict tenants from the leased properties; (c) the lessors of 106 properties have issued confirmation letters by which they undertake to indemnify any loss suffered by us that may result from such deficiency of title; (d) the profit generated by the operation of property for the retail pharmacy business during the Track Record Period was not material to our results of operations. According to our PRC legal advisers, Chen & Co. Law Firm, such leases may not be legal and valid but we will be indemnified by these lessors for any damages arising from this deficiency of title.

Sinopharm Investment has agreed under the Deed of Indemnity to indemnify the Company against any loss or liability suffered by any member of our Company in relation to, inter alia, defective title to the owned properties and non-registration of the leased properties of our Company. Please refer to the section headed "Connected Transactions" of the document for more details regarding the Deed of Indemnity.

BUSINESS

EMPLOYEES

As of 31 December 2006, 2007 and 2008 and 31 May 2009, we had 10,572, 11,055, 12,259 and 14,449 full-time employees, respectively. The table below sets forth a breakdown of our employees by function as of 31 May 2009:

	Number of employees	% of total
Operations	4,144	28.7
Management, finance and administrative	1,910	13.2
Research and development and technical support	253	1.8
Sales and marketing	7,019	48.6
Others ⁽¹⁾	1,123	7.8
Total	14,449	100.0

(1) Others include office support staff, human resource staff, legal and compliance staff and maintenance and office security staff.

We have implemented a number of initiatives in recent years to enhance the productivity of our employees, which we hire through a competitive process. We conduct periodic performance reviews for our employees, and their salaries and bonuses are performance based. In addition, we have implemented training programs for various positions. We believe that these initiatives have increased employee productivity.

The remuneration package for our employees generally includes salary and bonuses. Employees also receive welfare benefits including medical care, housing subsidies, pension, occupational injury insurance and other miscellaneous benefits. As required by applicable PRC regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including housing funds, pension, medical, maternity and unemployment benefit plans. We are required under PRC law to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the respective local government authorities where we operate our businesses from time to time. Members of the retirement plan are entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. We also provide post-employment benefits to certain of our retired employees.

The total amount of our employee benefit expenses for the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009 were approximately RMB562.7 million, RMB653.1 million, RMB891.8 million and RMB327.4 million, respectively.

Currently, all members of our work force are employed under employment contracts which specify the employee's position, responsibilities, remuneration and grounds for termination. All employees who are unable to work due to illness or disability are entitled to receive certain benefits during their period of absence from the workplace. In addition, the PRC Government requires us to provide work-related injury insurance for each of our employees. We and our subsidiaries have labor unions that protect employees' rights, help fulfill our and our subsidiaries' economic objectives, encourage employee participation in management decisions and assist in mediating disputes between us and union members. Each of our and our subsidiaries' operating units has a separate labor union branch. We believe that we have positive relations with our employees.

We provide extensive training for employees. The training is designed to strengthen staff commitment to qualify and improve staff knowledge in a number of important areas of our services, such as knowledge about our Company, products and customers service skills. For employees in our

BUSINESS

pharmaceutical distribution operations, we provide an array of training programs and courses, such as: (i) logistics operations management; (ii) management and administrative training; and (iii) legal and administrative management. In addition, we believe that we offer one of the most extensive training programs in the retail industry. We provide training courses for our employees, in-store pharmacists, as well as management training for our regional managers and senior management officers at the head office, such as: (i) corporate culture, retail development plans and business process of our Company; (ii) emergency and safety management; (iii) basic pharmaceutical knowledge and GSP regulations and quality control regulations; (iv) selling skills, customer service, standards of service and evaluation criteria; and (v) product management. We believe that these programs have enhanced the productivity of our employees.

PERMITS, LICENSES AND APPROVALS

As of the Latest Practicable Date, we had obtained all requisite permits, licenses and approvals for our business operations. See the section headed “Regulation” for further information on permits, licenses and approvals applicable to our operations.

LEGAL PROCEEDINGS

As of the Latest Practicable Date, we were not a party to any material legal or administrative proceedings, and we are not aware of any threatened material legal or administrative proceedings against us. We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.

During the Track Record Period, there were no personal injury, death or product liability claims that were brought against us for damages in connection with our business operations.

INTELLECTUAL PROPERTY

We rely on patents, trademarks and trade secrets as well as employee and third-party confidentiality agreements to safeguard our intellectual property. Our intellectual property rights are important to our business.

We rely on trademarks to protect the brands we use in our pharmaceutical distribution and retail pharmacy operations, as well as to protect the laboratory supplies, chemical reagents and branded generic pharmaceuticals, which are not protected by patents, we produce and sell in our other business operations. As of the Latest Practicable Date, we maintained 143 trademark registrations in China, including 國瑞 (Guorui), 一致 (Yizhi) and 大德生 (Dadesheng) and two trademark registrations in Hong Kong. As of the Latest Practicable Date, we also had 112 trademark applications filed and pending the approval of the PRC Trademark Office of the State Administration for Industry and Commerce, and one trademark application filed and pending the approval of the Hong Kong Trade Marks Registry. We also have been granted a non-exclusive license to use certain trademarks of our parent company, CNPGC, in our business pursuant to the Trademark License Agreement.

Under PRC law, we have the exclusive right to use a trademark for products and services for which the trademark has been registered with the PRC Trademark Office of the State Administration for Industry and Commerce. Trademark registration is valid for ten years, starting from the day the registration is approved. If we believe that a third party has infringed upon our exclusive rights with respect to any of our registered or licensed trademarks, we may, through appropriate administrative and civil procedures, institute proceedings to request the relevant authority for an injunction or to resolve the infringement through negotiation with the infringer. The relevant authority also has power to

BUSINESS

impose fines, or confiscate or destroy the infringing products or equipment used to manufacture the infringing products.

As of the Latest Practicable Date, we held one design patent and two invention patents registered in China, which relate to improving the absorption and effectiveness of medicines. We have six invention patent applications pending the approval of SIPO. The invention patent applications are in relation to antibiotics, cough medicines and oral suspension medicines produced in our pharmaceutical manufacturing business. The validity period for our design patents is ten years and the validity period for our invention patents, if it is approved, will be 20 years, starting from the date the application was filed with the SIPO. We enjoy the exclusive right to exclude others from using, licensing and otherwise exploiting the patent in China.

We regularly submit patent applications for products and technologies that we have developed in order to actively protect our intellectual property rights. We also possess unregistered trade secrets, technologies, know-how, processes and other intellectual property rights. If our patents or trademarks are challenged, our brand name is damaged and/or our trade secrets become known by our competitors, there could be an adverse effect on our business. See “Risk Factors — Risks Relating to Our Business Operations — Third parties may infringe upon our intellectual property rights and other forms of protection under PRC law”.

We do not consider any particular trademark or patent to be material to our overall business, since our principal business is the distribution, rather than the production, of medicines. Our pharmaceutical distribution operations do not require us to rely materially on the trademarks and patents that we use.

In addition to protecting our own intellectual property, our success also depends on our ability to minimize the risk that any of our products or operations infringes on the intellectual property rights of others. In each of our business segments, we follow a procedure under which our external trademark agent or legal counsel we engage will conduct a trademark clearance search before filing an application for the registration of a trademark. Similarly, in our other business operations, we follow a procedure under which our external patent agent or legal counsel we engage will conduct a patent clearance search for each product at the beginning of the product development process, and product development is only approved if the conclusion is that the proposed product would not infringe any third-party intellectual property rights uncovered in our searches. We also follow procedures to ensure that we do not engage in the sale of counterfeit pharmaceuticals. Our quality control department is responsible for checking the completeness of the certification and documentation provided by our suppliers before purchasing pharmaceutical products, and we will report to our senior management as well as the relevant local authorities if we discover any counterfeit pharmaceuticals. We believe that the risk of infringing third-party intellectual property can be effectively reduced by our vigorous adherence to these procedures. To date, we have not been sued on the basis of and have not undergone arbitration in respect of, nor have we received any notification from third parties that claim, any infringement of intellectual property of third parties or sale of counterfeit pharmaceuticals. Further, to date, we have not been the subject of any adverse finding in an investigation or audit by any governmental authorities in respect of any infringement of intellectual property of third parties or sale of counterfeit pharmaceuticals. However, despite our internal control procedures, the risk of infringing on third-party intellectual property cannot be eliminated entirely. See “Risk Factors — Risks Relating to Our Business Operations — We may face intellectual property infringement claims initiated by third parties” and “Risk Factors — Risks Relating to Our Business Operations — 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”.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

FINANCIAL INFORMATION

SELECTED FINANCIAL DATA

Selected Historical Consolidated Financial Information

The following tables present our selected historical consolidated financial information for the periods indicated.

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

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Information Pack.

FINANCIAL INFORMATION

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

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

- (1) External segment revenue refers to segment revenue after inter-segment elimination.
- (2) The inter-segment revenues for the years ended 31 December 2006, 2007 and 2008 were RMB177.6 million, RMB225.9 million and RMB311.2 million, respectively. The inter-segment revenues for the five months ended 31 May 2008 and 2009 were RMB140.9 million and RMB147.6 million, respectively.
- (3) Other business operations consist of the (i) distribution and selling of laboratory supplies; (ii) manufacturing and distribution of chemical reagents; and (iii) production and sale of pharmaceutical products.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

FINANCIAL INFORMATION

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are the largest distributor and a leading supply chain service provider of pharmaceutical and healthcare products in China with integrated operations in the following business segments:

- Pharmaceutical distribution.* We provide pharmaceutical supply chain management for the distribution of domestic and imported prescription and over-the-counter medicines from manufacturers and suppliers to hospitals, other distributors, retail drug stores and other customers. In the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, external revenue generated from our pharmaceutical distribution operations accounted for 92.4%, 93.2%, 93.6% and 93.3% of our total revenue, respectively.

FINANCIAL INFORMATION

- *Retail pharmacy operations.* We have a network of retail pharmacies that we directly operate or franchise in major cities throughout China. In the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, external revenue generated from our retail pharmacy operations accounted for 3.5%, 2.7%, 2.5% and 2.6% of our total revenue, respectively.
- *Other business operations.* In our other business operations, we engage in the manufacturing or selling of pharmaceutical products, chemical reagents and laboratory supplies. In the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, external revenue generated from our other business operations accounted for 4.2%, 4.1%, 3.9% and 4.1% of our total revenue, respectively.

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

In 2008, triggered by the liquidity crisis in the capital markets, global economic conditions deteriorated. The PRC continued to have positive GDP growth in the year; however, the rate of growth in the PRC slowed down significantly compared to the preceding year, and major economic indicators, including employment rates, levels of consumer spending and exports, declined. More recently, the PRC Government has announced and implemented fiscal stimulus measures to combat the effects of the economic downturn, including spending an additional RMB850 billion from 2009 to 2011 on a healthcare reform plan and measures to encourage lending by PRC banking institutions, which have in recent months exhibited some signs of success. Pharmaceutical consumption has traditionally been relatively unaffected by economic downturns, and, likewise, our results of operations and financial condition in the Track Record Period were not materially adversely affected by the deterioration in global economic and liquidity conditions. Notwithstanding that we are not able to currently predict when worldwide economic and liquidity conditions will improve, we believe that China’s economic growth and its announced fiscal stimulus measures should continue to create opportunities for our business.

Basis of Presentation

Our Company was established in the PRC on 8 January 2003 by CNPGC and Fosun Investment, two leading companies dedicated to the pharmaceutical industry in China, as a limited liability company under the PRC Company Law and commenced operations in the same year. On 6 October 2008, our Company became a joint stock company with limited liability under the PRC Company Law by converting its registered capital and reserves as of 30 September 2007 at a ratio of 1:0.8699 into 1,637,037,451 shares with a par value of RMB1.00 each. Pursuant to the Restructuring undertaken by the equity holders of our Company, Sinopharm Investment and CNPGC currently hold 96% and 4%, respectively, of the equity interest in the Company.

During the Track Record Period, we acquired approximately 58.67% of the outstanding shares of National Medicines from CNPGC, our parent company and acquired a 100% equity interest in Guangxi Guoda Pharmacy Chainstore Co., Ltd. from a wholly-owned subsidiary of CNPGC. The

FINANCIAL INFORMATION

consolidated financial statements include the financial position, results and cash flows of National Medicines and Guangxi Guoda Pharmacy Chainstore Co., Ltd. as if the structure of our Company had been in existence since 1 January 2006. In addition, companies acquired from or disposed to third parties during the Track Record Period are included in or excluded from the consolidated financial statements from the date of that acquisition or disposal, respectively.

Inter-company transactions and unrealized gains on transactions between members of our Company have been eliminated on consolidation of our financial statements. Unrealized losses are also eliminated unless the transaction provides evidence of the impairment of asset transferred. For the purpose of preparing the consolidated financial statements, the accounting policies of the Company’s subsidiaries have been changed where necessary to ensure consistency with the policies adopted by our Company.

Our Listed Subsidiaries

Two of our major subsidiaries, National Medicines and Accord Pharma, are listed in the PRC. The A shares of National Medicines are listed on the Shanghai Stock Exchange and the A shares and B shares of Accord Pharma are listed on the Shenzhen Stock Exchange. As of 31 May 2009, we had an effective equity interest of 44.03% in National Medicines and 38.33% in Accord Pharma. The operating and financial results of National Medicines and Accord Pharma are consolidated with our financial statements contained in the Accountant’s Report on our financial information included in Appendix I to this document.

National Medicines primarily engages in the pharmaceutical distribution logistics services and pharmaceutical manufacturing business segments. National Medicines operates directly and through two subsidiaries, Guorui Pharmaceutical and China National Pharmaceutical Logistics Co., Ltd. National Medicines’ customers are predominately located in the Huainan region and Beijing in China. The board of directors of National Medicines consists of nine directors, of whom Ms. Fu Mingzhong, Mr. Fan Banghan and Mr. Wei Yulin are also directors of the Company.

Accord Pharma primarily engages in the pharmaceutical distribution, pharmaceutical manufacturing and retail pharmacy business segments. Accord Pharma operates directly and through 21 subsidiaries, including Zhijun Pharmaceutical, Sinopharm Holding Guangzhou Co. Ltd. and Guangdong Accord Drugstore Co., Ltd. Accord Pharma’s customers are predominately located in Guangdong and Guangxi provinces in China. The board of directors of Accord Pharma consists of nine directors, of whom Ms. Fu Mingzhong and Mr. Wei Yulin are also directors of the Company.

FINANCIAL INFORMATION

The following table sets forth certain financial information of our two listed subsidiaries, as well as the percentages that these amounts represented of the respective totals of these amounts in our consolidated financial information. The amounts and percentages are based on audited PRC GAAP financial statements of the listed subsidiaries, which are not included in this document and audited HKFRS financial statements of our Company, as contained in the Accountant’s Report on our financial information included in Appendix I to this document. The percentage contributions of the two listed subsidiaries may have been materially different if we had based the comparison to our financial information prepared in accordance with PRC GAAP.

	As of and year ended 31 December					
	2006		2007		2008	
	RMB	%	RMB	%	RMB	%
National Medicines:						
Revenue	2,810.8	11.8	3,573.8	11.5	4,385.5	11.5
Accord Pharma:						
Revenue	5,708.7	24.1	6,878.3	22.1	8,360.4	21.9

In the opinion of the Company’s directors and our management, the transactions between the Company or its subsidiaries and National Medicines or Accord Pharma are in the ordinary course of our business and on normal commercial terms, except for the sales of medical products to specific related parties under major disaster, epidemic and other emergencies which are priced at cost and relevant trade receivables which will be offset with medical reserve funds upon approval from CNPGC and the relevant PRC government authorities.

Factors Affecting Our Results of Operations

The following are the key factors that affect our results of operations.

Business environment

Our performance and profitability depend on the growth of the PRC pharmaceutical industry and healthcare market. The growth of the PRC pharmaceutical industry is supported by the size of China’s population, representing approximately one-fifth of the world’s population, the growth of the percentage of the population in China over the age of 60 as a percentage of total population, and that China has had one of the fastest growing economies in the world with rising levels of disposable income. Rising income levels have the additional effect of increasing the prevalence of lifestyle-related illnesses, further contributing to the demand for pharmaceutical and personal care products. In addition, the PRC Government has implemented a series of measures to reform the healthcare system in China, including the enhancement of primary care systems, community healthcare services and rural cooperative medical services, to provide adequate healthcare resources to its immense population that is spread over a vast area. Toward that goal, the PRC government has recently announced to spend RMB850 billion in addition to the regular healthcare budget from 2009 to 2011 for increasing medical insurance coverage, expanding infrastructure and other initiatives. These healthcare reform measures are expected to facilitate patients’ access to healthcare services and expand the growth of the PRC healthcare market. We expect China’s aging population, growing affluence and healthcare reform measures to increase the market demand for pharmaceutical products and improve our results of operations.

Our results of operations are also expected to be affected by the growing consolidation of the PRC pharmaceutical distribution market. Currently, the PRC pharmaceutical industry is highly fragmented, with over 9,500 distributors, resulting in a complex distribution system with inefficient

FINANCIAL INFORMATION

logistics. We expect that the competitive pressures and PRC Governmental policies to standardize industry quality standards will foster consolidation in the industry. We believe that we are well-positioned to benefit from industry consolidation because of our well-developed national distribution network, scale of operations and our past success in completing and benefiting from acquisitions of pharmaceutical companies. Accordingly, we continue to be interested in participating in the consolidation of our industry on terms that are consistent with these benefits, which include improved cost structure efficiencies, greater scale of business operations and increased market share.

Policies and regulations of the PRC pharmaceutical industry

We operate in a highly-regulated industry. Policies and regulations promulgated by the PRC Government may significantly affect the pricing, marketing, production and consumption of pharmaceutical products and therefore, affect our results of operations.

In addition, the PRC Government has instituted national urban medical insurance programs to provide medical insurance coverage for urban residents in the PRC and to provide guidance on which prescription and over-the-counter medicines are included in the program and to what extent the purchases of these medicines are reimbursable. See “Industry Overview — Overview of the PRC Healthcare Market — Primary Growth Drivers of the Healthcare Industry — Increasing coverage of social medical insurance in China”. To overhaul the rural healthcare system, the PRC Government has also implemented the rural cooperative medical insurance system, which provides medical resources in rural areas and reduces healthcare costs for poor rural residents. Such medical insurance reforms are expected to foster the growth of the PRC healthcare market and in particular, the consumption of pharmaceutical and healthcare products. To capture opportunities arising from such developments, we have enhanced our penetration into urban hospitals and community clinics at the provincial and municipal levels, as well as customers in rural areas.

In addition, the pricing and volume of the products that we distribute may be affected by pharmaceutical distribution market reforms implemented by the PRC Government. These include increasing anti-corruption measures, implementing mandated collective tendering processes for the purchase of medicines by hospitals and imposing industry-wide standards and requirements. The increased anti-corruption measures are expected to result in more growth opportunities for compliant enterprises. Further, a substantial portion of the products that we distribute are to hospitals that are owned or controlled by PRC Governmental authorities at the county or provincial levels. These hospitals must implement collective tender processes for the purchase of medicines listed in the Medical Insurance Catalog. Such hospitals will assess, among other things, the quality and price of the medicine and reputation of the manufacturer as well as the breadth of the product offerings and scale of the distributor. In our experience, hospitals prefer to cooperate with larger distributors, establishing relationships which afford them a broad range of products and services and efficiency in the tendering process. Pharmaceutical products included in the Medical Insurance Catalog are subject to price controls in the form of retail price ceilings, and are subject to periodic downward price adjustments by the relevant regulatory authorities. The PRC Government has also adopted measures aimed at raising the operating standards of pharmaceutical companies and promoting the quality of distribution of pharmaceutical products in China, in order to ensure a stable supply of safe, effective medicines. For example, the PRC Government has adopted GSP certification requirements and strengthened its enforcement of these requirements. We expect that the imposition of these more stringent standards for the distribution of pharmaceutical products will also drive industry consolidation. With our large-scale pharmaceutical distribution operations and strict quality control, we believe that we are well-positioned to benefit from the changes in PRC regulatory requirements.

FINANCIAL INFORMATION

Distribution network, product offerings and scale of operations

Our ability to increase revenue in our pharmaceutical distribution segment is directly affected by our distribution network. In recent years, we have expanded our distribution network rapidly. As of 31 May 2009, our distribution network of 25 distribution centers spanned 19 provinces, municipalities and autonomous regions in China. Because of our geographically diverse network, we are able to effectively provide our products and services to our customers in all of China. In addition, we have a stable and diverse customer base, comprising hospitals, distributors, retail drug stores and other healthcare institutions located throughout China. As of 31 May 2009, our customers included 4,723 hospitals, including 670 class-three hospitals, and 2,545 distributors, over 22,000 retail drug stores and other customers. We plan to expand the geographic coverage of our distribution network and to enhance our penetration into new customer categories and demographics. For example, we intend to continue to improve our relationships with community clinics at the provincial and municipal levels, as well as customers in rural areas. At the same time, we also intend to bolster our direct selling efforts to hospitals and clinics, to increase our control over product pricing and build stronger relationships with these significant customers.

We currently distribute over 22,000 different types of pharmaceutical and healthcare products, including prescription medicines and over-the-counter medicines, consisting of branded and generic Western and Chinese medicines, as well as personal care products and medical supplies. Our ability to optimize and diversify our product offerings and product mix for distribution is also an important factor affecting our results of operations. We continuously review and refine our product offerings and product pricing (where allowed under applicable PRC rules and regulations) to respond to changing demographics, lifestyles, habits and customer preferences. Going forward, we will also seek to optimize our product mix by including more products with higher margins.

Our large-scale operations offer us enhanced operational and cost efficiencies and position us favorably against other distributors in China’s fragmented pharmaceutical distribution market. Because of our industry expertise, distribution infrastructure and large-scale operations, we have experienced significant growth in our business in the past three years. We believe that our extensive distribution network, product offerings and our large scale of operations are important factors in driving our revenue growth.

Cost of purchasing merchandise, pricing and gross margins

The cost of purchasing merchandise for our pharmaceutical distribution and retail pharmacy operations is the largest component of our cost of sales. Our products comprise a broad range of branded and generic prescription and over-the-counter medicines and other personal care products. We use certain measures to control our cost of purchasing merchandise, including consolidating procurement through careful supplier selection, centralized purchases from suppliers and leveraging our nationwide distribution network.

We source the majority of our products from international and regional manufacturers of pharmaceutical and healthcare products. In principle, we set the distribution price of our products as agreed by our suppliers and customers during the negotiation process, after taking into account various factors, including our procurement costs and gross margin levels, our extensive distribution network and bargaining power, government policies and regulations, competition, customer preferences and market considerations. These factors, in turn, affect the distribution pricing range for different customers. For our hospital customers, we establish a pricing range aligned with our suppliers through the PRC Government-mandated collective tender process. For our pharmaceutical distribution customers, customary with market practice, our pricing range is generally achieved through a three-party negotiation involving our Company, the distributor customer and the supplier. The factors listed

FINANCIAL INFORMATION

above generally determine pricing policy and price ranges of products distributed to retail drug stores and other customers.

Substantially all of the revenue of our pharmaceutical distribution, retail pharmacy and pharmaceutical manufacturing operations were generated from our sales of pharmaceutical products that are subject to price controls in the form of fixed prices or price ceilings during the Track Record Period. In this period, the PRC Government implemented seven rounds of reductions in the retail prices of various pharmaceutical products, which affected substantially all the pharmaceutical products in our pharmaceutical distribution and retail pharmacy segments and the products we manufacture in our other business operations segment. See “Regulation — Price Controls”. The following table sets forth certain information relating to the seven rounds of price reductions implemented during the Track Record Period:

<u>Date of price reduction</u>	<u>Title of government notice</u>	<u>Type of product affected</u>	<u>Average reduction of retail price</u>
1 June 2006	Notice of NDRC on the Imposition of the Maximum Retail Prices of Antineoplastic Drugs, including Doxorubicin	68	23%
1 August 2006	Notice of NDRC on the Imposition of the Maximum Retail Prices of 99 Types of Antimicrobial Agents, including Penicillins	99	30%
1 October 2006	Notice of the Imposition of the Maximum Retail Prices of 32 Types of Anti-tumor Chinese Patent Medicines, including Cinobutacini Injection	32	14.5%
1 December 2006 (effective from 26 January 2007)	Notice of the NDRC concerning Maximum Retail Prices of 354 Types of Medicines, including Arginine	354	20%
1 February 2007	Adjustment of Retail Prices of 278 Types of Chinese Patent Medicines by the NDRC	278	15%
1 April 2007	Adjustment of the Retail Prices of 188 Types of Chinese Patent Medicines by the NDRC	188	16%
1 May 2007	Adjustment of the Maximum Retail Prices of 260 Types of Western Medicines by the NDRC	260	19%

In our pharmaceutical distribution operations, we have not been significantly affected by the PRC Government price controls because of the relative stability in the margin between our costs of purchasing pharmaceutical products from our suppliers and our prices of pharmaceutical products sold to our hospital, pharmaceutical distributor and other customers, determined in accordance with the PRC Government-mandated collective tender process, our arrangements with our suppliers, our three-party negotiation with distributors and suppliers and the purchase orders from our customers. In these various arrangements, we seek to pass the pressure of retail price controls instituted by the PRC Government to our suppliers and maintain our gross margins, which were relatively stable in our pharmaceutical distribution business segment during the Track Record Period.

We generally set the retail price of our products for our retail pharmacy operations based on the cost-plus method, including the cost of purchasing merchandise plus a standard mark-up for our operating costs. From time to time, the PRC Government will include new medicines in the Medical Insurance Catalog and adjust prices or set ceilings for the retail prices of such medicines to end-users. In our retail pharmacy business segment, retail prices of pharmaceutical products are frequently lower than the price ceilings imposed by the PRC Government, due to the intensive competition in the retail pharmacy industry. We seek to mitigate these pricing pressures by selling more private label products

FINANCIAL INFORMATION

that carry higher margins than non-private label products sourced from third parties. As a result, we have not been significantly affected by price controls in our retail pharmacy operations, as reflected in our gross margins, which were relatively stable in this business segment during the Track Record Period.

However, there are limitations on our flexibility to raise or set prices and pass along our cost increases in our manufacturing operations, in which we may be subject to pricing pressures as a result of retail price controls instituted by the PRC Government. In order to maintain a competitive gross margin for our pharmaceutical manufacturing operations, we seek to continue to increase our sales volumes and manage our manufacturing costs, enhance our product portfolio by introducing new products with higher margins and control our selling and distribution expenses by integrating the sales channels of our pharmaceutical manufacturing operations.

The gross margins for our pharmaceutical distribution and retail pharmacy operations are determined by the prices of our products sold and our cost of purchasing merchandise and generally depend on our bargaining powers with our suppliers. Due to the competitive distribution market in which we operate, we experience competitive gross margin pressures. However, we have been able to mitigate the impact of these pressures on our gross margins through our ability to manage our costs of purchasing merchandise. Our gross margins were approximately 8.0% for each of the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009. We have been able to maintain our gross margins, despite falling retail prices of pharmaceutical products, by enhancing our bargaining power to control the cost of purchasing merchandise. We are the largest pharmaceutical distributor in the PRC, and our geographically-diverse network, full-range of product offerings and value-added services, efficient working capital management and well-known brand and reputation, enhance our bargaining position with our suppliers and allows us to secure more favorable sales terms. During the Track Record Period, we also implemented internal gross margin targets for the products that we sell and concentrated on procuring products that permitted us to achieve our gross margin targets upon sale. We expect to maintain our targeted gross margins by controlling our costs of sales and optimizing our product mix and including more products with higher margins. However, any difficulty that we may encounter in connection with controlling our cost of purchasing merchandise, as well as future regulatory measures that may be taken by the PRC Government, may have a material effect on our gross margins, which in turn may adversely affect our business operations, financial condition and profitability.

Critical Accounting Estimates and Assumptions

Our results of operations and financial condition are sensitive to accounting policies, assumptions and estimates that underlie the preparation of our consolidated financial information. Some of our accounting policies require the application of significant judgment of management in selecting the appropriate assumptions for calculating financial estimates. By nature, these judgments are subject to an inherent degree of uncertainty and are based on our historical experiences, terms of existing contracts, management's view on trends in our industry and information from outside sources.

We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our consolidated financial information.

Useful lives and residual values of property, plant and equipment

We determine the estimated useful lives and residual values and consequently the related depreciation charges for our property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Our management will increase the depreciation charge where useful lives are less than previously

FINANCIAL INFORMATION

estimated lives, and it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in future periods.

Impairment of property, plant and equipment and land use rights

Property, plant and equipment and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is determined based on value-in-use calculations or market valuations. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of the fair value less the cost to sell the asset and the net present value of future cash flows the assets are expected to generate; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and, as a result, affect our financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated income statement.

Impairment of receivables

Trade receivables and prepayment and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for trade and other receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor and default or delinquency in payments are indicators that a trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted by the original effective interest rate.

In determining the appropriate provision for impairment, which includes portfolio and specific reserves, we review the aging of the trade and other receivables and consider factors such as industry trends, customer financial strength and any financial difficulties of the customer, credit standing, historical write-off trends, payment history, probability that the customer will file for bankruptcy or be subject to financial reorganization and the possibility of default or delinquency in payments to assess the probability of collection. We continuously monitor the collectibility of our receivable portfolio by analyzing the aging of the trade and other receivables, assessing creditworthiness of our customers and evaluating the changes in economic conditions that may impact credit risks. If the frequency or severity of customer default changes due to developments in customers' financial conditions or general economic conditions, our provision for impairment may require adjustment.

The carrying amount of trade receivables and prepayment and other receivables is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement as “general and administrative expenses”. When a trade receivable becomes uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts

FINANCIAL INFORMATION

previously written off are credited against "general and administrative expenses" in the income statement.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprise raw materials, direct labor, other direct costs and related production overhead, which is based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. These estimates are based on current market conditions and our historical experience in manufacturing and selling similar products. These factors could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to severe industry cycles. Management reassesses these estimates at each balance sheet date.

A substantial part of the inventories (approximately 86.6%, 91.9%, 88.4% and 86.5% as of 31 December 2006, 2007 and 2008 and 31 May 2009, respectively) for our pharmaceutical distribution operations, comprise merchandise that we hold for resale. We believe that the weighted average cost method of inventory valuation provides a reasonable approximation of the current cost of replacing inventory within our pharmaceutical distribution operations.

Income taxes and deferred income tax

We are subject to PRC income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates are changed.

Post-employment benefit obligations

We provide certain post-employment pension and medical benefits to our current, retired and early retired employees. The employee's entitlement to these benefits is usually conditional on the employee remaining in service with us up to retirement age and completing a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that of a defined benefit plan. Actual gains and losses arising from adjustments and changes in actuarial assumptions are recognized in the income statement. Such post-employment obligations are assessed annually by qualified independent actuaries.

The valuation of the present value of post-employment benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions, such as discount rates, future pension increases, medical cost trend rates, inflation rates and other factors.

Actual results that differ from the assumption are recognized immediately and, therefore, affect recognized expenses in the period in which such differences arise. Any differences in actual experience and changes in these assumptions will affect the carrying amount of benefit obligations.

FINANCIAL INFORMATION

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of our share of the net identifiable assets of the subsidiary/associate we acquired at the date of acquisition. Goodwill on acquisitions of our subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall investments in associates balance. Separately-recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Our goodwill, included in our intangible assets and our investments in associates, as of 31 December 2006, 2007 and 2008 and 31 May 2009 was RMB49.3 million, RMB48.0 million, RMB47.9 million and RMB92.3 million, respectively. The changes in the amount of goodwill was primarily due to our acquisition of Suzhou Zhijun Wanqing in March 2009. There had been no impairment charge recognized for goodwill during the Track Record Period.

Goodwill is allocated to cash-generating units identified according to the relevant operating segment for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units according to our business segments that are expected to benefit from the business combination in which the goodwill arose. Our determination of the recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets covering a five-year period, and are approved by our management. Cash flows beyond the five-year period are extrapolated using estimated growth rates, which do not exceed the long-term average growth rate for the respective business segment in which the cash-generating unit operates.

De facto control over Accord Pharma and National Medicines

Our directors and management are of the view that we had the power to govern the financial and operating policies of Accord Pharma although we held less than 50% of Accord Pharma's equity interests during the Track Record Period. In taking this view, the directors and management considered the following factors: (1) the Company was the single largest shareholder of Accord Pharma during the period; (2) the shareholding in Accord Pharma was dispersed among many public and institutional shareholders; (3) the participation of the other shareholders at the shareholders' meetings was relatively low and passive; and (4) the majority of the executive directors of Accord Pharma also held management positions with the Company.

Our directors and management are also of the view that we had the power to govern the financial and operating policies of National Medicines during the Track Record Period although our equity interests in this company decreased to below 50% following the completion of the share reform in August 2006 (see Note 27 of Appendix I). In taking this view, the directors and management considered the following factors: (1) the Company was the single largest shareholder of National Medicines during the period; (2) the shareholding in National Medicines were dispersed among many public and institutional shareholders; (3) the participation of other shareholders at the shareholders' meetings was relatively low and passive; and (4) the majority of the executive directors of National Medicines also held management positions with the Company.

FINANCIAL INFORMATION

Description of Selected Components of Results of Operations

Revenue

We generate our revenue from pharmaceutical distribution, retail pharmacy and other business operations. The table below sets forth a breakdown of our external segment revenue after elimination of inter-segment sales, and each segment revenue item as a percentage of our total revenue, as well as our inter-segment sales, for the periods indicated:

	Year ended 31 December						Five months ended 31 May			
	2006		2007		2008		2008		2009	
	RMB	%	RMB	%	RMB	%	RMB (unaudited)	%	RMB	%
(in millions, except for percentages)										
External Segment										
Revenue:⁽¹⁾										
Pharmaceutical										
distribution	21,927.2	92.4	28,997.3	93.2	35,745.1	93.6	14,017.7	93.4	16,845.7	93.3
Retail pharmacy	823.1	3.5	835.6	2.7	952.2	2.5	389.0	2.6	463.2	2.6
Other business										
operations	986.3	4.2	1,277.3	4.1	1,490.2	3.9	600.5	4.0	739.1	4.1
Total external										
revenue	23,736.6	100.0	31,110.2	100.0	38,187.4	100.0	15,007.2	100.0	18,048.0	100.0
Inter-segment										
revenue	177.6	N/A	225.9	N/A	311.2	N/A	140.9	N/A	147.6	N/A

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

We derive the majority of our revenue from our pharmaceutical distribution operations, through which we receive revenue from sales of products distributed to customers. We distribute a comprehensive offering of pharmaceutical and healthcare products, including branded and generic prescription medicines, over-the-counter medicines, Western and Chinese medicines, as well as personal care products and medical supplies through a geographically diverse distribution network. To a lesser extent, pharmaceutical distribution revenues also include import and export agency income and consulting income generated from our pharmaceutical distribution operations. The following table sets forth our external revenue of pharmaceutical distribution operations, after inter-segment elimination, generated from sales to hospitals, other distributors for distribution to end-customers and retail drug stores and other customers for the periods indicated:

	Year ended 31 December						Five months ended 31 May			
	2006		2007		2008		2008		2009	
	RMB	%	RMB	%	RMB	%	RMB (unaudited)	%	RMB	%
(in millions, except for percentages)										
Hospitals	9,642.2	44.0	13,216.7	45.6	16,719.0	46.8	6,563.4	46.8	8,129.7	48.3
Other distributors	10,927.3	49.8	13,753.8	47.4	16,263.6	45.5	6,372.0	45.5	7,134.2	42.3
Retail drug stores and										
other customers	1,357.7	6.2	2,026.8	7.0	2,762.5	7.7	1,082.3	7.7	1,581.8	9.4
Total	21,927.2	100.0	28,997.3	100.0	35,745.1	100.0	14,017.7	100.0	16,845.7	100.0

Revenue from our retail pharmacy operations are generated from selling prescription medicines, over-the-counter medicines, other pharmaceutical products and healthcare products through our retail and specialty pharmacy stores. In addition, retail pharmacy revenues also include advertising fee income and franchise fee income from our retail pharmacy operations.

FINANCIAL INFORMATION

We also generate revenue from other business operations, consisting of the sales of pharmaceutical products, chemical reagents and laboratory supplies.

As medicines included in the national and provincial medicine catalogs are subject to government-administered retail price controls and, in the case of hospital sales, a mandatory tendering process, the growth of our revenues is primarily driven by increases in sales volumes of our products. Especially in the case of our pharmaceutical distribution segment, any increase in the sales volume of our products is largely affected by increases in the number of our hospital, retail pharmacy and distributor customers, as well as the level of sales volumes to our existing hospital, retail pharmacy and distributor customers.

For the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009, inter-segment sales amounted to RMB177.6 million, RMB225.9 million, RMB311.2 million and RMB140.9 million and RMB147.6 million, respectively. Our inter-segment revenue was mainly derived from sales of pharmaceutical distribution products to our retail pharmacy business segment and sales of self-manufactured medicines to our pharmaceutical distribution and retail pharmacy business segments.

Cost of sales

Our cost of sales consists of cost of merchandise and raw materials and other costs. Other costs include direct labor, depreciation and other costs.

Our cost of sales in pharmaceutical distribution and retail pharmacy segments, which predominantly consist of cost of purchasing merchandise, is affected by changes in inventory levels, product mix and manufacturer pricing practices, which may be influenced by market conditions and other external influences. During the Track Record Period, our cost of purchasing merchandise increased steadily, which is consistent with the increase of revenue generated by our pharmaceutical distribution and retail pharmacy segments.

Our cost of sales in other business operations segment, which mainly consist of manufacturing overhead, raw material costs, direct labor costs, depreciation costs and sales tax, remained relatively stable during the Track Record Period. However, most of the raw materials that we use for the production of pharmaceutical products and chemical reagents are commodities, and their availability and price depends on market supply and demand conditions.

The following table sets forth the breakdown of our cost of sales for the periods indicated:

	Year ended 31 December						Five months ended 31 May			
	2006		2007		2008		2008		2009	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
							(unaudited)			
							(in millions, except for percentages)			
Cost of Sales:										
Cost of merchandise										
and raw material . . .	21,700.1	99.8	28,500.6	99.8	35,076.2	99.8	13,764.9	99.8	16,573.3	99.8
Other costs	47.0	0.2	59.4	0.2	76.3	0.2	29.7	0.2	36.7	0.2
Total cost of sales	21,747.1	100.0	28,560.0	100.0	35,152.5	100.0	13,794.6	100.0	16,610.0	100.0

FINANCIAL INFORMATION

Other income

The primary source of our other income is government grants we receive from various government organizations from time to time. During the Track Record Period, we received grants from government organizations in an aggregate amount of approximately RMB16.7 million, RMB23.9 million, RMB69.9 million and RMB16.2 million and RMB19.7 million in the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009, respectively. These government grants primarily consist of (1) subsidies from municipal governments made to encourage PRC enterprises to expand their operations and increase their investment in new products and services; (2) compensation from the PRC Ministry of Finance for our distribution of iodine below cost; (3) subsidies from local governments to encourage spending on pharmaceutical research and development activities; and (4) compensation from local governments paid to us for relocation. The government grants were provided in accordance with prevailing laws, regulations and rules in the PRC, and generally were made without conditions. Certain grants require the use of funds for specified purposes, such as those to support expansion of operations or for research and development. One of the government grants, for the distribution of iodine, is specific to our Company and not available to other companies. However, the other grants are either available generally to companies in China, or available to those in the pharmaceutical industry, such as government grants for research and development. The increase in the amount of government grants during the Track Record Period was consistent with the expansion of our business operations. The significant increase in government grants from the year ended 31 December 2007 to the year ended 31 December 2008 was primarily because iodine distribution compensation in both 2007 and 2008 was received and recorded in 2008 alone. We expect to continue to receive government grants from various government organizations in the future.

In addition, other income also consists of dividends we receive from our available-for-sale financial assets. For the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009, our other income was RMB17.3 million, RMB24.0 million, RMB69.9 million and RMB16.2 million and RMB19.7 million.

Distribution and selling expenses

Our distribution and selling expenses primarily consist of salaries and related expenses for personnel engaged in sales, marketing and distribution activities, sales promotion expenses, travel and office expenses, transportation expenses, rental payments for operating leases and other costs in connection with sales, marketing and distribution activities.

For the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009, our distribution and selling expenses were RMB779.0 million, RMB945.3 million, RMB966.0 million and RMB365.0 million and RMB408.6 million, respectively. During these periods, our distribution and selling expenses increased primarily as a result of additional sales, marketing and distribution activities carried out by an increased number of personnel, in support of our growth of revenues, and our increased product offerings. However, during the same periods, the percentage of our distribution and selling expenses to our total revenue gradually decreased from 3.3% in 2006, to 3.0% in 2007, to 2.5% in 2008 and to 2.3% in the five months ended 31 May 2009, primarily due to our efforts to integrate our business operations and our increased economies of scale. In the near term, we expect our distribution and selling expenses to increase to support our sales growth, but for the increase to be at a slower rate relative to our sales growth due to our increased operating efficiency and our enhanced economies of scale.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

FINANCIAL INFORMATION

The following table sets forth the breakdown of the major components of our distribution and selling expenses for the periods indicated:

	Year ended 31 December									Five months ended 31 May					
	2006			2007			2008			2008			2009		
	RMB	% of total distribution and selling expenses	% of total revenue	RMB	% of total distribution and selling expenses	% of total revenue	RMB	% of total distribution and selling expenses	% of total revenue	RMB	% of total distribution and selling expenses	% of total revenue	RMB	% of total distribution and selling expenses	% of total revenue
(in millions, except for percentages)															
Employee benefit expenses	262.7	33.7	1.11	287.8	30.4	0.93	367.0	38.0	0.96	149.8	41.0	1.00	153.8	37.6	0.85
Sales promotion expenses	163.2	20.9	0.69	191.6	20.3	0.62	164.9	17.1	0.43	54.7	15.0	0.36	59.4	14.5	0.33
Transportation expenses	115.5	14.8	0.49	124.1	13.1	0.40	134.7	13.9	0.35	54.9	15.1	0.37	59.4	14.5	0.33
Travel and office expenses	80.4	10.3	0.34	92.3	9.8	0.30	100.0	10.4	0.26	26.8	7.3	0.18	28.4	7.0	0.16
Rental expenses	79.9	10.3	0.34	99.8	10.6	0.32	109.6	11.3	0.29	43.7	12.0	0.29	61.1	15.0	0.34
Others ⁽¹⁾	77.3	10.0	0.33	149.7	15.8	0.48	89.8	9.3	0.24	35.1	9.6	0.23	46.5	11.4	0.26
Total	779.0	100.0	3.28	945.3	100.0	3.05	966.0	100.0	2.53	365.0	100.0	2.43	408.6	100.0	2.26

(1) Others include bidding fees, utilities costs, depreciation of property, plant and equipment, amortization of intangible assets, repair and maintenance and others.

General and administrative expenses

Our general and administrative expenses include salaries and benefits for our administrative, finance and human resources personnel, travel and office expenses, depreciation and amortization expenses, post-employment benefit, research and development expenses, provision for doubtful receivables and other expenses associated with our administrative offices. We make a provision for doubtful receivables when we will not be able to collect the total amount due in accordance with the original terms of the receivables. The amount of the provision is reduced from the carrying amount of our trade receivables and prepayment and other receivables.

For the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009, our general and administrative expenses were RMB747.6 million, RMB839.6 million, RMB966.7 million and RMB354.4 million and RMB346.5 million, respectively. However, during the Track Record Period, the percentage of our general and administrative expenses to our total revenue decreased from 3.1% in 2006, to 2.7% in 2007, to 2.5% in 2008 and to 1.9% in the five months ended 31 May 2009, primarily due to our efforts to integrate our business operations and our economies of scale. We expect our general and administrative expenses to increase as we hire additional staff and incur additional costs related to the growth of our business.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

FINANCIAL INFORMATION

The following table sets forth the breakdown of the major components of our general and administrative expenses for the periods indicated:

	Year ended 31 December									Five months ended 31 May					
	2006			2007			2008			2008			2009		
	RMB	% of total general and administrative expenses	% of total revenue	RMB	% of total general and administrative expenses	% of total revenue	RMB	% of total general and administrative expenses	% of total revenue	RMB	% of total general and administrative expenses	% of total revenue	RMB	% of total general and administrative expenses	% of total revenue
(in millions, except for percentages)															
Employee benefit expenses	262.3	35.1	1.11	318.3	37.9	1.02	404.9	41.9	1.06	143.5	40.5	0.96	152.8	44.1	0.85
Travel and office expenses	104.0	13.9	0.44	123.8	14.7	0.40	146.1	15.1	0.38	52.0	14.7	0.35	42.1	12.2	0.23
Depreciation and amortization expenses	75.8	10.1	0.32	77.1	9.2	0.25	93.1	9.6	0.25	35.4	10	0.24	40.3	11.6	0.22
Post-employment benefit expenses	15.2	2.0	0.06	23.8	2.8	0.08	80.6	8.3	0.21	23.0	6.5	0.15	8.0	2.3	0.04
Research and development	18.2	2.4	0.08	24.6	2.9	0.08	34.9	3.6	0.09	9.8	2.8	0.07	11.8	3.4	0.07
Provision for doubtful trade receivables	25.0	3.3	0.11	22.4	2.7	0.07	10.9	1.1	0.03	11.3	3.2	0.08	17.7	5.1	0.10
Provision for doubtful other receivables	23.1	3.1	0.10	20.9	2.5	0.07	(14.5)	(1.5)	(0.04)	(0.5)	(0.1)	(0.003)	(9.2)	(2.7)	(0.05)
Others ⁽¹⁾	224.0	30.1	0.94	228.7	27.3	0.74	210.7	21.9	0.55	79.9	22.6	0.53	83	24	0.46
Total	747.6	100.0	3.15	839.6	100.0	2.70	966.7	100.0	2.53	354.4	100.0	2.36	346.5	100.0	1.92

(1) Others primarily includes auditors’ remuneration and consulting fees, transaction tax, rental for operating leases, repair and maintenance expenses, utilities expenses, provision for inventory and others.

Other gains/losses, net

Other gains/losses, net comprises primarily gains and losses which do not arise from the normal operations of our Company. Our other gains primarily consist of gains on disposal of leasehold land and land use rights and property, plant and equipment, gains on settlement of borrowings, foreign exchange gains and gains or losses on disposal of subsidiaries. The transactions we entered into for the disposal of leasehold land and land use rights and property, plant and equipment were primarily one-off transactions conducted by our subsidiaries. Our gain on settlement of bank borrowings primarily resulted from our settlements with creditors at a discount for the overdue bank borrowings of two of our subsidiaries, which were treated as non-performing loans by the lending banks and then transferred to other asset management companies. Our foreign exchange gains mainly resulted from the appreciation of the Renminbi against the U.S. dollar in connection with our purchases from foreign suppliers.

Our other losses primarily consist of losses on transfers of formerly non-tradable shares held by us in Accord Pharma and National Medicines, equivalent to 4% of the equity interests of Accord Pharma and 12% of the equity interests of National Medicines, to the public holders of the tradable A shares in these companies. Prior to the transfers, Accord Pharma and National Medicines held tradable shares issued in the PRC, or A shares, which are listed on the Shenzhen Stock Exchange and Shanghai Stock Exchange, respectively, as well as non-tradable shares held by us as major shareholder. The share transfers were made pursuant to relevant PRC share reform regulations, under which Accord Pharma and National Medicines on our behalf developed share reform plans, which were approved by the shareholders of each of Accord Pharma and National Medicines, to convert all non-tradable domestic shares held by us in these companies to tradable A shares (subject to certain restrictions under PRC laws and regulations). Under the share reform plan for Accord Pharma, we paid, as consideration for the share reform plan, three non-tradable shares for every 10 A shares held by any holder of Accord Pharma’s A shares. Under the share reform plan for National Medicines, we paid, as consideration for the share reform plan, three non-tradable shares for every 10 A shares held by any holder of National Medicines’ A shares. Following the implementation of the share reform plans,

FINANCIAL INFORMATION

which were implemented on 28 April 2006 for Accord Pharma and 23 August 2006 for National Medicines, we hold 39.14% and 47.60% of the equity interests in Accord Pharma and National Medicines, respectively.

In the years ended 31 December 2007 and 2008, we disposed of 1.58% and 0.99%, respectively, of our equity interest in National Medicines and realized gains from such disposals of approximately RMB91.4 million and RMB76.0 million, respectively. In the five months ended 31 May 2009, we disposed of 1.00% of our equity interest in National Medicine and 0.81% of our equity interest in Accord Pharma, respectively, and realized gains from such disposals of approximately RMB100.0 million. We used the funds obtained from these disposals to finance our business expansion and investment in new logistics facilities. The sales transactions were made in the stock market after taking into consideration prevailing market conditions, the share price of National Medicines and Accord Pharma and our financing requirements for business development.

For the year ended 31 December 2006, our other loss, net was RMB45.6 million. For the years ended 31 December 2007 and 2008 and the five months ended 31 May 2008 and 2009, our other gains, net were RMB124.1 million, RMB92.7 million and RMB79.4 million and RMB104.0 million, respectively.

Finance income

Our finance income mainly consists of bank interest income. For the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009, our finance income was RMB11.7 million, RMB17.8 million, RMB24.3 million and RMB7.3 million and RMB9.0 million, respectively.

Finance costs

Our finance costs consist of interest payments on bank loans and for discounted notes and account receivables factoring transactions. For the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009, our finance costs amounted to RMB101.5 million, RMB150.9 million, RMB266.0 million and RMB98.1 million and RMB93.9 million, respectively. From time to time, we enter into notes receivables discount and accounts receivables factoring transactions with banks to supplement our working capital and to facilitate the liquidity of our trade receivables and prepayment and other receivables. We generally enter into such transactions for our accounts receivables from hospitals, for which we often grant longer credit terms because of their reliability.

Share of results from associates

Our share of results from associates is the profits attributable to us from our associates, net of the losses attributable to us from our associates, pursuant to our equity interests in associates. Associates are entities which we generally hold no less than 20% of the equity voting rights and over which we are in the position to exercise significant influence but not control or jointly control.

For the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009, our share of results from associates was RMB19.2 million, RMB40.0 million, RMB54.2 million and RMB22.8 million and RMB25.1 million, respectively.

FINANCIAL INFORMATION

Income tax expense

The following table sets forth the components of income taxes for the periods indicated:

	Year ended 31 December						Five months ended 31 May			
	2006		2007		2008		2008		2009	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in millions, except for percentages)									
Corporate income tax	180.0	99.2	286.4	100.7	271.0	104.5	121.5	102.1	194.0	100.1
Deferred income tax	1.5	0.8	(1.9)	(0.7)	(11.7)	(4.5)	(2.5)	(2.1)	(0.2)	(0.1)
Total income tax	181.5	100.0	284.5	100.0	259.3	100.0	119.0	100.0	193.8	100.0

Corporate income tax

Taxation represents the corporate income tax at the statutory rates prevailing in the PRC levied on our taxable income as determined in accordance with PRC GAAP. We also consider “expenses not deductible for tax” in determining our income tax expenses. “Expenses not deductible for tax” refers primarily to expenses such as salaries expenses that exceeded the statutory ceiling in 2006 and 2007 prior to the effective date of the EIT Law discussed below, certain other expenses in excess of prescribed caps and donations that are not deductible under current tax regulations applicable to us.

We and our subsidiaries are incorporated in the PRC and are subject to taxation in the PRC. As of 31 May 2009, we had 86 subsidiaries incorporated in the PRC that were subject to taxation in the PRC. See Note 40 to our Accountant’s Report in Appendix I to this document for a description of these subsidiaries. On 16 March 2007, the National People’s Congress of the PRC adopted the Enterprise Income Tax Law, or EIT Law, which became effective 1 January 2008. The EIT Law reduced the statutory tax rate from 33% to 25% of taxable income as determined in relevant PRC tax laws and regulations. However, for enterprises which were established before the publication of the new EIT Law and were entitled to preferential tax rates, specifically those enterprises whose preferential tax rates were 15% in 2007, granted by relevant authorities, the new income tax rate will be gradually increased to 25% within five years after the effective date of the new EIT Law. These rates will be 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. Enterprises that are currently entitled to exemptions or deductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires. Some of our subsidiaries enjoyed preferential income tax rates during the Track Record Period in accordance with the EIT Law and a number of circulars, statutes and regulations implemented by the PRC Ministry of Finance, State Administration of Taxation, State Counsel and local tax authorities. See Note 32(a) of Appendix I to this document for more information on the preferential tax treatments or tax exemptions we enjoyed under PRC law. Other than (i) Guangxi Accord Pharmacy Chain Store Co., Ltd., whose fixed term for preferential tax treatment extends to 2010, (ii) Sinopharm Nanning, whose 60% tax exemption was extended to 2008 and (iii) Zhijun Pharmaceutical, who enjoys preferential tax rate for technically advanced enterprise at 15% from January 2008, the preferential tax rates for our other subsidiaries expired in 2007 and the applicable income tax rates for such subsidiaries will gradually increase to 25% in 2012.

In the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009, we had income tax expenses of RMB181.5 million, RMB284.5 million, RMB259.3 million and RMB119.0 million and RMB193.8 million, respectively. Our effective tax rates were 49.9%, 34.7%, 24.1% and 22.8% and 26.0% for the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009, respectively. Our effective tax rates were higher than the prevailing statutory tax rate during the two-year period ended 31 December 2007 and the five months ended 31 May 2009 primarily because our actual income taxes paid, after making a number of

FINANCIAL INFORMATION

adjustments pursuant to relevant laws and regulations, exceeded our consolidated profit before income tax multiplied by the statutory tax rate. Such positive adjustments primarily reflected the following: (i) certain of our losses on transfers of equity interests in our subsidiaries were not deductible for tax purposes; (ii) certain employee compensation expenses exceeded the statutory deduction limits for tax purposes, which caused our actual taxable income to increase; (iii) certain of our subsidiaries incurred losses for which no deferred income tax was recognized and (iv) a portion of our eliminated income, which was derived from share transfer transactions among our subsidiaries on consolidation of our financial statements, was treated as taxable income for tax purposes.

No provision for Hong Kong income tax was made as we did not have any tax-assessable profit arising in Hong Kong during the Track Record Period.

The following table sets forth the enterprise income tax rates of our significant subsidiaries which enjoyed preferential tax rates for a fixed term during the Track Record Period:

	Year ended 31 December			
	2006	2007	2008	2009
Shanghai Sinopharm Waigaoqiao Co., Ltd. ⁽¹⁾	15%	15%	18%	20%
Shenzhen Zhijun Pharmaceutical Co., Ltd. ⁽²⁾	15%	15%	15%	15%
Shenzhen Accord Pharmacy Chain Store Co., Ltd. ⁽¹⁾ . .	15%	15%	18%	20%
Shenzhen Accord Pharmaceutical Co., Ltd. ⁽¹⁾	15%	15%	18%	20%
Sinopharm Holding Nanning Co., Ltd. ⁽³⁾	exempted	13.2%	10%	25%
Sinopharm Holding Hubei Co., Ltd. ⁽⁴⁾	15%	15%	25%	25%

- (1) The exemptions or deductions from the standard income tax rate enjoyed by these subsidiaries for a fixed term expired in 2007 and the applicable income tax rates for such subsidiaries will be 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012.
- (2) Shenzhen Zhijun Pharmaceutical Co., Ltd. qualifies for a 15% income tax rate for a three-year period as a technically advanced enterprise from 2008.
- (3) Sinopharm Holding Nanning Co., Ltd. was entitled to a 60% corporate income tax exemption, calculated on the then applicable statutory income tax rate for 2007 and 2008. The preferential tax treatment of Sinopharm Holding Nanning Co., Ltd. expired in the end of 2008.
- (4) The preferential tax treatment of Sinopharm Holding Hubei Co., Ltd. expired in the end of 2007.

FINANCIAL INFORMATION

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of tax assets and tax liabilities in the financial statements and the corresponding tax basis and is accounted for using the balance sheet method. Aside from certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that future taxable profits will be available against which the asset can be recognized. Deferred tax assets and liabilities are determined at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and regulations that have been enacted or substantively enacted at the balance sheet date. The following table sets forth a reconciliation of deferred tax liabilities and tax assets for the periods indicated:

	Year ended 31 December			Five months ended 31 May
	2006	2007	2008	2009
	(RMB in millions)			
Deferred taxation ⁽¹⁾	1.57	(1.97)	(11.67)	(0.19)
Charged/(credited) in the income statement in respect of :				
Deferred tax assets	1.61	11.97	(4.50)	5.17
Deferred tax liabilities	(0.04)	(13.94)	(7.17)	(5.36)
	1.57	(1.97)	(11.67)	(0.19)

(1) For more information, see Note 13 and 32 to the Accountant’s Report on our financial information included in Appendix I to this document.

Minority interests

Minority interests represent the interests not held by us in the results and net assets of the subsidiaries of the Company. We characterize transactions with minority interests as transactions with parties external to our Company. Disposals of minority interests result in gains and losses for our Company and are recorded in our consolidated income statement. Acquisitions of minority interests result in goodwill, being the difference between any consideration paid and the relevant shares acquired of the carrying value of the net assets of the subsidiary. In the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009, our profit attributable to minority interests amounted to RMB81.1 million, RMB155.0 million, RMB232.4 million and RMB104.8 million and RMB131.4 million, respectively. Our equity attributable to minority interests as of 31 December 2006, 2007 and 2008 and 31 May 2009 amounted to RMB830.6 million, RMB934.6 million, RMB1,146.4 million and RMB1,293.1 million, respectively.

Significant related party transactions

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Our Company is under the control of the PRC Government. Other state-owned enterprises and their subsidiaries, which are not controlled by CNPGC, but directly or indirectly controlled by the PRC Government, are regarded as related parties.

FINANCIAL INFORMATION

See Note 39 of Appendix I to this document for more information on the significant related party transactions entered between us and our related parties, including other state-owned enterprises during the Track Record Period.

In the opinion of the Company’s directors and our management, these significant related party transactions are in the ordinary course of business of our Company and on normal commercial terms, except for the sales of medical products to specific related parties under major disaster, epidemic and other emergencies which are priced at cost and relevant trade receivables which will be offset with medical reserve funds upon approval from CNPGC and the relevant PRC government authorities.

Consolidated Results of Operations

The following table sets forth selected financial information and that information as a percentage of revenues for the periods indicated:

	Year ended 31 December						Five months ended 31 May			
	2006		2007		2008		2008		2009	
	RMB	%	RMB	%	RMB	%	RMB (unaudited)	%	RMB	%
(in millions, except for percentages)										
Revenue	23,736.6	100.0	31,110.2	100.0	38,187.4	100.0	15,007.2	100.0	18,048.0	100.0
Cost of sales	(21,747.1)	(91.6)	(28,560.0)	(91.8)	(35,152.5)	(92.1)	(13,794.6)	(91.9)	(16,610.0)	(92.0)
Gross profit	1,989.5	8.4	2,550.2	8.2	3,034.9	7.9	1,212.6	8.1	1,438.0	8.0
Other income	17.3	0.07	24.0	0.08	69.9	0.2	16.2	0.1	19.7	0.1
Distribution and selling expenses	(779.0)	(3.3)	(945.3)	(3.0)	(966.0)	(2.5)	(365.0)	(2.4)	(408.6)	(2.3)
General and administrative expenses	(747.6)	(3.1)	(839.6)	(2.7)	(966.7)	(2.5)	(354.4)	(2.4)	(346.5)	(1.9)
Operating profit	480.3	2.0	789.3	2.5	1,172.1	3.1	509.4	3.4	702.6	3.9
Other gains/(loss) – net	(45.6)	(0.2)	124.1	0.4	92.7	0.2	79.4	0.5	104.0	0.6
Finance income	11.7	0.05	17.8	0.06	24.3	0.06	7.3	0.05	9.0	0.05
Finance costs	(101.5)	(0.4)	(150.9)	(0.5)	(266.0)	(0.7)	(98.1)	(0.7)	(93.9)	(0.5)
Finance costs – net	(89.8)	(0.4)	(133.1)	(0.4)	(241.7)	(0.6)	(90.8)	(0.6)	(84.9)	(0.5)
Share of results from associates	19.2	0.08	40.0	0.1	54.2	0.1	22.8	0.2	25.1	0.1
Profit before income tax	364.0	1.5	820.4	2.6	1,077.4	2.8	520.8	3.5	746.8	4.1
Income tax expense	(181.5)	(0.8)	(284.5)	(0.9)	(259.3)	(0.7)	(119.0)	(0.8)	(193.8)	(1.1)
Profit for the year/period	182.4	0.8	535.9	1.7	818.1	2.1	401.8	2.7	552.9	3.1
Attributable to:										
Equity holders of the Company	101.3	0.4	380.9	1.2	585.7	1.5	297.0	2.0	421.5	2.3
Minority interests	81.1	0.3	155.0	0.5	232.4	0.6	104.8	0.7	131.4	0.7

Unless otherwise indicated, the following discussion includes only the results from external sales. All inter-segment transactions have been eliminated from the financial data discussed in this section. For additional data and information regarding our business segments and segmental presentation, see Note 5 to our consolidated financial statements in the Accountant’s Report in Appendix I to this document.

FINANCIAL INFORMATION

Five months ended 31 May 2009 compared with five months ended 31 May 2008

Revenue

The following table sets forth our external segment revenue and inter-segment sales by each segment for the five months ended 31 May 2008 and 2009:

	Five months ended 31 May					
	2008			2009		
	External revenue ⁽¹⁾	Inter- segment revenue	Total	External revenue ⁽¹⁾	Inter- segment revenue	Total
	(unaudited)			(RMB in millions)		
Segment Revenue: ⁽¹⁾						
Pharmaceutical distribution	14,017.7	102.7	14,120.4	16,845.7	99.2	16,944.9
Retail pharmacy	389.0	-	389.0	463.2	-	463.2
Other business operations	600.5	38.2	638.7	739.1	48.4	787.5
Elimination	-	-	(140.9)	-	-	(147.6)
Total	15,007.2	140.9	15,007.2	18,048.0	147.6	18,048.0

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

Our total revenue after elimination of inter-segment sales increased by RMB3,040.8 million, or 20.3%, from RMB15,007.2 million in the five months ended 31 May 2008 to RMB18,048.0 million in the five months ended 31 May 2009. The increase was mainly attributable to an increase of RMB2,828 million in revenue from our pharmaceutical distribution operations. In addition, an increase of RMB138.6 million in revenue from our other business operations also contributed to the changes in our total revenue during the period. The increase in our revenues was in line with our market share growth and the development of the PRC pharmaceutical market.

Pharmaceutical distribution segment. Our external revenue from our pharmaceutical distribution operations increased by 20.2%, from RMB14,017.7 million in the five months ended 31 May 2008 to RMB16,845.7 million in the five months ended 31 May 2009. The increase was primarily due to an increase in the number of new hospital customers and an increase in the range and quantity of products sold to existing hospital customers. To a lesser extent, the penetration of our distribution network into community clinics and other healthcare institutes also contributed to the increase in our revenues.

Retail pharmacy segment. Our external revenue from retail pharmacy operations increased by 19.1%, from RMB389.0 million in the five months ended 31 May 2008 to RMB463.2 million in the five months ended 31 May 2009. The increase was primarily due to an increase in the number of our directly owned stores as a result of our acquisition of 93 stores from the State-owned Assets Supervision and Administrative Commission of Ningxia Autonomous Region as well as the opening of new directly owned stores. The growth of revenue from the retail pharmacy stores which we acquired from Shengyang Tianyitang and Zhejiang Intmedic in May and June 2008, which began to exhibit stronger growth in 2009, also contributed to the increase in revenue from our retail pharmacy operations in the five months ended 31 May 2009. Our average daily revenue per directly owned store remained relatively stable in the five months ended 31 May 2009.

Other business operations segment. Our external revenue from our other business operations increased by 23.1%, from RMB600.5 million for the five months ended 31 May 2008 to RMB739.1 million for the five months ended 31 May 2009. The increase was primarily due to our acquisition of Suzhou Zhijun Wanqing in March 2009 as well as the growth of our pharmaceutical manufacturing operations, in terms of quantity of products sold, especially cephalosporin antibiotics products. To a

FINANCIAL INFORMATION

lesser extent, the growth of our chemical reagent operations also contributed to the increase in our revenues.

Our inter-segment sales were RMB140.9 million and RMB147.6 million in the five months ended 31 May 2008 and 2009, respectively. Our inter-segment sales represent the sales by our pharmaceutical distribution segment to our retail pharmacy segment and medicines sold by our pharmaceutical manufacturing operations to our pharmaceutical distribution and retail pharmacy operations.

Cost of sales

Our cost of sales increased by 20.4%, from RMB13,794.6 million in the five months ended 31 May 2008 to RMB16,610.0 million in the five months ended 31 May 2009. The increase was primarily due to an increase in the costs of purchasing merchandise for our pharmaceutical distribution segment. The increase was consistent with the increase in our total revenues in the five months ended 31 May 2009 as compared to the same period in 2008.

Gross profit

As a result of the foregoing, our gross profit increased by 18.6%, from RMB1,212.6 million in the five months ended 31 May 2008 to RMB1,438.0 million in the five months ended 31 May 2009. Our gross profit margin was 8.1% and 8.0% for the five months ended 31 May 2008 and 2009, respectively.

Pharmaceutical distribution segment. Our gross profit in our pharmaceutical distribution operations increased by 17.7%, from RMB943.2 million in the five months ended 31 May 2008 to RMB1,110.3 million in the five months ended 31 May 2009. The gross profit margin for our pharmaceutical distribution segment was 6.7% and 6.6% for the five months ended 31 May 2008 and 2009, respectively.

Retail pharmacy segment. Our gross profit in our retail pharmacy operations increased by 31.8%, from RMB95.6 million in the five months ended 31 May 2008 to RMB126.0 million in the five months ended 31 May 2009. The gross profit margin for our retail pharmacy segment increased to 27.2% for the five months ended 31 May 2009 from 24.6% for the same period in 2008. The increase was primarily due to an increase in our sales of higher-margin private label products.

Other business operations. Our gross profit in our other business operations increased by 16.1%, from RMB173.8 million in the five months ended 31 May 2008 to RMB201.7 million in the five months ended 31 May 2009. The gross profit margin for our other business operations decreased to 27.3% for the five months ended 31 May 2009 from 28.9% for the same period in 2008. Such decrease was primarily due to the decrease of profit margin of our chemical reagent operations as well as our acquisition of Zhijun Suzhou Wanqing, whose product portfolio contained lower-margin products, such as chemical intermediate and APIs.

Other income

Our other income increased by 21.6%, from RMB16.2 million in the five months ended 31 May 2008 to RMB19.7 million in the five months ended 31 May 2009. The increase was primarily due to an increase of government grants that we received from central and local government authorities.

FINANCIAL INFORMATION

Distribution and selling expenses

Our distribution and selling expenses increased by 11.9%, from RMB365.0 million in the five months ended 31 May 2008 to RMB408.6 million in the five months ended 31 May 2009. The increase in distribution and selling expenses was primarily due to (i) an increase in our rental expenses with respect to our newly opened retail pharmacies and (ii) increases in total personnel and levels of salaries and wages for our sales and marketing staff, transportation expense and travel and office expenses in connection with our sales and marketing activities. Our distribution and selling expenses as a percentage of our total revenue decreased from 2.4% in the five months ended 31 May 2008 to 2.3% for the same period in 2009, primarily due to our increased operating efficiency and enhanced economies of scale.

General and administrative expenses

Our general and administrative expenses decreased by 2.2%, from RMB354.4 million in the five months ended 31 May 2008 to RMB346.5 million in the five months ended 31 May 2009. The decrease in general and administrative expenses was primarily due to (i) a decrease in travel and office expenses as a result of our cost control measures; (ii) a decrease in post-employment benefit expenses due to actuarial gains resulting from changes in interest rates and (iii) our recovery of certain other receivables in 2009, for which we had previously made provisions. The decrease was partially offset by (i) an increase in our employee benefit expenses as a result of increased personnel and salaries and wages of our administrative staff and (ii) an increase in our provisions for impaired account receivables corresponding to the increase in our accounts receivables in the five months ended 31 May 2009.

Our general and administrative expenses as a percentage of our total revenues decreased from 2.4% for the five months ended 31 May 2008 to 1.9% for the same period in 2009, primarily due to our increased operating efficiency and enhanced economies of scale.

Operating profit

As a result of the foregoing, our operating profit was RMB702.6 million in the five months ended 31 May 2009, representing an increase of 37.9% from RMB509.4 million in the five months ended 31 May 2008.

Pharmaceutical distribution segment. Our operating profit in our pharmaceutical distribution operations increased by 40.5%, from RMB448.2 million in the five months ended 31 May 2008 to RMB629.8 million in the five months ended 31 May 2009. Our operating profit margin for our pharmaceutical distribution segment increased to 3.7% for the five months ended 31 May 2009 from 3.2% for the same period in 2008.

Retail pharmacy segment. Our operating profit in our retail pharmacy operations decreased by 16%, from RMB5.0 million in the five months ended 31 May 2008 to RMB4.2 million in the five months ended 31 May 2009. The operating profit margin for our retail pharmacy segment decreased to 0.9% for the five months ended 31 May 2009 from 1.3% for the same period in 2008. The decrease was primarily due to the increase in expenses in connection with opening new directly owned stores for our retail pharmacy operations.

Other business operations segment. Our operating profit in our other business operations increased by 22.1%, from RMB56.2 million in the five months ended 31 May 2008 to RMB68.6 million in the five months ended 31 May 2009. The operating profit margin for our other business operations decreased to 9.3% for the five months ended 31 May 2009 from 9.4% for the same period in 2008.

FINANCIAL INFORMATION

Other gains, net

Our other gains less other losses increased by 31.0%, from RMB79.4 million in the five months ended 31 May 2008 to RMB104.0 million in the five months ended 31 May 2009. The increase was primarily due to the increase in our gain on disposals of the tradable shares of National Medicines and Accord Pharma during the five months ended 31 May 2009 as compared to the same period in 2008. The increase was partially offset by the decrease of our foreign exchange gains during the five months ended 31 May 2009.

Finance income

Our finance income increased by 23.3%, from RMB7.3 million in the five months ended 31 May 2008 to RMB9.0 million in the five months ended 31 May 2009. The increase was primarily due to increases in the average balance of our bank deposits in interest bearing savings accounts.

Finance costs

Our finance costs decreased by 4.3%, from RMB98.1 million in the five months ended 31 May 2008 to RMB93.9 million in the five months ended 31 May 2009, primarily due to the decrease in interest rates as compared to the same period in 2008. Such decrease was partially offset by an increase in interest expenses resulted from the increase in average amount of outstanding borrowings.

Share of results from associates

Share of results from associates increased by 10.1%, from RMB22.8 million in the five months ended 31 May 2008 to RMB25.1 million in the five months ended 31 May 2009, representing the increase in the profit of our associates described in Note 38 of the Accountants’ Report in Appendix I to this document.

Income tax expenses

Our income tax expenses increased by 62.9%, from RMB119.0 million in the five months ended 31 May 2008 to RMB193.8 million in the five months ended 31 May 2009, primarily due to (i) the gradual increases in applicable income tax rates of certain of our subsidiaries whose preferential tax treatments expired after the effectiveness of new EIT Law; (ii) increases in expenses not deductible for tax purposes and (iii) certain of our subsidiaries incurred losses for which no deferred income tax was recognized. As a result, our effective income tax rate increased from 22.8% in the five months ended 31 May 2008 to 26.0% in the five months ended 31 May 2009.

Profit for the period

As a result of the foregoing, our profit increased by 37.6%, or RMB151.1 million, from RMB401.8 million in the five months ended 31 May 2008 to RMB552.9 million for the same period ended 31 May 2009.

Profit attributable to equity holders of the Company

Our profit attributable to equity holders, or net profit, increased by RMB124.5 million or 41.9%, from RMB297.0 million in the five months ended 31 May 2008 to RMB421.5 million in the five months ended 31 May 2009. Our net margin increased from 2.0% in the five months ended 31 May 2008 to 2.3% for the same period ended 31 May 2009.

FINANCIAL INFORMATION

Minority Interests

Minority interests increased by RMB26.6 million or 25.4%, from RMB104.8 million in the five months ended 31 May 2008 to RMB131.4 million in the five months ended 31 May 2009.

Year ended 31 December 2008 compared with year ended 31 December 2007

Revenue

The following table sets forth our external segment revenue and inter-segment sales by each segment in 2007 and 2008:

	Year ended 31 December					
	2007			2008		
	External revenue ⁽¹⁾	Inter- segment revenue	Total	External revenue ⁽¹⁾	Inter- segment revenue	Total
	(RMB in millions)					
Segment Revenue:⁽¹⁾						
Pharmaceutical distribution	28,997.3	128.0	29,125.3	35,745.1	213.1	35,958.2
Retail pharmacy	835.6	-	835.6	952.2	-	952.2
Other business operations	1,277.3	97.9	1,375.2	1,490.2	98.1	1,588.3
Elimination	-	-	(225.9)	-	-	(311.2)
Total	31,110.2	225.9	31,110.2	38,187.4	311.2	38,187.4

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

Our total revenue after elimination of inter-segment sales increased by RMB7,077.2 million, or 22.7%, from RMB31,110.2 million in the year ended 31 December 2007 to RMB38,187.4 million in the year ended 31 December 2008. The increase was mainly attributable to an increase of RMB6,747.8 million in revenue from our pharmaceutical distribution operations. In addition, an increase of RMB212.9 million in revenue from our other business operations also contributed to the changes in our total revenue during the period. The increase in our revenues was in line with our market share growth and the development of the PRC pharmaceutical market.

Pharmaceutical distribution segment. Our external revenue from our pharmaceutical distribution operations increased by RMB6,747.8 million, or 23.3%, from RMB28,997.3 million in the year ended 31 December 2007 to RMB35,745.1 million in the year ended 31 December 2008. The increase was primarily due to an increase in the number of new hospital customers and an increase in the range and quantity of products sold to existing hospital customers. To a lesser extent, the penetration of our distribution network into community clinics and other healthcare institutions and the inclusion of revenue of Sinopharm Henan which we acquired in May 2008 also contributed to the increase in our revenues.

Retail pharmacy segment. Our external revenue from retail pharmacy operations increased by RMB116.6 million, or 14.0%, from RMB835.6 million in the year ended 31 December 2007 to RMB952.2 million in the year ended 31 December 2008. The increase was primarily due to an increase in the number of our directly owned stores from 446 in 2007 to 468 in 2008, as a result of our acquisition in May and June 2008, respectively, of the retail pharmacy stores of Shenyang Tianyitang and Zhejiang Intmedic, which are independent third-party pharmaceutical companies. The growth of revenue from our directly owned new stores opened in 2007, and which began to exhibit stronger revenues in 2008 as the new stores became more mature, also contributed to the increase in revenue in 2008 from our retail pharmacy operations. It generally takes about one to two years for sales growth of

FINANCIAL INFORMATION

a new store to approach maturity. Our average daily revenue per directly owned store remained relatively stable from 2007 to 2008.

Other business operations segment. Our external revenue from our other business operations increased by RMB212.9 million, or 16.7%, from RMB1,277.3 million in the year ended 31 December 2007 to RMB1,490.2 million in the year ended 31 December 2008. The increase was primarily due to the growth of our pharmaceutical manufacturing operations, in terms of the quantity of products sold, especially cephalosporin antibiotics products. The growth of our chemical reagent and laboratory supplies operations also contributed to the increase in our revenues. The increase in revenue from our other business operations was partly offset by a decrease in sales of our cough syrup products.

Inter-segment sales. Our inter-segment sales were RMB225.9 million and RMB311.2 million in the years ended 31 December 2007 and 2008, respectively. Our inter-segment sales represent the sales by our pharmaceutical distribution segment to our retail pharmacy segment and medicines sold by our pharmaceutical manufacturing operations to our pharmaceutical distribution and retail pharmacy operations.

Cost of sales

Our cost of sales increased by RMB6,592.5 million, or 23.1%, from RMB28,560.0 million in the year ended 31 December 2007 to RMB35,152.5 million in the year ended 31 December 2008. The increase was primarily due to an increase in the costs of purchasing merchandise for our pharmaceutical distribution segment. The increase was consistent with the increase in our total revenues during 2008.

Gross profit

As a result of the foregoing, our gross profit increased by RMB484.7 million, or 19.0%, from RMB2,550.2 million in the year ended 31 December 2007 to RMB3,034.9 million in the year ended 31 December 2008. Our gross profit margin decreased from 8.2% for the year ended 31 December 2007 to 7.9% for the year ended 31 December 2008. The decrease was primarily due to decreased gross profit margin in our other business operations.

Pharmaceutical distribution segment. Our gross profit in our pharmaceutical distribution operations increased by RMB483.8 million, or 25.6%, from RMB1,890.5 million in the year ended 31 December 2007 to RMB2,374.3 million in the year ended 31 December 2008. Our gross profit margin for our pharmaceutical distribution segment increased to 6.6% for the year ended 31 December 2008 from 6.5% for the same period in 2007.

Retail pharmacy segment. Our gross profit in our retail pharmacy operations increased by RMB28.4 million, or 13.2%, from RMB215.5 million in the year ended 31 December 2007 to RMB243.9 million in the year ended 31 December 2008. The gross profit margin for our retail pharmacy segment slightly decreased to 25.6% for the year ended 31 December 2008 from 25.8% for the same period in 2007.

Other business operations. Our gross profit in our other business operations decreased RMB27.5 million, or by 6.2%, from RMB444.2 million in the year ended 31 December 2007 to RMB416.7 million in the year ended 31 December 2008. The gross profit margin for our other business operations decreased to 28.0% for the year ended 31 December 2008 from 34.8% for the same period in 2007. The gross profit margin was negatively impacted by changes in the product portfolio of the pharmaceutical manufacturing operations, resulting from an increase in sales of lower-margin

FINANCIAL INFORMATION

over-the-counter drugs and a decrease in sales of higher-margin products, such as cough syrup products.

Other income

Our other income increased by RMB45.9 million, or 191.3%, from RMB24.0 million in the year ended 31 December 2007 to RMB69.9 million in the year ended 31 December 2008. The increase was mainly attributable to an increase of government grants that we received from central and local government authorities.

Distribution and selling expenses

Our distribution and selling expenses increased by RMB20.7 million, or 2.2%, from RMB945.3 million in the year ended 31 December 2007 to RMB966.0 million in the year ended 31 December 2008. The increase in distribution and selling expenses was mainly attributable to increases in total personnel and levels of salaries and wages for our sales and marketing staff, transportation expense and travel and office expenses in connection with our sales and marketing activities. Our distribution and selling expenses as a percentage of our total revenue decreased from 3.0% in 2007 to 2.5% in 2008, primarily due to our increased operating efficiency and enhanced economies of scale.

General and administrative expenses

Our general and administrative expenses increased by RMB127.1 million, or 15.1%, from RMB839.6 million in the year ended 31 December 2007 to RMB966.7 million in the year ended 31 December 2008. The increase in general and administrative expenses was primarily due to (i) the increase in employee benefit expenses as a result of increased personnel and salaries and wages of our administrative staff and travel and office expenses due to the expansion of our business operations and (ii) an increase in post-employment benefit expenses due to actuarial losses resulting from the decline of interest rates during the period. The increase was partially offset by the decrease of our provisions for doubtful accounts receivables and prepayment and other receivables from the previous year, which was primarily due to (i) a one-off provision for impaired accounts receivables of our subsidiary, China National Pharmaceutical Group Northwest Medicine Co., Ltd, in 2007 that did not recur in 2008 and (ii) our recovery of certain other receivables in 2008, for which we had previously made provisions. Our general and administrative expenses as a percentage of our total revenues decreased from 2.7% in 2007 to 2.5% in 2008, primarily due to our increased operating efficiency and enhanced economies of scale and decrease in provisions.

Operating profit

As a result of the foregoing, our operating profit was RMB1,172.1 million in the year ended 31 December 2008, representing an increase of RMB382.8 million, or 48.5% from RMB789.3 million in the year ended 31 December 2007.

Pharmaceutical distribution segment. Our operating profit in our pharmaceutical distribution operations increased by RMB373.1 million, or 54.8%, from RMB680.6 million in the year ended 31 December 2007 to RMB1,053.7 million in the year ended 31 December 2008. Our operating profit margin for our pharmaceutical distribution segment increased to 2.9% for the year ended 31 December 2008 from 2.3% for the same period in 2007.

Retail pharmacy segment. Our operating profit in our retail pharmacy operations decreased by RMB12.3 million, or 50.8%, from RMB24.2 million in the year ended 31 December 2007 to

FINANCIAL INFORMATION

RMB11.9 million in the year ended 31 December 2008. The operating profit margin for our retail pharmacy segment decreased to 1.2% for the year ended 31 December 2008 from 2.9% for the same period in 2007. The decrease was primarily due to the integration expenses for our acquisition of the retail pharmacy stores of Zhejiang Intmedic and Shenyang Tianyitang in 2008.

Other business operations segment. Our operating profit in our other business operations increased by RMB22.0 million, or 26.0%, from RMB84.5 million in the year ended 31 December 2007 to RMB106.5 million in the year ended 31 December 2008. The operating profit margin for our other business operations increased to 7.1% for the year ended 31 December 2008 from 6.6% for the same period in 2007.

Other gains, net

Our other gains less other losses decreased by RMB31.4 million, or 25.3%, from RMB124.1 million in the year ended 31 December 2007 to RMB92.7 million in the year ended 31 December 2008. The decrease was primarily due to: (i) the decrease in our gain on disposal of National Medicines' tradable shares as a result of a decrease in the number of shares we sold in 2008 compared to 2007; and (ii) our losses on disposal of our subsidiaries, particularly Sichuan Antibiotic Institute in 2008.

Finance income

Our finance income increased by RMB6.5 million, or 36.5%, from RMB17.8 million in the year ended 31 December 2007 to RMB24.3 million in the year ended 31 December 2008. The increase was mainly due to increases in the average balance of our bank deposits in interest bearing savings accounts.

Finance costs

Our finance costs increased by RMB115.1 million, or 76.3%, from RMB150.9 million in the year ended 31 December 2007 to RMB266.0 million in the year ended 31 December 2008, primarily due to an increase in the amount of interest paid as a result of an increase in (i) interest rates, which increased from January to September 2008, before falling as worldwide economic conditions worsened and (ii) the average amount of outstanding borrowings, as well as the amount of notes discount transactions we entered into.

Share of results from associates

Share of results from associates increased by RMB14.2 million, or 35.5%, from RMB40.0 million in the year ended 31 December 2007 to RMB54.2 million in the year ended 31 December 2008, representing the increase in the profit of our associates described in Note 40 of the Accountant's Report in Appendix I to this document.

Income tax expenses

Our income tax expenses decreased by RMB25.2 million, or 8.9%, from RMB284.5 million in the year ended 31 December 2007 to RMB259.3 million in the year ended 31 December 2008, primarily due to the change in the statutory income tax rate in the PRC. As a result, our effective income tax rate decreased from 34.7% in year ended 31 December 2007 to 24.1% in the year ended 31 December 2008.

FINANCIAL INFORMATION

Profit for the year

As a result of the foregoing, our profit increased by RMB282.2 million, or 52.7%, from RMB535.9 million in the year ended 31 December 2007 to RMB818.1 million in the year ended 31 December 2008.

Profit attributable to equity holders of the Company

Our profit attributable to equity holders, or net profit, increased by RMB204.8 million or 53.8%, from RMB380.9 million in the year ended 31 December 2007 to RMB585.7 million in the year ended 31 December 2008. Our net margin increased from 1.2% in the year ended 31 December 2007 to 1.5% in the year ended 31 December 2008.

Minority Interests

Minority interests increased by RMB77.4 million or 49.9%, from RMB155.0 million in the year ended 31 December 2007 to RMB232.4 million in the year ended 2008.

Year ended 31 December 2007 compared with year ended 31 December 2006

Revenue

The following table sets forth both our external segment revenue and inter-segment sales by each segment in 2007 and 2006:

	Year ended 31 December					
	2006			2007		
	External revenue ⁽¹⁾	Inter-segment revenue	Total	External revenue ⁽¹⁾	Inter-segment revenue	Total
	(RMB in millions)					
Segment Revenue:⁽¹⁾						
Pharmaceutical distribution	21,927.2	87.2	22,014.4	28,997.3	128.0	29,125.3
Retail pharmacy	823.1	-	823.1	835.6	-	835.6
Other business operations	986.3	90.4	1,076.7	1,277.3	97.9	1,375.2
Elimination	-	-	(177.6)	-	-	(225.9)
Total	23,736.6	177.6	23,736.6	31,110.2	225.9	31,110.2

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

Our total revenue after elimination of inter-segment sales increased by RMB7,373.6 million, or 31.1%, from RMB23,736.6 million in the year ended 31 December 2006 to RMB31,110.2 million in the year ended 31 December 2007. The increase was mainly attributable to an increase of RMB7,070.1 million in revenue from our pharmaceutical distribution operations. In addition, an increase of RMB291.0 million in revenue from our other business operations also contributed to the changes in our total revenue during the period.

Pharmaceutical distribution segment. Our external revenue from our pharmaceutical distribution operations increased by RMB7,070.1 million, or 32.2%, from RMB21,927.2 million in the year ended 31 December 2006 to RMB28,997.3 million in the year ended 31 December 2007. The increase was due primarily to an increase in the number of our new hospital customers and an increase in terms of the range and quantity of products sold to existing customers. To a lesser extent, the penetration of our distribution network into community clinics and other healthcare institutions also contributed to the increase in revenue.

FINANCIAL INFORMATION

Retail pharmacy segment. Our external revenue from retail pharmacy operations slightly increased by RMB12.5 million, or 1.5%, from RMB823.1 million in the year ended 31 December 2006 to RMB835.6 million in the year ended 31 December 2007. Although the number of our directly owned stores increased from 425 in 2006 to 446 in 2007, the newly opened stores did not make a significant contribution to revenues in 2007 as the stores were still in the developing stage and it generally takes about one to two years for the sales growth of a new store to approach maturity.

Other business operations segment. Our external revenue from our other business operations increased by RMB291.0 million, or 29.5%, from RMB986.3 million in the year ended 31 December 2006 to RMB1,277.3 million in the year ended 31 December 2007. The increase was primarily due to the growth of our pharmaceutical manufacturing operations, in terms of the quantity of products sold, in particular, cephalosporin antibiotics products. To a lesser extent, the increase was also due to the growth of our chemical reagent and laboratory supplies operations.

Inter-segment sales. Our inter-segment sales were RMB177.6 million and RMB225.9 million in the years ended 31 December 2006 and 2007, respectively. Our inter-segment sales represent the sales by our pharmaceutical distribution segment to our retail pharmacy segment and medicines sold by our pharmaceutical manufacturing operations to our pharmaceutical distribution and retail pharmacy operations.

Cost of sales

Our cost of sales increased by RMB6,812.9 million, or 31.3%, from RMB21,747.1 million in the year ended 31 December 2006 to RMB28,560.0 million in the year ended 31 December 2007. The increase was primarily due to an increase in the costs of purchasing merchandise for our pharmaceutical distribution segment. The increase was consistent with the increase in our total revenues during 2007.

Gross profit

As a result of the foregoing, our gross profit increased by RMB560.7 million, or 28.2%, from RMB1,989.5 million in the year ended 31 December 2006 to RMB2,550.2 million in the year ended 31 December 2007. Our gross profit margin was 8.4% and 8.2% for the year ended 31 December 2006 and 2007, respectively.

Pharmaceutical distribution segment. Our gross profit in our pharmaceutical distribution operations increased by RMB511.8 million, or 37.1%, from RMB1,378.7 million in the year ended 31 December 2006 to RMB1,890.5 million in the year ended 31 December 2007. Our gross profit margin for our pharmaceutical distribution segment increased to 6.5% for the year ended 31 December 2007 from 6.3% for the same period in 2006.

Retail pharmacy segment. Our gross profit in our retail pharmacy operations increased by RMB7.8 million, or 3.8%, from RMB207.7 million in the year ended 31 December 2006 to RMB215.5 million in the year ended 31 December 2007. The gross profit margin for our retail pharmacy segment increased to 25.8% for the year ended 31 December 2007 from 25.2% for the same period in 2006.

Other business operations. Our gross profit in our other business operations increased by RMB41.0 million, or 10.2%, from RMB403.2 million in the year ended 31 December 2006 to RMB444.2 million in the year ended 31 December 2007. The gross profit margin for our other business operations decreased to 34.8% for the year ended 31 December 2007 from 40.9% for the same period in 2006. The gross profit margin was negatively impacted by changes in the product portfolio of

FINANCIAL INFORMATION

the pharmaceutical manufacturing operations, resulting in an increase in sales of lower-margin over-the-counter drugs and a decrease in sales of higher-margin products, such as cough syrup products.

Other income

Our other income increased by RMB6.7 million, or 38.7%, from RMB17.3 million in the year ended 31 December 2006 to RMB24.0 million in the year ended 31 December 2007. This increase was mainly attributable to an increase in government grants that we received from central and local government authorities.

Distribution and selling expenses

Our distribution and selling expenses increased by RMB166.3 million, or 21.3%, from RMB779.0 million in the year ended 31 December 2006 to RMB945.3 million in the year ended 31 December 2007. The increase in distribution and selling expenses was mainly attributable to increases in total personnel and levels of salaries and wages for our sales and marketing staff, sales promotion expenses, rental payments, travel and office expenses and transport expenses in connection with our sales and marketing activities. Our distribution and selling expenses as a percentage of our total revenue decreased from 3.3% in 2006 to 3.0% in 2007, primarily due to our increased operating efficiency and enhanced economies of scale.

General and administrative expenses

Our general and administrative expenses increased by RMB92.0 million, or 12.3%, from RMB747.6 million in the year ended 31 December 2006 to RMB839.6 million in the year ended 31 December 2007. The increase in general and administrative expenses was primarily due to increases in employee benefit expenses due to increased personnel and salaries and wages of our administrative staff, as well as travel and office expenses due to the expansion of our business operations. Our general and administrative expenses as a percentage of our total revenue decreased from 3.1% in 2006 to 2.7% in 2007, primarily due to our increased operating efficiency and enhanced economies of scale.

Operating profit

As a result of the foregoing, our operating profit was RMB789.4 million in the year ended 31 December 2007, an increase of RMB309.1 million, or 64.4% from RMB480.3 million in the year ended 31 December 2006.

Pharmaceutical distribution segment. Our operating profit in our pharmaceutical distribution operations increased by RMB286.4 million, or 72.7%, from RMB394.2 million in the year ended 31 December 2006 to RMB680.6 million in the year ended 31 December 2007. Our operating profit margin for our pharmaceutical distribution segment increased to 2.3% for the year ended 31 December 2007 from 1.8% for the same period in 2006.

Retail pharmacy segment. Our operating profit in our retail pharmacy operations increased by RMB11.9 million, or 96.7%, from RMB12.3 million in the year ended 31 December 2006 to RMB24.2 million in the year ended 31 December 2007. The operating profit margin for our retail pharmacy segment increased to 2.9% for the year ended 31 December 2007 from 1.5% for the same period in 2006.

FINANCIAL INFORMATION

Other business operations segment. Our operating profit in our other business operations increased by RMB10.7 million, or 14.5%, from RMB73.8 million in the year ended 31 December 2006 to RMB84.5 million in the year ended 31 December 2007. The operating profit margin for our other business operations decreased to 6.6% for the year ended 31 December 2007 from 7.5% for the same period in 2006.

Other gains/losses, net

We incurred other losses, net in the amount of RMB45.6 million in the year ended 31 December 2006. We have other gains, net in the amount of RMB124.1 million in the year ended 31 December 2007. The change was mainly attributable to our losses on transfer for no consideration of equity interests in Accord Pharma and National Medicines under the respective share reform schemes in 2006 and the increases of: (i) gain on disposal of National Medicines' tradable shares in 2007; (ii) net gain on foreign exchange transactions due to the appreciation of the Renminbi against the U.S. dollar; and (iii) gains on the disposal of leasehold land and land use rights and property, plant and equipment by Sinopharm Holding Liuzhou Co., Ltd.

Finance income

Our finance income increased by RMB6.1 million, or 52.1%, from RMB11.7 million in the year ended 31 December 2006 to RMB17.8 million in the year ended 31 December 2007. The increase was mainly due to increases in the average balance of our bank deposits in interest bearing savings accounts.

Finance costs

Our finance costs increased by RMB49.4 million, or 48.7%, from RMB101.5 million in the year ended 31 December 2006 to RMB150.9 million in the year ended 31 December 2007, primarily due to an increase in the amount of interest paid as a result of an increase in (i) interest rates and (ii) the amount of our notes receivables discount transactions, as well as the average amount of outstanding borrowings.

Share of results from associates

Share of results from associates increased by RMB20.8 million, or 108.3%, from RMB19.2 million in the year ended 31 December 2006 to RMB40.0 million in the year ended 31 December 2007, representing the increase in profit of our associates described in Note 40 of the Accountant's Report in Appendix I to this document.

Income tax expenses

Our income tax expenses increased by RMB103.0 million, or 56.7%, from RMB181.5 million in the year ended 31 December 2006 to RMB284.5 million in the year ended 31 December 2007, primarily due to an increase in our taxable profit and the movement of deferred tax. However, our effective income tax rate decreased from 49.9% in year ended 31 December 2006 to 34.7% in year ended 31 December 2007. The decrease was primarily due to non-tax deductible losses we recognized on transfers of equity interests in Accord Pharma and National Medicines in 2006, the change in deferred tax calculation that resulted from the application of other statutory income tax rates, an increase in income not subject to tax, a decrease in eliminated income subject to tax and a decrease in non-tax deductible employee compensation expenses.

FINANCIAL INFORMATION

Profit for the year

As a result of the foregoing, our profit for the year ended 31 December 2007 increased by RMB353.5 million, or 193.8%, from RMB182.4 million in the year ended 31 December 2006 to RMB535.9 million in the year ended 31 December 2007.

Profit attributable to equity holders of the Company

Our profit attributable to equity holders, or net profit, increased by RMB279.6 million or 276.0%, from RMB101.3 million in the year ended 31 December 2006 to RMB380.9 million in the year ended 31 December 2007. Our net margin increased significantly from 0.4% in the year ended 31 December 2006 to 1.2% in the year ended 31 December 2007, primarily due to our losses incurred on transfer for no consideration of equity interests in Accord Pharma and National Medicine under the respective share reform scheme in 2006 which did not recur in 2007.

Minority Interests

Minority interests increased by RMB73.9 million or 91.1%, from RMB81.1 million in the year ended 31 December 2006 to RMB155.0 million in the year ended 2007.

Liquidity and Capital Resources

Our principal sources of funds are cash generated from our operations and various short-term and long-term bank borrowings and lines of credit, as well as equity contributions from shareholders. Our primary liquidity requirements are to finance working capital, fund the payment of interest and principal due on our indebtedness, finance acquisitions and fund capital expenditures and growth and expansion of our facilities and operations.

We have historically met our working capital and other liquidity requirements principally from cash generated by our operations, while financing the remainder primarily through bank borrowings. Going forward, we expect to continue relying principally on our internally-generated cash flows for our working capital and other liquidity requirements, and will also use bank borrowings as capital resources to finance a portion of our operations. We have historically relied primarily on short-term debt, rather than long-term debt, in order to take advantage of the significantly lower interest rates on short-term debt, which in turn lowers our financing costs, and this is also consistent with our historical approach to finance working capital. Should we increase the amount of our long-term capital expenditures and other capital commitments in the future, we may finance these long-term expenditures with long-term debt, if necessary.

Taking into account our cash and cash equivalents on hand, our available credit facilities, cash generated from our future operations, our Directors are of the opinion that we have sufficient working capital to meet our financial requirements for at least the next 12 months from the date of this document. As of 31 May 2009, we had RMB12,920.5 million of banking facilities available to us from commercial banks, of which approximately RMB6,602.1 million was not utilized, and cash and cash equivalents of RMB2,602.1 million.

We conduct our operations directly and through our operating subsidiaries, some of which we do not wholly own, are joint ventures or are public companies. Therefore, we may not be able in all circumstances to allocate our free cash flow as we would like among our subsidiaries. In addition, PRC law restricts the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or

FINANCIAL INFORMATION

advances. PRC regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, under current PRC laws, regulations and accounting standards, each subsidiary is required to allocate at least 10% of its after-tax profit based on PRC accounting standards to its statutory common reserve fund each year until the cumulative amount of these reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. As of 31 May 2009, the required deductions attributable to these statutory common reserve funds amounted to approximately RMB311.8 million.

Furthermore, under regulations of the State Administration of Foreign Exchange, the Renminbi is not convertible into foreign currencies for capital account items, such as loans, repatriation of investments and investments outside of China, unless the prior approval of the State Administration of Foreign Exchange is obtained and prior registration with the State Administration of Foreign Exchange is made. These restrictions have not historically had, and are not expected in the future to have, a material impact on our ability to meet our financial requirements.

We focus on improving the profitability of our business to improve our operating cash flow. We closely monitor and manage: (i) the level of our trade payables and accrual and other payables and receivables; (ii) our inventory levels; and (iii) our ability to obtain external financing by implementing various internal guidelines and mechanisms, including:

- establishing approval procedures for our contract terms governing collection and payment, maintaining strict compliance with contractual terms, performing regular reviews of the collection and payment of trade payables and trade receivables, allocating responsibility for trade receivables and making adequate provisions for doubtful accounts;
- maintaining centralized procurement, budget management, inventory management and an acceptance and return system, which will control our raw materials procurement and enhance our inventory management; and
- increasing our credit facilities.

We intend to further improve our management of receivables and our control of inventories. We will maintain a policy of making capital expenditures only when required to develop our business and when we have adequate cash flows from operations.

Cash flows

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
				(unaudited)	
	(RMB in millions)				
Cash and cash equivalents at beginning of year	1,351.4	1,838.8	1,955.6	1,955.6	1,712.1
Net cash generated from operating activities	638.4	441.2	653.8	(474.0)	264.1
Net cash used in investing activities	(270.9)	(14.4)	(148.0)	(2.2)	(37.3)
Net cash generated from/(used in) financing activities	119.8	(310.0)	(749.4)	(16.0)	663.1
Net increase/(decrease) in cash and cash equivalents	487.4	116.8	(243.5)	(492.2)	890.0
Cash and cash equivalents at end of year	1,838.8	1,955.6	1,712.1	1,463.4	2,602.1

FINANCIAL INFORMATION

Net cash generated from operating activities

We primarily derive our cash inflow from operations from payments for the sale of our products and services in our pharmaceutical distribution, retail pharmacy and other business operations segments. Our cash outflow from operations is primarily used for purchases of merchandise and raw materials in our business segments, distribution and selling expenses and general and administrative expenses. Cash generated from our operations consists of cash flow from operating activities before adjustments for changes in working capital and cash inflows or outflows from changes in working capital. Cash flows from operating activities can be significantly affected by factors such as the timing of accounts receivables from customers and payments of accounts payables to suppliers during the regular course of business.

For the five months ended 31 May 2009, our net cash generated from operating activities was RMB264.1 million, consisting of cash generated from operations of RMB447.1 million, subtracted by income tax paid of RMB183.0 million. Our cash generated from operations consisted of cash flow from operating activities before adjustments for changes in working capital of RMB791.2 million and net negative adjustments for changes in working capital of RMB344.0 million. Net negative adjustments for changes in working capital reflected primarily: (i) an increase in trade receivables of RMB1,251.2 million in line with the growth of our sales, particularly our direct sales to hospitals; and (ii) an increase in inventories of RMB377.7 million, primarily due to the expansion of our pharmaceutical distribution operations. These negative adjustments were partially offset by an increase in trade payables of RMB1,138.7 million resulting from the increased use of notes to make payments for trade payables, as well as the continued growth of our operations.

For the year ended 31 December 2008, our net cash generated from operating activities was RMB653.8 million, consisting of cash generated from operations of RMB955.2 million, subtracted by income tax paid of RMB301.4 million. Our cash generated from operations consisted of cash flow from operating activities before adjustments for changes in working capital of RMB1,344.7 million and net negative adjustments for changes in working capital of RMB389.4 million. Net negative adjustments for changes in working capital reflected primarily: (i) an increases in trade receivables of RMB1,747.3 million in line with the growth of our sales, particularly our direct sales to hospitals; and (ii) an increase in inventories of RMB453.4 million, primarily due to the expansion of our pharmaceutical distribution operations. These negative adjustments were partially offset by an increase in trade payables of RMB1,917.8 million resulting from the increased use of notes to make payments for trade payables, as well as the continued growth of our operations.

For the year ended 31 December 2007, our net cash generated from operating activities was RMB441.2 million, consisting of cash generated from operations of RMB671.8 million, subtracted by income tax paid of RMB230.6 million. Our cash generated from operations consisted of cash flow from operating activities before adjustments for changes in working capital of RMB975.8 million and net negative adjustments for changes in working capital of RMB304.0 million. Net negative adjustments for changes in working capital consisted primarily of: (i) increases of RMB1,280.4 million in trade receivables that corresponded to the growth of our sales in our pharmaceutical distribution operations; and (ii) an increase in inventories of RMB586.0 million, primarily due to the expansion of our pharmaceutical distribution operations, including the carrying of more types of products. These negative adjustments were partially offset by an increase in trade payables of RMB1,594.0 million resulting from the increased use of notes to make payments for trade payables, as well as the continued growth of our operations.

FINANCIAL INFORMATION

For the year ended 31 December 2006, our net cash generated from operating activities was RMB638.4 million, consisting of cash generated from operations of RMB787.5 million, subtracted by income tax paid of RMB149.1 million. Our cash generated from operations consisted of cash flow from operating activities before adjustments for changes in working capital of RMB684.9 million and net adjustments for positive changes in working capital of RMB102.6 million. Net adjustments for positive changes in working capital consisted primarily of an increase in trade payables of RMB1,155.3 million resulting from expansion of our business operations and the use of notes to make payments. Such positive adjustments were partially offset by: (i) an increases in trade receivables of RMB1,043.7 million in line with the growth of our sales in our pharmaceutical distribution operations; and (ii) an increase in inventories of RMB111.6 million, primarily due to the expansion of our pharmaceutical distribution operations and the carrying of more types of products.

Net cash used in investing activities

Our cash inflow from investing activities primarily consists of interest income, dividends received from subsidiaries and associates, and proceeds from disposals of leasehold land and land use rights, property, plant and equipment and investments in financial assets, subsidiaries and associates. Our cash outflow from investing activities primarily consists of purchases of property, plant and equipment, leasehold land and land use rights, purchases of intangible assets, purchases of investments, and acquisitions of interests in subsidiaries and associates.

For the five months ended 31 May 2009, our net cash used in investing activities was RMB37.3 million. Our cash outflow for investing activities primarily consisted of: (i) cash used in the acquisition of subsidiaries, net of cash acquired, in the amount of RMB92.1 million; (ii) cash used in the purchase of property, plant and equipment, primarily for logistics facilities that support our pharmaceutical distribution and chemical reagent operations and for production facilities used in our manufacturing operations, in the amount of RMB64.0 million. Our cash inflow from investing activities primarily consisted of: (i) proceeds from disposal of tradable shares of National Medicines and Accord Pharma in the amount of RMB111.2 million and (ii) proceeds from the disposal of property, plant and equipment in the amount of RMB14.1 million.

For year ended 31 December 2008, our net cash used in investing activities was RMB148.0 million. Our cash outflow for investing activities primarily consisted of: (i) cash used in the purchase of property, plant and equipment, primarily for logistics facilities that support our pharmaceutical distribution and chemical reagent operations and for production facilities used in our manufacturing operations, in the amount of RMB269.3 million; (ii) cash used in the acquisition of a regional distributor, Sinopharm Henan, and retail pharmacy stores from Zhejiang Intmedic and Shenyang Tianyitang, net of cash acquired, in the amount of RMB24.9 million and (iii) cash used in the purchase of leasehold land and land use rights, in the amount of RMB29.3 million. Our cash inflow from investing activities primarily consisted of: (i) proceeds from disposal of tradable shares of National Medicines in the amount of RMB83.2 million; (ii) proceeds from the disposal of leasehold and land use rights and property, plant and equipment in the amount of RMB43.2 million; and (iii) proceeds from disposal of interests in our associates in the amount of RMB26.2 million.

For the year ended 31 December 2007, our net cash used in investing activities was RMB14.4 million. Our cash outflow for investing activities primarily consisted of: (i) cash used in the purchase of property, plant and equipment primarily for our logistic facilities and retail pharmacy and manufacturing operations in the amount of RMB236.0 million; and (ii) cash used in the disposal of subsidiaries, net of cash disposed of, in the amount of RMB49.1 million. Our cash inflow from investing activities primarily consisted of: (i) proceeds from the disposal of leasehold land and land use

FINANCIAL INFORMATION

rights and property, plant and equipment in the amount of RMB104.0 million; and (ii) proceeds from disposal of tradable shares of National Medicines in the amount of RMB103.7 million.

For the year ended 31 December 2006, our net cash used in investing activities was RMB270.9 million. Our cash outflow for investing activities primarily consisted of: (i) cash used in the purchase of property, plant and equipment primarily for our logistic facilities and manufacturing operations in the amount of RMB180.5 million; and (ii) cash used in the purchase of leasehold land and land use rights in the amount of RMB68.3 million. Our cash inflow from investing activities primarily consisted of: (i) proceeds from the disposal of leasehold land and land use rights and property, plant and equipment in the amount of RMB46.7 million; and (ii) dividends received from our associates, mainly Qinghai Pharmaceutical (Group) Co., Ltd., Yichang Humanwell Pharmaceutical Co., Ltd. and Shenzhen Main Luck Pharmaceutical Co., Ltd., in the amount of RMB15.4 million.

Net cash used in/generated from financing activities

Our cash inflow from financing activities primarily consists of proceeds from borrowings and capital injections from shareholders. Our cash outflow from financing activities primarily consists of repayment of bank borrowings, dividends paid to shareholders, interest payments and increase in pledged bank deposits.

For the five months ended 31 May 2009, our net cash flows from financing activities was RMB663.1 million. Our cash inflow from financing activities primarily consisted of proceeds from borrowings in the amount of RMB4,146.5 million. Our cash outflow from financing activities primarily consisted of: (i) repayment of borrowings in the amount of RMB3,295.9 million and (ii) interest paid in the amount of RMB82.6 million.

For the year ended 31 December 2008, our net cash used in financing activities was RMB749.4 million. Our cash outflow for financing activities primarily consisted of: (i) repayment of borrowings in the amount of RMB3,816.6 million; and (ii) interest paid in the amount of RMB244.2 million. Our cash inflow from financing activities primarily consisted of proceeds from borrowings in the amount of RMB3,096.5 million.

For the year ended 31 December 2007, our net cash used in financing activities was RMB310.0 million. Our cash outflow for financing activities primarily consisted of: (i) cash used in repayment of borrowings in the amount of RMB1,691.0 million; and (ii) an increase in pledged bank deposits used as security for bank borrowings in the amount of RMB524.7 million. Our cash inflow from financing activities primarily consisted of proceeds from borrowings in the amount of RMB2,075.8 million.

For the year ended 31 December 2006, our net cash generated from financing activities was RMB119.8 million. Our cash inflow from financing activities primarily consisted of: (i) proceeds from borrowings in the amount of RMB1,774.2 million and (ii) capital injections from equity holders in the amount of RMB309.6 million. Our cash outflow for financing activities primarily consisted of: (i) cash used in repayment of borrowings in the amount of RMB1,732.8 million; and (ii) cash used in the payment of dividends in the amount of RMB127.4 million.

Capital expenditures

In the past, our capital expenditures consisted primarily of purchases of property, plant and equipment, the cost of leasing land and obtaining land use rights and purchases of intangible assets

FINANCIAL INFORMATION

primarily through business combination or acquisition activities. All of our capital expenditures during the Track Record Period were incurred with respect to activities in China. Our capital expenditures were RMB278.2 million, RMB314.1 million, RMB281.4 million and RMB76.7 million and RMB274.7 million for the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009, respectively.

During the Track Record Period, our capital expenditures in our other business operations constituted a relatively high portion of our total capital expenditures, primarily due to (i) upgrades to and expansion of our pharmaceutical manufacturing facilities and equipment during the Track Record Period and (ii) the nature of pharmaceutical manufacturing operations, which require significant capital investments. Our capital expenditures in our other business operations for the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009 were RMB109.6 million, RMB64.0 million, RMB139.6 million, RMB25.7 million and RMB149.8 million, respectively. The changes in the amount of our capital expenditures during the Track Record Period were primarily due to (i) expansion of the research and development center and upgrades to the manufacturing facilities and equipment of Accord Pharma and the construction of logistics facilities for our chemical reagent operations in 2008 and (ii) our acquisition of Zhijun Suzhou Wangqing in 2009.

The following table sets forth our capital expenditures by segment for the periods indicated:

	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008 (unaudited)	2009
	(RMB in millions)				
Pharmaceutical distribution operations	150.7	232.3	132.3	48.3	121.5
Retail pharmacy operations	17.8	17.9	9.5	2.7	3.4
Other business operations	109.6	64.0	139.6	25.7	149.8
Total	278.2	314.1	281.4	76.7	274.7

We anticipate that our capital expenditures for the year ending 31 December 2009 will be approximately RMB532.6 million, which will be used mainly for the expansion of our distribution network (including through mergers and acquisitions, as well as through organic growth), construction of our logistics infrastructure, upgrading our information system, purchase of equipment and vehicles, opening new directly owned retail pharmacies and the expansion and upgrade of our pharmaceutical manufacturing facilities. The investments for these planned capital expenditures will also be made in China. These capital expenditures will be financed by cash flow generated from operating activities and bank borrowings. We may also issue equity securities from time to time. However, we cannot assure you that we will be able to raise additional capital, if necessary, on terms acceptable to us, or at all.

Although, these are our current plans with respect to our capital expenditures, such plans may change as a result of a change of circumstances and the actual amount of expenditures set out above may vary from the estimated amount of expenditures for a variety of reasons, including changes in market conditions, competition and other factors. As we continue to expand, we may incur additional capital expenditures. Our ability to obtain additional funding for our future capital expenditures is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flows, economic, political and other conditions in the PRC and Hong Kong, and the PRC Government's policies relating to foreign currency borrowings.

FINANCIAL INFORMATION

Working capital

Our working capital is critical to our financial performance. We must maintain sufficient liquidity and financial flexibility to continue our daily operations. Our sales practices with hospitals in our pharmaceutical distribution segment, as discussed below in “— Trade receivables”, has resulted in a significant working capital demand for the operation of our pharmaceutical distribution business. We fund our working capital requirements primarily from cash generated from operations and bank loans, and supplement these sources by the sale of accounts receivable. These comprise note discount or accounts receivable factoring transactions entered into to facilitate the liquidity of our trade receivables and prepayments and other receivables. We manage our working capital by utilizing inventory control measures, periodically assessing our trade receivables and prepayments and other receivables and trade payables and accruals and other payables and adhering to our internal accounting procedures, as well as maximizing the financial control features of our information management systems.

Net current assets

Our current assets primarily consist of trade receivables, inventories, cash and cash equivalents and prepayment and other receivables. Our current liabilities primarily consist of trade payables, bank borrowings and accruals and other payables. We had net current assets of RMB1,127.9 million, RMB1,008.4 million, RMB1,803.7 million, RMB2,015.3 million and RMB2,202.9 million as of 31 December 2006, 2007 and 2008, 31 May 2009 and 31 July 2009, respectively. The table below sets forth our current assets, current liabilities and net current assets as of the date indicated:

	<u>As of 31 December</u>			<u>As of</u>	<u>As of</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>31 May</u>	<u>31 July</u>
				<u>2009</u>	<u>2009</u>
					(unaudited)
	(RMB in millions)				
<i>Current assets</i>					
Inventories	2,043.4	2,634.4	3,154.8	3,613.0	3,719.8
Trade receivables	4,871.5	6,110.5	7,911.8	9,347.9	9,965.0
Prepayments and other receivables	519.2	605.5	616.9	572.3	736.1
Available-for-sale financial assets	0.02	0.02	0.02	0.02	0.02
Pledged bank deposits	124.7	649.3	285.8	247.8	327.7
Cash and cash equivalents	1,838.8	1,955.6	1,712.1	2,602.1	1,661.0
Total current assets	<u>9,397.6</u>	<u>11,955.3</u>	<u>13,681.5</u>	<u>16,383.2</u>	<u>16,409.8</u>
<i>Current liabilities</i>					
Trade payables	5,629.8	7,209.6	9,053.1	10,404.2	10,203.6
Accruals and other payables	872.5	996.9	860.5	1,028.0	1,085.2
Dividends payable	-	464.0	364.0	364.0	336.0
Current income tax liabilities	63.0	114.9	96.0	106.9	75.1
Bank borrowings	1,704.4	1,521.6	1,504.2	2,464.9	2,507.0
Loans from parent company	-	640.0	-	-	-
Total current liabilities	<u>8,269.7</u>	<u>10,946.9</u>	<u>11,877.8</u>	<u>14,368.0</u>	<u>14,206.9</u>
Net current assets	<u>1,127.9</u>	<u>1,008.4</u>	<u>1,803.7</u>	<u>2,015.3</u>	<u>2,202.9</u>

The changes of the balance of net current assets as of the respective dates were consistent with the expansion of our business operations during the Track Record Period.

FINANCIAL INFORMATION

Pledged bank deposits, cash and cash equivalents

Our pledged bank deposits primarily consist of collateral we provided for bank acceptances, bank borrowings and letters of credit. As of 31 December 2006, 2007 and 2008 and 31 May 2009, the balance of our pledged bank deposits was approximately RMB124.7 million, RMB649.3 million, RMB285.8 million and RMB247.8 million, respectively. As of 31 December 2006, 2007 and 2008 and 31 May 2009, we also had cash in banks and on hand of RMB1,838.8 million, RMB1,955.6 million, RMB1,712.1 million and RMB2,602.1 million, respectively.

Inventories

The following table sets forth the components of our inventories as of the dates indicated:

	As of 31 December			As of 31 May
	2006	2007	2008	2009
	(RMB in millions)			
Raw materials	62.4	167.4	76.9	154.4
Work in progress	0.9	3.5	0.1	29.1
Finished goods and trading merchandise	2,006.9	2,493.4	3,098.8	3,452.5
Less: Provision for impairment	(26.8)	(29.9)	(21.0)	(23.0)
Total⁽¹⁾	2,043.4	2,634.4	3,154.8	3,613.0

(1) The cost of inventories recognized as expenses and included in cost of sales amounted to approximately RMB21,700.1 million, RMB28,500.6 million, RMB35,076.2 million and RMB16,573.3 million for each of the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, respectively.

We actively monitor our inventory levels and seek to maintain a low level of raw materials, work in progress and finished goods and commodities. We have sufficient storage area to meet increases in supplies of raw materials, work in progress and finished goods and commodities. Inventories are stated at cost, which is calculated using the weighted average method, or net realizable value, whichever is lower. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overhead, based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses. We make provisions for impairment of inventories when the carrying value of inventories declines below the net realizable value. We review the carrying value of our inventories from time to time and make write-downs charges or write-backs based on conditions of goods, including aging and expiry, and estimated net realizable value of our inventories, which are recorded in our general and administrative expenses. As of 31 December 2006, 2007 and 2008 and 31 May 2009, our provisions for impairment of inventories were RMB26.8 million, RMB29.9 million, RMB21.0 million and RMB23.0 million, respectively. Net write-downs of inventories to their net realizable values 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.

As of 31 July 2009, approximately RMB3,297.2 million, or 90.7%, of our inventories as of 31 May 2009 (in the amount of approximately RMB3,636.0 million) were subsequently consumed or sold.

We manage our inventories for our pharmaceutical distribution operations with a focus on controlling our inventory holding costs, maintaining the variety of products available for our customers and ensuring the prompt delivery of our products to customers. We monitor the inventory levels of our operating subsidiaries by implementing a budgeted inventory turnover day and reviewing our inventory analysis reports. Our inventory balances as of 31 December 2006, 2007 and 2008 and 31 May 2009

FINANCIAL INFORMATION

have been increasing, primarily due to increased purchases of merchandise to support the expansion of our pharmaceutical distribution operations. In addition, our inventory balances of raw materials increased as of 31 December 2007 compared to 31 December 2006 primarily as a result of the increase in inventories of raw materials of Accord Pharma corresponding to the increase of its designed production capacity in the end of 2007. Our inventory balances of raw materials increased as of 31 May 2009 compared to 31 December 2008 primarily as a result of our acquisition of Zhijun Suzhou Wangqing, a pharmaceutical manufacturer in Jiangsu Province.

The following table sets forth the turnover days of our inventories for the periods indicated:

	Year ended 31 December			Five months ended 31 May
	2006	2007	2008	2009
Turnover days of inventory ⁽¹⁾	33.6	29.9	30.1	30.6

(1) Turnover days of inventories is derived by dividing the average of the opening and closing balances of inventory for the relevant period by cost of sales and multiplying this figure by 365 days with respect to turnover days of inventories for a year or multiplying this figure by 150 days with respect to turnover days of inventories for a five-month period.

The stability of our turnover days of inventory during the Track Record Period was primarily due to our implementation of, and consistent efforts to maintain, inventory control measures.

Trade receivables

Our trade receivables mainly represent the credit sales of our products to be paid by our customers and consist of accounts receivables and notes receivables. The following table sets forth a breakdown of our trade receivables as of the dates indicated:

	As of 31 December			As of 31 May
	2006	2007	2008	2009
	(RMB in millions)			
Accounts receivables	4,710.2	5,785.9	7,435.4	8,871.8
Notes receivables	264.2	455.4	606.5	623.6
Total trade receivables	4,974.4	6,241.3	8,041.9	9,495.4
Less: Provision for impairment	(102.9)	(130.8)	(130.1)	(147.4)
Trade receivables – net	4,871.5	6,110.5	7,911.8	9,347.9

Our management closely monitors the recoverability of our overdue trade receivables on a regular basis and when appropriate, provides for impairment of these trade receivables. We recognize provisions for impairment of trade receivables as general and administrative expenses in our consolidated income statement. As of 31 December 2006, 2007 and 2008 and 31 May 2009, we had a provision for impairment of trade receivables of approximately RMB102.9 million, RMB130.8 million, RMB130.1 million and RMB147.4 million, respectively, which accounted for 2.1%, 2.1%, 1.6% and 1.6%, respectively, of our total trade receivables. The additions to provision for impairment of trade receivables as a percentage of our total revenues for the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009 were 0.11%, 0.07%, 0.03% and 0.10%, respectively. The provision for impairment of our trade receivables was reduced by RMB26.7 million, RMB1.2 million, RMB11.6 million and RMB0.4 million in 2006, 2007 and 2008 and the five months ended 31 May 2009, respectively, for write-offs of trade receivables as uncollectible and was increased by additional provisions of RMB25.0 million, RMB22.4 million, RMB10.9 million and RMB17.7 million

FINANCIAL INFORMATION

in 2006, 2007 and 2008 and the five months ended 31 May 2009, respectively. The changes in the amount of our provisions for impairment of trade receivables was primarily due to a one-off provision for the impaired accounts receivables of our subsidiary, China National Pharmaceutical Group Northwest Medicine Co., Ltd, in 2007 (which did not recur in 2008) and our efforts to control and monitor our accounts receivables. Such one-off provision, in the amount of approximately RMB20.4 million, was made for accounts receivables from various customers of the particular subsidiary, which were overdue for more than three years. Our Directors believe that the provision for impairment of our trade receivables is adequate to continue our normal business operations.

The following table sets forth an aging analysis of trade receivables, before provision for impairment, as of the dates indicated:

	As of 31 December						As of 31 May	
	2006		2007		2008		2009	
	RMB	(%)	RMB	(%)	RMB	(%)	RMB	(%)
	(in millions, except for percentages)							
Current to three months	4,104.8	82.5	5,318.0	85.3	6,806.9	84.7	8,289.1	87.2
Three to six months	588.3	11.8	668.4	10.7	886.8	11.0	1,021.5	10.8
Six months to one year	189.1	3.8	196.3	3.1	316.9	3.9	148.1	1.6
One to two years	43.2	0.9	26.9	0.4	8.9	0.1	5.3	0.1
Over two years	49.0	1.0	31.7	0.5	22.6	0.3	31.4	0.3
Total	4,974.4	100.0	6,241.3	100.0	8,041.9	100.0	9,495.4	100.0

In our pharmaceutical distribution segment, we typically grant a credit period of 30 to 120 days to customers. A portion of our customers make payments by notes, with maturities that are generally under 180 days. For customers with good credit history, in particular hospitals, we usually grant a longer credit period. Because our hospital customers are generally reliable, under the payment terms of our contracts with them, and as a customary practice of the pharmaceutical distribution market in China, we grant our hospital customers credit terms that range from 90 days to 180 days. To the extent revenue recognized under a sales contract is not yet paid, 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 for our receivables from hospitals. We expect to continue to sell our accounts receivable in the future at terms acceptable to us to meet our working capital needs and to enhance our liquidity.

We generally do not grant credit terms to our customers for our retail sales in our retail pharmacy operations. We generally receive payments in cash from our customers upon the completion of the retail sales in our retail pharmacy operations. In our other business operations segment, we typically grant a credit period of 30 to 90 days.

We have adopted a series of policies and procedures to achieve prompt recoveries of our overdue trade receivables, such as stringent credit standards for credit analysis of our clients, and close monitoring of the recoverability of our overdue trade receivables. Historically, we have not experienced any significant losses on trade receivables.

As of 31 July 2009, approximately RMB6,316.7 million, or 66.5%, of our trade receivables as of 31 May 2009 (in the amount of approximately RMB9,495.4 million) were subsequently settled.

FINANCIAL INFORMATION

The following table sets forth the turnover days of our trade receivables for the periods indicated:

	Year ended 31 December			Five months ended 31 May
	2006	2007	2008	2009
Turnover days of trade receivables ⁽¹⁾	67.1	64.4	67.0	71.7

(1) Turnover days of trade receivables is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables for the relevant period by revenue and multiplying this figure by 365 days with respect to turnover days of trade receivables for a year or multiplying this figure 150 days with respect to turnover days of trade receivables for a five-month period.

The stability of turnover days of our trade receivables during the Track Record Period was primarily a result of tighter control and monitoring of our accounts receivables, as well as the increase in transactions for note receivables and accounts receivables financing, partly offset by our increased sales to hospital customers to whom we granted longer credit periods.

CNPGC has re-allocated to us certain medical reserve funds after allocation and payment of such funds to CNPGC by the PRC Central Government in order for it to purchase medical products (including medicines) required to respond to major disasters, epidemics and other emergencies pursuant to the Measures of the State for the Financial Administration of Medical Reserve Funds (國家醫藥儲備基金財務管理辦法). Upon approval of CNPGC and the relevant PRC government authorities, this fund may be used by us to offset trade receivables from specific customers who received medical merchandise from us where there is any major disaster, epidemic and other emergency. In the years ended 31 December 2006, 2007 and 2008, we used funds of RMB59.2 million, RMB437,000 and RMB4,000, respectively, to offset trade receivables of such customers. For the five months ended 31 May 2009, we did not use any medical reserve funds to offset trade receivables from our customers. With respect to these transactions, we recognized the delivery of the pharmaceutical products and medical reserves as pharmaceutical distribution sales, which were made on a cost break even basis without profit margin.

Prepayments and other receivables

Prepayment and other receivables comprise prepayments, value-added tax recoverables, deposits, staff advances, prepaid expenses, receivables arising from disposal of land use rights, amounts due from related parties and other receivables, less provision for impairment. Prepayments primarily represent prepayments to our suppliers in connection with our purchase of pharmaceutical and healthcare products and, to a lesser extent, the prepayments in relation to construction work and operating expenses. Deposits primarily represent security bonds provided in the hospital tendering process and rental deposits for leased properties. Staff advances primarily include prepayments to staff of relevant expenses for business trips. Other receivables primarily include export tax refunds and receivables from disposal of our subsidiaries. As of 31 December 2006, 2007 and 2008 and 31 May 2009, our prepayments and other receivables, after provisions for impairment, were RMB519.2 million, RMB605.5 million, RMB616.9 million and RMB572.3 million, respectively.

As of 31 December 2006, 2007 and 2008 and 31 May 2009, we had provisions for impairment of prepayment and other receivables of approximately RMB55.8 million, RMB74.5 million, RMB51.3 million and RMB41.6 million, respectively. Such provisions primarily consist of our provisions for impairment of the receivables arising from disposals of land use rights and subsidiaries, prepayments to third parties and advances to a supplier. The changes in our provisions for impairment of prepayments and other receivables was primarily due to our recovery of certain receivables arising from disposal of land use rights in 2008, for which we had previously made provisions in 2007. Such

FINANCIAL INFORMATION

recovery, in the amount of approximately RMB18.9 million, was paid by the purchaser of our land use rights in 2008.

Available-for-sale financial assets

Available-for-sale financial assets are our non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale and not classified in the categories of financial assets at fair value through profit or loss or loans and receivables. The fair value of listed equity investments is based on quoted market value. The fair value of unlisted investments is determined based on the consideration for disposal of similar available-for sale financial assets by us during relevant periods, or if there is no disposal or similar investment during relevant periods, we estimate the fair values of these investments based on the historical performance of these companies, market conditions and the prospects for the applicable company's industry. The following table sets forth a breakdown of our available-for-sale financial assets as of the dates indicated:

	As of 31 December			As of 31 May
	2006	2007	2008	2009
	(RMB in thousands)			
Listed equity investments, at fair value	16,165	35,828	21,137	36,521
Unlisted equity investments, at fair value	19,500	21,154	31,789	21,144
	35,665	56,982	52,926	57,665
Less: Current Portion	(15)	(15)	(15)	(15)
	<u>35,650</u>	<u>56,967</u>	<u>52,911</u>	<u>57,650</u>

Our listed equity investments mainly consisted of our investments in Jiangsu Lianhuan Pharmaceutical Co., Ltd., a company listed on the Shanghai Stock Exchange. The changes in the amounts of our listed investments were primarily due to the changes in the market price of the shares of Jiangsu Lianhuan Pharmaceutical Co., Ltd. on the Shanghai Stock Exchange.

Trade payables

Our trade payables mainly comprise amounts outstanding for our purchasing of merchandise and raw materials. We recognize our trade payables initially at fair value and subsequently measure them at amortized cost using the effective interest method.

The following table sets forth our trade payables as of the dates indicated:

	As of 31 December			As of 31 May
	2006	2007	2008	2009
	(RMB in millions)			
Account payables	4,241.9	5,298.2	6,380.5	7,776.1
Notes payables	1,387.9	1,911.4	2,672.6	2,628.1
Total	<u>5,629.8</u>	<u>7,209.6</u>	<u>9,053.1</u>	<u>10,404.2</u>

FINANCIAL INFORMATION

The following table sets forth an aging analysis of trade payables as of the dates indicated:

	As of 31 December						As of 31 May	
	2006		2007		2008		2009	
	RMB	(%)	RMB	(%)	RMB	(%)	RMB	(%)
	(in millions, except for percentages)							
Current to three months	4,745.5	84.4	6,445.5	89.4	8,266.7	91.4	9,584.6	92.1
Three to six months	394.7	7.0	441.7	6.1	293.8	3.2	481.1	4.6
Six months to one year	272.8	4.8	148.0	2.1	254.1	2.8	122.2	1.2
One to two years	56.6	1.0	46.3	0.6	76.6	0.8	60.7	0.6
Over two years	160.2	2.8	128.1	1.8	161.9	1.8	155.6	1.5
Total	5,629.8	100.0	7,209.6	100.0	9,053.1	100.0	10,404.2	100.0

For purchase of pharmaceutical products, our suppliers of pharmaceutical distribution and retail pharmacy operations generally grant us a credit period of up to 180 days. In 2008, the credit period granted by our suppliers ranged from 45 to 180 days. We settle outstanding payables through bank note and wire transfer.

The following table sets forth the turnover days of our trade payables for the periods indicated:

	Year ended 31 December			Five months ended 31 May
	2006	2007	2008	2009
Turnover days of trade payables ⁽¹⁾	84.7	82.0	84.4	87.9

(1) Turnover days of trade payables is derived by dividing the arithmetic mean of the opening and closing balances of trade payables for the relevant period by cost of sales and multiplied by 365 days with respect to turnover days of trade payables for a year or multiplied by 150 days with respect to turnover days of trade payables for a five-month period.

The stability of our trade payables during the Track Record Period was primarily due to our working capital management efforts and was in line with the stable turnover days of our trade receivables.

Accruals and other payables

Accruals and other payables comprise accruals of operating expenses, account receivables collection on behalf of banks for factoring programs, salary and welfare payables, advances from customers, other deposits, tax payable other than income tax and value-added tax, amounts due to related parties and other payables. Accruals of operating expenses primarily represent payables in connection with transport and consulting services. Salary and welfare payables primarily represent accruals of annual bonuses for the previous financial year. Other payables primarily include sales rebates and various payables required for our daily business operations. As of 31 December 2006, 2007 and 2008 and 31 May 2009, our accruals and other payables were RMB872.5 million, RMB996.9 million, RMB860.5 million and RMB1,028.0 million, respectively.

Liquidity ratios

Our current assets divided by current liabilities, or current ratio, was 1.14, 1.09, 1.15 and 1.14 as of 31 December 2006, 2007 and 2008 and 31 May 2009, respectively. Our current assets after subtraction of inventories divided by current liabilities, or quick ratio, was 0.89, 0.85, 0.89 and 0.89 as of 31 December 2006, 2007 and 2008 and 31 May 2009, respectively.

Our cash and cash equivalents and pledged deposits exceeded our total interest-bearing borrowings during the Track Record Period, and therefore, we were in a net cash position. As of

FINANCIAL INFORMATION

31 December 2006, 2007 and 2008 and 31 May 2009, we had cash and cash equivalents of RMB1,838.8 million, RMB1,955.6 million, RMB1,712.1 million and RMB2,602.1 million, respectively.

Indebtedness

As of 31 May 2009, we had aggregate banking facilities of RMB12,920.5 million available to us, of which we had RMB6,602.1 million that were not utilized and available to be drawn down. These banking facilities primarily comprised short-term working capital loans. Of our total borrowings as of 31 May 2009, RMB2,464.9 million was due within one year and RMB60.0 million was due within a period of more than one year. During the Track Record Period, we did not experience any difficulties with renewing our bank loans with our lenders. The following table sets forth a breakdown of our short-term and long-term borrowings as of the dates indicated.

	As of 31 December			As of 31 May	As of 31 July
	2006	2007	2008	2009	2009
					(unaudited)
	(RMB in millions)				
Short-term bank borrowings ⁽¹⁾ ..	1,704.4	1,521.6	1,504.2	2,464.9	2,507.0
Long-term bank borrowings	177.7	157.7	130.0	60.0	60.0
Parent company borrowings	-	640.0	-	-	-
Total	1,882.1	2,319.3	1,634.2	2,524.9	2,567.0

(1) Includes current portion of long-term borrowings.

As of 31 May 2009, all of our bank borrowings bore variable interest at rates ranging from 3.65% to 7.20% per year, calculated based upon the current PBOC benchmark rate, which was 5.31% as of 31 May 2009. Substantially all of our bank borrowings were denominated in Renminbi.

As of 31 December 2006, 2007 and 2008 and 31 May 2009, the weighted average interest rate on our bank borrowings was 5.2%, 5.7%, 5.8% and 4.9%, respectively. The interest rates of our RMB denominated bank borrowings are reset periodically according to the benchmark rate announced by the PBOC.

The following table sets forth a breakdown of our secured and unsecured bank borrowings as of the dates indicated:

	As of 31 December			As of 31 May	As of 31 July
	2006	2007	2008	2009	2009
					(unaudited)
	(RMB in millions)				
Unsecured bank borrowings	1,761.2	863.2	1,208.6	2,129.3	2,180.5
Secured bank borrowings	120.9	816.1	425.6	395.6	386.5
Total	1,882.1	1,679.3	1,634.2	2,524.9	2,567.0

Our secured bank loans are generally secured by:

- pledges over certain of our property, plant and equipment, which had an aggregate net book value of approximately RMB155.1 million, RMB213.6 million, RMB147.6 million and RMB65.6 million as of 31 December 2006, 2007 and 2008 and 31 May 2009, respectively;

FINANCIAL INFORMATION

- pledges over our land use rights, which had an aggregate net book value of approximately RMB42.2 million, RMB41.4 million and RMB40.6 million as of 31 December 2006, 2007 and 2008, respectively;
- pledges over our investment properties, which had an aggregate net book value of RMB30.0 million as of 31 December 2007;
- pledges over our bank deposits, which were in an aggregate amount of RMB446.1 million, RMB8.4 million and RMB18.0 million as of 31 December 2007 and 2008 and 31 May 2009, respectively; and
- pledges over our notes receivables, which were in an aggregate amount of approximately RMB122.5 million, RMB234.2 million and RMB204.8 million as of 31 December 2007 and 2008 and 31 May 2009, respectively, and accounts receivables, which were in an aggregate amount of approximately RMB44.3 million and RMB86.1 million as of 31 December 2008 and 31 May 2009.

As of 31 May 2009, none of our borrowings were guaranteed by CNPGC or Sinopharm Investment.

The following table sets forth the maturity profile of our interest-bearing bank borrowings as of the dates indicated:

	As of 31 December			As of 31 May	As of 31 July
	2006	2007	2008	2009	2009
					(unaudited)
	(RMB in millions)				
Within one year	1,704.4	1,521.6	1,504.2	2,464.9	2,507.0
Between 1-2 years	-	57.7	30.0	30.0	30.0
Between 2-5 years	177.7	100.0	100.0	30.0	30.0
Over 5 years	-	-	-	-	-
Total	1,882.1	1,679.3	1,634.2	2,524.9	2,567.0

Our gearing ratio was 107%, 138%, 72% and 98% as of 31 December 2006, 2007 and 2008 and 31 May 2009, respectively. Gearing ratio is our total bank borrowings and loans from our parent company divided by our total equity. The changes in gearing ratio during the Track Record Period was primarily due to borrowings from our parent company in 2007 in the amount of RMB640.0 million, which was repaid in December 2008 and the increase in short-term borrowings in the five months ended 31 May 2009.

Our borrowing requirements are not subject to seasonality. Other than as disclosed above, there has been no material change in our indebtedness since 31 May 2009.

The agreements under our banking facilities contain certain customary covenants. Several of our loan agreements for our bank borrowings restrict our ability to pay dividends or make early repayments and require us to maintain certain financial ratios. We were in compliance with all relevant covenants in our loan agreements as of the Latest Practicable Date. We do not believe that these covenants will have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future.

As of 31 December 2007, we also had borrowings from our parent company in the amount of RMB640.0 million. The loan from our parent company was unsecured and bore interest at a weighted

FINANCIAL INFORMATION

average rate of 4.0% for the year ended 31 December 2007 and we repaid the loan to our parent company in December 2008. We had no outstanding shareholders' loans as of 31 December 2006 and 2008.

Contingent liabilities

As of 31 July 2009, our Company did not have any hire purchase commitments, guarantees or other material contingent liabilities.

Advances to Related Parties

As of 31 December 2006, 2007 and 2008 and 31 May 2009, the amount of advances we made to related parties was approximately RMB49.2 million, RMB38.3 million, RMB29.1 million and RMB39.3 million, respectively. Such advances were mainly short-term funds provided to maintain business relationships with our related parties and at the related parties' requests. We did not receive any interest from such advances during these years.

Pursuant to the relevant PRC laws and regulations, including but not limited the PRC General Rules on Loans (貸款通則), no PRC corporation is allowed to make any advancement of a loan to another corporation without approval. Failure to comply with the PRC General Rules on Loans may subject the lender to a fine of not less than one time but not more than five times the amount of the illegal gains as a result of the breach. According to our PRC legal counsel, Chen & Co. Law Firm, our advances made to related parties constituted breaches of the General Rules on Loans and our Articles of Association. However, since we did not receive any gains or interest from such advances, our PRC legal advisers, Chen & Co. Law Firm, are of the view that we will not be subject to any penalties or liability for such advances. In addition, as we will not be subject to any penalties or liability for such advances to related parties, our PRC counsel is of the view that our Directors also will not be subject to any liability for interest-free advances, in accordance with the PRC Company Law and our Articles of Association. Notwithstanding this, Sinopharm Investment will indemnify us for any losses or damages arising from the advances made if we are subject to any penalty or fine resulting from our non-compliance of the PRC General Rules on Loans.

As of the Latest Practicable Date, such advances were repaid in full. In order to ensure that similar advances will not recur in the future, our senior management and executive directors will adhere to and monitor more closely our compliance with relevant PRC laws and regulations and our Articles of Association. We will also distribute lists of our related parties internally to our subsidiaries and our internal control, finance and compliance departments will conduct audits from time to time in this regard.

FINANCIAL INFORMATION

Commitments and Contractual Obligations

Commitments

Operating leases

We lease certain buildings under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally require us to pay security deposits. The following table sets forth our future aggregate minimum operating lease payments under non-cancelable operating leases as of the dates indicated:

	As of 31 December			As of 31 May
	2006	2007	2008	2009
	(RMB in millions)			
No later than one year	21.9	36.9	50.6	64.0
Later than one year and not later than five years	27.0	82.3	87.8	108.9
Later than five years	-	-	-	
Total	48.8	119.2	138.4	172.9

Capital commitments

In addition to operating lease commitments, we also have certain capital commitments. The following table sets forth our capital commitments as of the dates indicated:

	As of 31 December			As of 31 May
	2006	2007	2008	2009
	(RMB in millions)			
Contracted, but not provided for:				
In respect of the acquisition of property, plant and equipment	58.3	88.7	47.4	28.3
Authorized, but not contracted for:				
In respect of the acquisition of property, plant and equipment	219.6	334.2	138.4	121.8

The capital commitments described above are with respect to expansion of existing facilities and construction of new logistics facilities used in our pharmaceutical distribution and chemical reagent operations and production facilities for our pharmaceutical manufacturing operations. Our sources of funding for such capital commitments are cash generated from our operations and bank borrowings.

There has been no material change to our indebtedness and capital commitments since 31 July 2009.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Information Pack.

FINANCIAL INFORMATION

Contractual obligations

As of 31 May 2009, our contractual obligations amounted to RMB2,878.8 million, arising from debt obligations, operating lease commitments and capital commitments. The following table sets forth our contractual obligations as of 31 May 2009.

	Payments Due by Period				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
	(RMB in millions)				
Debt obligations ⁽¹⁾	2,524.9	2,464.9	30.0	30.0	-
Interest on debt obligations ⁽²⁾	30.9	28.9	1.8	0.2	-
Operating lease commitments	172.9	64.0	47.8	61.2	-
Capital commitments	150.1	150.1	-	-	-
Total	2,878.8	2,707.9	79.6	91.4	-

(1) Excludes required interest payments. Interest on debt obligations is reflected in a separate line in the table.

(2) Interest on loans is calculated based on the current interest rate of each loan, ranging from 3.65% to 7.20% per annum, using the PBOC benchmark rate of 5.31% as of 31 May 2009.

Off-balance Sheet Arrangements

As of 31 May 2009, being the date of our most recent financial statements, we did not have any off-balance sheet arrangements.

Quantitative and Qualitative Analysis about Market Risk

We are exposed to various types of market risks in the ordinary course of our business, including fluctuations in interest rates and foreign exchange rates, credit risk, liquidation risk and inflation risk. We manage our exposure to these and other market risks through regular operating and financial activities.

In 2008, triggered by the liquidity crisis in the capital markets, global economic conditions deteriorated. Although the PRC continued to have positive GDP growth in the year, the rate of growth slowed down significantly compared to the preceding year, and major economic indicators, including employment rates, levels of consumer spending and exports, declined. In addition, many financial institutions worldwide tightened lines of credit, reducing funding available for near-term economic growth. In addition, the terms of such funding, when available, became more onerous and the cost of such funding increased. Further, capital markets activity declined, also contributing to general reductions in available funding for business expansion, and the equity and currency markets exhibited high levels of volatility. Pharmaceutical consumption has traditionally been relatively unaffected by economic downturns; however, an extended downturn could lead to a decline in overall prescriptions and sales of pharmaceutical products corresponding with the growth of the uninsured and underinsured population in China. Although the PRC Government has announced fiscal stimulus measures to combat the effects of the economic downturn, including spending an additional RMB850 billion from 2009 to 2011 on a healthcare reform plan to increase healthcare infrastructure, the availability and coverage of health insurance and healthcare spending, such measures may not be successful or may take a significant period of time to increase the level of economic activity. We will monitor the potential impact of global economic conditions and accompanying credit tightening, as well as the creditworthiness of our customers and suppliers, and the PRC Government's fiscal stimulus and healthcare reform efforts and its other involvement in the economic crisis. We are not able to currently

FINANCIAL INFORMATION

predict, however, when economic and liquidity conditions will improve, or what the full impact of these conditions will be on our financial condition and results of operations.

Interest rate risk

Our exposure to the risk of changes in market interest rates primarily relates to our interest-bearing borrowings. We regularly review and monitor the level of a mix of fixed and floating rate borrowings in order to manage the interest rate risk. As of 31 May 2009, we had RMB2,524.9 million in bank borrowings that bore variable interest rates ranging from 3.65% to 7.20%, with a weighted average interest rate of 4.9% as of 31 May 2009.

Additional increases in interest rates could potentially result in an increase in our cost of borrowing, which could negatively affect our business and results of operations. The PBOC regulates the interest rates of our Renminbi-denominated borrowings. On 28 October 2004, the PBOC raised both its benchmark lending and deposit interest rates by 0.27% to 5.58% for one-year Renminbi loans and 2.25% for one-year deposits, respectively, with effect from 29 October 2004. This increase was the first time lending and deposit interest rates had been raised since July 1995 and July 1993, respectively. The PBOC also abolished the upper limit on Renminbi lending rates and permitted banks to offer deposit rates below the PBOC benchmark rate. From April 2006 to September 2008, the PBOC has further raised its benchmark lending interest rates for one-year Renminbi loans seven times, most recently in December 2007 by 0.18%. However, since September 2008, the PBOC lowered its benchmark lending interest rates for one-year Renminbi loans five times, most recently in December 2008 by 0.27%. As of the date of this document, the current lending interest rate for one-year Renminbi loans is 5.31% per year. The PBOC-published benchmark one-year lending rates in China as of 31 December 2006, 2007 and 2008 and 31 May 2009 were 6.12%, 7.47%, 5.31% and 5.31%, respectively. As of 31 December 2006, 2007 and 2008 and 31 May 2009, if interest rates on bank borrowings had been 15% higher/lower than the actual primary rates, announced by the PBOC of 6.12%, 7.47%, 5.31% and 5.31%, respectively with all other variables held constant, our post-tax profit for the years would have been approximately RMB7.1 million, RMB8.1 million, RMB13.7 million and RMB5.3 million respectively, lower/higher, mainly as a result of higher/lower interest expense on bank borrowings.

We do not anticipate a significant impact resulting from changes in interest rates, although our future interest income and interest expenses may fluctuate in line with changes in interest rates. We have not historically used, and do not expect to use in the future, any derivative financial instruments to manage our interest rate exposure.

Foreign exchange risk

Substantially all of our revenue and expenses are denominated in RMB. As a result, our exposure to fluctuations in foreign currencies is not substantial. However, we are exposed to some degree of fluctuations in foreign currencies. We receive foreign currencies for the sale of pharmaceutical products overseas in our other business operations. 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 need foreign currencies to make our purchases of pharmaceutical products from our overseas suppliers for our pharmaceutical distribution and retail pharmacy operations. We also use foreign currencies to pay for imported equipment and materials. As of 31 May 2009, our cash and cash equivalents denominated in foreign currencies primarily consisted of US\$307,459 as well as Euro96,501 and our trade payables denominated in foreign currencies primarily consisted of US\$82.4 million and Euro 6,705.

The Renminbi is not freely convertible into other currencies and conversion of the Renminbi into foreign currencies is subject to foreign exchange control rules and regulations promulgated by the

FINANCIAL INFORMATION

PRC Government. In July 2005, the PRC Government introduced a managed floating exchange rate system to allow the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the Renminbi appreciated by approximately 2% against the U.S. dollar. The PRC Government has since made, and may in the future make, further adjustments to the exchange rate system. When the Renminbi appreciates, the value of foreign currency denominated assets will decline against the Renminbi.

We use Renminbi as the reporting and functional currency for our financial statements. All transactions in currencies other than Renminbi during the year are recorded at the exchange rates prevailing on the respective relevant dates of such transactions. Monetary assets and liabilities existing at the balance sheet date denominated in currencies other than Renminbi are re-measured at the exchange rates prevailing on such date. Exchange differences are recorded in our consolidated income statement. Fluctuations in exchange rates may also affect our balance sheet.

As of 31 December 2006, 2007 and 2008 and 31 May 2009, if the exchange rate of the RMB had increased or decreased by 10% against the U.S. dollar, HK dollar and the Euro, respectively, with all other variables held constant, our post-tax profit for the years and period would have increased or decreased by approximately RMB8.6 million, RMB38.9 million, RMB19.7 million and RMB46.0 million, respectively, mainly as a result of foreign exchange loss or gain on translation of U.S. dollar, HK dollar and Euro denominated cash and cash equivalents and trade payables.

We do not believe that we currently have any significant direct foreign currency exchange rate risk and have not hedged exposures denominated in foreign currencies or any other derivative financial instruments.

Credit risk

Substantially all of our cash and cash equivalents are held in major financial institutions located in China, which our management believes are of high credit quality. We have policies that limit the amount of credit exposure to any financial institutions. In addition, our sales to retail customers are made in cash or by credit card to limit the amount of credit exposure to any wholesale customers. Our historical experience in collection of trade receivables falls within the recorded allowances. Moreover, because our exposure is spread over a diversified portfolio of customers, there is no significant concentration of credit risk.

However, disruptions in the worldwide financial markets and other macroeconomic challenges currently affecting the PRC economy and the global economic outlook could adversely affect our customers and suppliers 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, and may cause suppliers to reduce their sales to us or change terms of sales. 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. Likewise, for similar reasons, suppliers may restrict credit or impose different payment terms. Any inability of our customers to pay us for products or demands by suppliers for different payment terms may have an adverse impact on our management's cash flow forecasts and assessment of the impairment of trade receivables. To the extent that information is available, our management has properly reflected revised estimates of expected future cash flows in their impairment assessments. As of the Latest Practicable Date, we had not experienced any material adverse change to our business operations or our cash flows as a result of the recent disruptions in global economic conditions, nor have we been subject to any bankruptcy filings or defaults on the part of our major suppliers or customers.

FINANCIAL INFORMATION

Liquidity risk

Our liquidity is primarily dependent on our ability to maintain adequate cash inflows from our operations to meet our debt obligations as they become due, and our ability to obtain external financing to meet our committed future capital expenditures. We currently finance our working capital requirement through a combination of funds generated from operations and bank borrowings. We had obtained banking facilities of approximately RMB12,920.5 million mainly from various reputable commercial banks in the PRC as of 31 May 2009, of which an amount of approximately RMB6,602.1 million was not utilized, and the cash outflows of our Company from investing activities were less than RMB300.0 million in each of the periods in the Track Record Period. Taking into account these factors and our expected cash generated from operations, and taking into account the planned expansion in our business activities in the coming year, the Directors are of the view that we will not have any difficulty in obtaining sufficient financial resources to meet our liquidity needs within 12 months from the date of this document. In addition, as most of our banking facilities were obtained from various PRC reputable commercial banks, the Directors are also of the view that our unutilized banking facilities will not be significantly affected by sub-prime lending issues which are currently affecting certain overseas commercial banks.

In this regard, our access to credit markets has not been adversely affected by the recent liquidity crisis and accompanying credit tightening by financial institutions. As of the Latest Practicable Date, we had not been subject to any notice of withdrawal, or potential withdrawal, of our existing or committed bank credit facilities, nor have we received any requests by bank or other creditors to repay outstanding loan facilities or debt securities in advance of their maturity dates or to increase the amount of collateral for any secured bank borrowings or debt securities. However, although we believe we will be able to fund our outstanding commitments and renew our outstanding bank credit facilities, we are subject to various risks and uncertainties in our ability to do so. The ongoing liquidity crisis could affect our ability to obtain new borrowings or refinance our existing borrowings at the same terms and costs of previous borrowings. We believe we are taking all necessary measures to maintain sufficient liquidity reserves to support the sustainability and growth of our business in the current circumstances and to repay our outstanding borrowings when they fall due.

Inflation risk

In the year ended 31 December 2008 and the five months ended 31 July 2009, the Customer Price Index in China increased to 105.9% and decreased to 98.2%, respectively, according to the PRC National Bureau of Statistics. Our directors are of the view that inflation has not had a material effect on our results of operations.

PROFIT FORECAST

We believe that on the bases and assumptions as set out in Appendix III to this document and in the absence of unforeseen circumstances as set forth in Rule 11.17 of the Hong Kong Listing Rules, our forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2009 is expected to be not less than RMB[●] million under HKFRS.

DIVIDEND POLICY

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

FINANCIAL INFORMATION

shareholders’ approval. Under the PRC Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distribution.

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

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

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

- our financial results;
- our shareholders’ interests;
- general business conditions and strategies;
- our capital requirements;
- contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries to us;
- taxation considerations;
- possible effects on our creditworthiness;
- statutory and regulatory restrictions; and
- any other factors our Board of Directors may deem relevant.

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

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

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

FINANCIAL INFORMATION

Under PRC law, dividends may be paid only out of distributable profits, which are our retained earnings, as determined in accordance with PRC accounting rules and regulations and HKFRS, whichever is lower, less allocations to the statutory and discretionary common reserve fund. We will not ordinarily pay any dividends in a year in which we do not have any distributable profits.

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

SPECIAL DIVIDEND

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

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

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

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

We have sufficient cash surplus to finance our operations from internally generated cashflow and to maintain a satisfactory financial position through the steady growth of our business. As of 31 July 2009, our Company’s total unaudited balance of cash and cash equivalents were approximately RMB1,661.0 million, before the payment of the First Special Dividend of RMB279.5 million. In

FINANCIAL INFORMATION

addition, our Directors estimate that our consolidated net profit attributable to our Shareholders for the eight months ended 31 August 2009 will not be less than RMB560 million. In light of the above, our Directors are of the view that we have, and will have, sufficient funds to make payment of the Final Special Dividend, and we will continue to have sufficient working capital upon the full payment of the Final Special Dividend without using any of the net proceeds from the [●].

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

Investors in the [●] should note that they will not be entitled to share in the Final Special Dividend, and therefore, any distributable profits available for distribution to the Company’s shareholders after the [●] will exclude the amount of the Final Special Dividend to be paid to CNPGC and Sinopharm Investment.

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

DISTRIBUTABLE RESERVES

According to our Articles of Association, the amount of retained profits available for distribution to our shareholders is the lower of the amount determined in accordance with PRC accounting rules and regulations and the amount determined in accordance with HKFRS. As of 31 May 2009, we had distributable profit amounting to approximately RMB279.5 million, which was determined according to HKFRS after deduction of the minimum transfers to the statutory common reserve fund as set out above.

PROPERTY VALUE RECONCILIATION

Particulars of our property interests are set out in Appendix V to this document. Jones Lang LaSalle Sallmanns Limited has valued our property interests as of 30 June 2009. A summary of values and valuation certificates issued by Jones Lang LaSalle Sallmanns Limited are included in Appendix V to this document.

The table below sets forth the reconciliation of aggregate amounts of buildings from our audited consolidated financial statements as of 31 May 2009 to the unaudited net book value of our Company’s property interests as of 30 June 2009:

	(RMB in millions)
Net book value of our property interests as of 31 May 2009	886.2
Addition	2.9
Depreciation	(4.3)
Disposal	(6.8)
Net book value as of 30 June 2009	878.0
Valuation surplus as of 30 June 2009	631.3
Valuation on land use right as of 30 June 2009 per “Appendix V — Property Valuation” . . .	640.6
Valuation as of 30 June 2009 per “Appendix V — Property Valuation”	2,149.8

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Information Pack.

FINANCIAL INFORMATION

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this document, there has been no material adverse change in our financial or trading position since 31 May 2009 (being the date to which our Company's latest consolidated audited financial results were prepared) and there is no event since 31 May 2009 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this document.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

OVERVIEW

The Board currently consists of 13 Directors, of whom four are independent non-executive Directors. The Directors were all elected at our shareholders’ meetings for a term of three years, which is renewable upon re-election and re-appointment.

The board of Supervisors of the Company currently consists of three members. Except for the employee representative supervisor elected by employees, the Supervisors were elected by our shareholders for a term of three years, which is renewable upon re-election and re-appointment.

Directors

The following table sets forth information regarding the Directors. All of the Directors meet the qualification requirements under relevant PRC laws and regulations for their respective positions.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Mr. She Lulin (余魯林)	53	Non-executive Director and Chairman
Mr. Guo Guangchang (郭廣昌)	42	Non-executive Director and Vice Chairman
Ms. Fu Mingzhong (付明仲)	59	Executive Director and General Manager
Mr. Wang Qunbin (汪群斌)	40	Non-executive Director
Mr. Deng Jindong (鄧金棟)	45	Non-executive Director
Mr. Fan Banghan (范邦翰)	56	Non-executive Director
Mr. Liu Hailiang (柳海良)	60	Non-executive Director
Mr. Lian Wanyong (連萬勇)	39	Non-executive Director
Mr. Wei Yulin (魏玉林)	52	Executive Director and Deputy General Manager
Mr. Wang Fanghua (王方華)	62	Independent Non-executive Director
Mr. Tao Wuping (陶武平)	54	Independent Non-executive Director
Mr. Xie Rong (謝榮)	57	Independent Non-executive Director
Mr. Zhou Bajun (周八駿)	60	Independent Non-executive Director

Mr. She Lulin joined our Company as our non-executive Director on 8 January 2003, initially as our vice chairman and since 30 August 2007 as our Chairman. He has around 27 years of working experience, over 24 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. She obtained a bachelor’s degree in science, majoring in Pharmacy, from Nanjing Pharmaceutical Institution (currently known as China Pharmaceutical University) in July 1982 and an executive master of business administration degree from Tsinghua University in July 2005. Mr. She was previously the deputy head of the general manager’s office, assistant to general manager, deputy general manager and general manager of China National Pharmaceutical Group Guangzhou Corporation from January 1985 to August 1996. Mr. She was also the general manager of China

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Medicines Corporation and the vice chairman of CNPGC from August 1996 to December 1998 and from December 1998 to October 2004, respectively. Mr. She has been a director, the general manager and legal representative of CNPGC since December 1998, December 1998 and September 2007, respectively as well as the chairman and legal representative of Sinopharm Investment since July 2008. Mr. She was the chairman of National Medicines (a company listed on the Shanghai Stock Exchange) from December 1999 to January 2001. Save as disclosed above, Mr. She has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Guo Guangchang joined our Company on 8 January 2003, and has been our non-executive Director and our Vice Chairman since then. He has around 20 years of working experience, over 16 of which is management experience. Mr. Guo obtained a bachelor's degree in philosophy and a master's degree in business administration from Fudan University in July 1989 and July 1999 respectively. Mr. Guo was a director of Shanghai Yuyuan Tourist Mart Co., Ltd. (a company listed on the Shanghai Stock Exchange) from December 2001 to December 2007, a non-executive director of Zhaojin Mining Industry Company Limited (a company listed on the Hong Kong Stock Exchange) from April 2004 to April 2007 and the chief executive officer of Fosun Company (a company listed on the Hong Kong Stock Exchange) from December 2004 to January 2009. Mr. Guo has been a director of Fosun Pharma (a company listed on the Shanghai Stock Exchange) since July 1995 and was their chairman from July 1995 to October 2007. Mr. Guo was also the chairman of Shanghai Forte Land Co., Ltd. (a company listed on the Hong Kong Stock Exchange) from September 2001 to May 2009, and has been their non-executive director since May 2009. Mr. Guo has also been the chairman and executive director of Fosun Company (a company listed on the Hong Kong Stock Exchange) since December 2004. Mr. Guo has also been the chairman of Fosun High Technology and Fosun Investment since November 1994 and November 2001, respectively, the vice chairman of Shanghai Friendship-Fortune and Nanjing Iron & Steel United Co., Ltd. since September 2000 and March 2003, respectively, and a director of Sinopharm Investment since July 2008. Mr. Guo was a member of the Tenth National People's Congress of the People's Republic of China from February 2003 to February 2008 and is currently a member of the Eleventh National People's Congress of the People's Republic of China. He was also a member of the Ninth National Committee of Chinese People's Political Consultative from January 1998 to January 2003. Mr. Guo is the chairman of the Zhejiang Chamber of Commerce in Shanghai and the vice chairman of the Shanghai Federation of Industry and Commerce. Save as disclosed above, Mr. Guo has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Ms. Fu Mingzhong joined our Company on 8 January 2003. Ms. Fu was our non-executive Director from 8 January 2003 to 12 January 2006, and has been our general manager and executive Director since 12 January 2006. She has around 39 years of working experience, over 36 years of which is management experience in the pharmaceutical and healthcare products industry. Ms. Fu obtained a master's degree in engineering from the Harbin Institute of Technology in March 1995. Ms. Fu was previously a workshop director, the head of the quality control office, the office head and the vice factory manager of The Third Harbin Pharmaceutical Factory from June 1972 to March 1992. Ms. Fu was a director of Harbin Pharma and the general manager of Harbin Pharmaceutical Co., Ltd. from March 1992 to December 1997. She was also a deputy general manager and a director of China Medicines (Group) Co., Ltd. (currently known as CNPGC) from December 1997 to January 1999 and from January 1999 to July 2009, respectively. Ms. Fu has been a director of National Medicines (a company listed on the Shanghai Stock Exchange) since February 2001 and was their chairman from February 2001 to April 2008. Ms. Fu has also been a director of Accord Pharma (a company listed on the Shenzhen Stock Exchange) since April 2008 and was their chairman from April 2008 to December 2008. Ms. Fu has also been a director of Sinopharm Investment since July 2008. Ms. Fu is also

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

currently the chairman of China Association of Pharmaceutical Commerce and a member of the Thirteenth Shanghai Municipal People's Congress. Save as disclosed above, Ms. Fu has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Wang Qunbin joined our Company on 8 January 2003, and has been our non-executive Director since then. He has around 18 years of working experience, over 15 of which is management experience in biological medicine. Mr. Wang obtained a bachelor's degree in genetic engineering from Fudan University in July 1991. Mr. Wang was previously a lecturer at the Genetic Research Institute of Fudan University from September 1991 to September 1993, and then the general manager of Fosun Pharma (a company listed on the Shanghai Stock Exchange) from October 1993 to October 2007 and a director of Tianjin Pharmaceutical Group Co., Ltd. from March 2001 to February 2009. Mr. Wang has been the chairman of Fosun Pharma (a company listed on the Shanghai Stock Exchange) since October 2007, a director and the President of Fosun High Technology since November 1994 and January 2009, respectively, as well as a director of Shanghai Friendship-Fortune and Sinopharm Investment since September 2000 and July 2008, respectively. Mr. Wang has been a director of Shanghai Friendship Group Incorporated Co., Ltd. (a company listed on the Shanghai Stock Exchange) since September 2000 and Henan Lingrui Pharmaceutical Co., Ltd. (a company listed on the Shanghai Stock Exchange) since May 2003, and has also been an executive director and the president of Fosun Company (a company listed on the Hong Kong Stock Exchange) since August 2005 and January 2009, respectively. Mr. Wang is currently the vice chairman of China Pharmaceutical Industry Association, the chairman of the Shanghai Biopharmaceutics Industry Association, and the chairman of the Huzhou Chamber of Commerce in Shanghai. Save as disclosed above, Mr. Wang has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Deng Jindong joined our Company on 30 August 2007, and has been our non-executive Director since then. He has over 23 years of working experience, over 18 years of which is financial management experience. Mr. Deng obtained a bachelor's degree in economics, majoring in industrial accounting, from Hangzhou Electronics Industry Institution (currently known as Hangzhou Dianzi University) in July 1986 and a master's degree in economics from Central Institute of Finance and Economics (currently known as Central University of Finance & Economics) in January 1991. He is a non-practicing PRC certified public accountant. Mr. Deng was previously the chief financial officer of Economic Information Network Data Co., Ltd., a senior audit manager of Taikang Life Insurance Co., Ltd. and the head of the accounting department of CNPGC from April 2000 to October 2001, from October 2001 to October 2002 and from October 2002 to October 2004, respectively. Mr. Deng has been the chief accountant of CNPGC since October 2004 and a director and the chief financial officer of Sinopharm Investment since July 2008. Mr. Deng has also been a director of Xinjiang Company since March 2009. Mr. Deng has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Fan Banghan joined our Company on 8 January 2003, and has been our non-executive Director since then. He has around 30 years of working experience, over 24 of which is management experience in the pharmaceutical and healthcare products industry. Mr. Fan obtained an associate education from Branch Institute of the Shanghai Education Institute, majoring in politics and education in July 1984. Mr. Fan was a deputy general manager of Shanghai Pharma (a company listed on the Shanghai Stock Exchange) from January 1998 to March 2000 and a supervisor of National Medicines (a company listed on the Shanghai Stock Exchange) from December 2005 to May 2009. Mr. Fan has been a deputy general manager of Fosun Pharma (a company listed on the Shanghai Stock Exchange) since 2000, and a director of National Medicines (a company listed on the Shanghai Stock Exchange)

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

since May 2009. Mr. Fan has been a director and the general manager of Sinopharm Investment since July 2008. Mr. Fan is currently the vice chairman of the Shanghai Pharmaceutical Trade Association. Save as disclosed above, Mr. Fan has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Liu Hailiang joined our Company on 8 January 2003, and has been our non-executive Director since then. He has around 41 years of working experience, over 14 years of which is management experience. Mr. Liu obtained an associate education in business administration from Shanghai Construction Institute in September 1986. Mr. Liu was previously the human resources manager of Johnson & Johnson China Ltd. from March 1995 to March 2000. Mr. Liu was an assistant to the general manager and the chief human resources supervisor of Fosun Pharma (a company listed on the Shanghai Stock Exchange) from March 2000 to May 2004, and has been their supervisor since May 2004, and as their chief supervisor since May 2008. Mr. Liu has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Lian Wanyong joined our Company on 22 December 2008, and has been our non-executive Director since then. He has over 13 years of working experience, all of which is management experience. Mr. Lian obtained a bachelor's degree in medicine, majoring in clinical medicine, from Hunan University of Medicine (currently known as Central South University Xiangya School of Medicine) in July 1993, a master's degree in medicine, majoring in pharmacology, from Zhongshan Medicine University (currently known as Zhongshan School of Medicine, Sun Yat-sen University) in July 1996 and a master's degree in business administration from the University of Miami in May 2002. Mr. Lian was previously the manager of the operation and audit department of Traditional & Herbal Medicine Company and a deputy head of the financial assets management department of CNPGC from January 2004 to June 2005 and from June 2005 to February 2008, respectively. Mr. Lian has been the head of the investment management department of CNPGC since February 2008. Mr. Lian has been a director of Xinjiang Company since March 2009. Mr. Lian has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Wei Yulin joined our Company on 16 January 2003, and has been our executive Director since 22 December 2008, our deputy general manager since January 2003 and our general manager of the department of pharmaceutical distribution business since September 2008. He has around 33 years of working experience, over 16 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Wei obtained an executive master of business administration degree from the Cheung Kong Graduate School of Business in September 2007. Mr. Wei is a practicing pharmacist. Mr. Wei was previously the general manager of Sinopharm Tianjin from January 2003 to December 2003 and from October 2004 to April 2006, and their chairman from January 2004 to October 2004, and the chairman of each of Sinopharm Shanxi, Sinopharm Shenyang, Southwest Pharmaceutical, Sinopharm Hunan, Sinopharm Zhejiang and Sinopharm Henan from January 2007 to January 2009, from May 2006 to January 2009, from March 2007 to January 2009, from September 2007 to January 2009, from October 2007 to January 2009, and from April 2008 to January 2009, respectively. Mr. Wei was also a director of Xinjiang Company from March 2009 to August 2009. Mr. Wei has been the chairman of each of Sinopharm Waigaoqiao and Sinopharm Logistics since July 2006 and April 2008, respectively, and has also been a director of National Medicines (a company listed on the Shanghai Stock Exchange) since December 2005 and Accord Pharma (a company listed on the Shenzhen Stock Exchange) since September 2007, respectively. Save as disclosed above, Mr. Wei has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Wang Fanghua joined our Company on 16 January 2003, and has been our independent non-executive Director since then. He has 41 years of working experience. He obtained a master’s degree in economics from Fudan University in January 1989 and then worked at Fudan University as the head of the Department of Business Administration of the School of Management from July 1994 to July 1998. He has been the dean of Antai College of Economics & Management of Shanghai Jiao Tong University since March 2006. Mr. Wang was an independent director of Shanghai Jinjiang International Hotels Development Co., Ltd. (a company listed on the Shanghai Stock Exchange) from August 2003 to May 2009. Mr. Wang has been an independent director of each of Shanghai Oriental Pearl Co., Ltd. (a company listed on the Shanghai Stock Exchange) since June 2005, Shenzhen Auto Electric Power Plant Co., Ltd. (a company listed on the Shenzhen Stock Exchange) since March 2007 and Shanghai New World Co., Ltd. (a company listed on the Shanghai Stock Exchange) since June 2008, respectively. He has also been an independent non-executive director of Lonking Holdings Limited (a company listed on the Hong Kong Stock Exchange) since May 2008. Save as disclosed above, Mr. Wang has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Tao Wuping joined our Company on 16 January 2003, and has been our independent non-executive Director since then. He is a lawyer. He has around 38 years of working experience, over 24 years of which is for practising law. Mr. Tao obtained a master’s degree in law, majoring in international economic law, from Fudan University in June 1997. He has been the head of Shen Da Law Firm, a visiting law professor of Shanghai Institute of Foreign Trade, a part-time professor of Law and Politics College of East China Normal University, and the honorary dean and a part-time professor of Law and Politics College of Shanghai Normal University since August 1994, March 2002, June 2003, and September 2003, respectively. Mr. Tao was named the “National Outstanding Attorney at Law” by All China Lawyers Association and the first session of “Eastern Attorney at Law” by Shanghai Bar Association. Mr. Tao has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Xie Rong joined our Company on 25 April 2005, and has been our independent non-executive Director since 30 August 2007. Before his appointment as an independent non-executive Director was formally approved by the relevant shareholders’ resolution in August 2007, he had already acted in such capacity since 25 April 2005. He has around 41 years of working experience. He obtained a doctorate degree in economics, majoring in accounting from Shanghai University of Finance & Economics in January 1993. He was previously the deputy head of the Accounting Department of Shanghai University of Finance & Economics and a partner of KPMG China from September 1994 to November 1997 and from December 1997 to October 2002, respectively. Mr. Xie has been a director of SAIC Motor Co., Ltd. (a company listed on the Shanghai Stock Exchange) since April 2003 and was their independent director from April 2003 to June 2008. Mr. Xie was an independent non-executive director of China Shipping Development Company Limited (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange) from May 2003 to May 2009. He has been an independent non-executive director of each of China Eastern Airlines Corporation Limited (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange) since June 2003, China CITIC Bank Corporation Limited (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange) since February 2007 and Tianjin Capital Environmental Protection Group Company Limited (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange) since April 2008, respectively. Mr. Xie is currently the vice president of the Shanghai National Accounting Institute, a member of the Master of Accounting Professional Education Guidance Committee of the State Department Degree Committee, a commissioner of the China Auditing Institute and a standing commissioner of the China Accounting

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Institute. Save as disclosed above, Mr. Xie has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Zhou Bajun joined our Company on 19 August 2009, and has been our independent non-executive Director since then. He has over 26 years of working experience, over 10 of which is in the PRC securities market. Mr. Zhou obtained a doctoral degree in Economics from East China Normal University in October 1988. Mr. Zhou worked as a deputy general manager of the China Business Department of Hong Kong Construction (Holdings) Limited (currently known as “Hong Kong Construction (Hong Kong) Limited”) from March 1999 to February 2000. Mr. Zhou has been a senior research fellow of China Everbright Holdings Company Limited since February 2002, and has also been a director and later a responsible officer of China Everbright Research Limited since March 2000 and August 2004, respectively. Mr. Zhou is a member of the Commission on Strategic Development of Hong Kong and a standing commissioner of the Hong Kong and Macau Research Center of Shanghai Academy of Social Science. Mr. Zhou has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Save as disclosed in this document, there are no other matters that need to be brought to the attention of the shareholders of the Company in connection with the appointment of our Directors and there is no other information relating to our Directors that should be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules.

Supervisors

The following table sets forth information regarding the Supervisors. The Supervisors all meet the qualification requirements under relevant PRC laws and regulations for their respective positions.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Mr. Chen Qiyu (陳啟宇)	37	Chief Supervisor
Mr. Xing Yonggang (邢永剛)	33	Supervisor and head of the department of legal affairs
Ms. Zhang Jian (張健)	36	Supervisor and head of the auditing department

Mr. Chen Qiyu joined our Company on 8 January 2003, and has been our chief supervisor since then. He has around 16 years of working experience. He obtained a bachelor’s degree in genetic engineering from Fudan University in July 1993 and a master of business administration degree, majoring in executive business administration, from China Europe International Business School in September 2005. Mr. Chen was previously a deputy general manager, the chief financial officer, the board secretary and the standing deputy general manager of Fosun Pharma (a company listed on the Shanghai Stock Exchange) from July 1998 to October 2007, and has been their director, general manager and vice chairman since May 2005, October 2007 and May 2008, respectively. Mr. Chen has been a non-executive director of Shanghai Forte Land Co. Ltd. (a company listed on the Hong Kong Stock Exchange) since October 2008. Mr. Chen has been the vice chairman of Tianjin Pharmaceutical Group Co., Ltd. and a supervisor of Shanghai Friendship-Fortune since February 2009 and October 2003, respectively. Mr. Chen is also currently the vice chairman of Shanghai Practicing Pharmacist Association, a commissioner of Shanghai Society of Genetics, the vice chairman of Shanghai Pharmaceutical Association, and the vice-chief-commissioner of the fourth commission of China Medicinal Biotech Association. Save as disclosed above, Mr. Chen has not been a director of any

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Xing Yonggang joined our Company on 1 February 2008, and has been our supervisor since 17 July 2008 and the head of our department of legal affairs since February 2008. He has around 9 years of working experience. He obtained a master’s degree in laws from Renmin University of China Law School in July 2000. He was previously an in-house legal counsel of National Medicines (a company listed on the Shanghai Stock Exchange) from August 2000 to February 2001. Mr. Xing was previously the business head, the senior business head and an associate head of the legal affairs department of CNPGC from March 2001 to February 2008. He has been the deputy head of the legal affairs department of CNPGC since February 2008. Mr. Xing has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Ms. Zhang Jian joined our Company on 16 June 2005, and has been our supervisor since 12 September 2008 and the head of our auditing department since February 2008. She has around 12 years of working experience. She obtained a bachelor’s degree in economics, majoring in accounting, from Shanghai University of Finance & Economics in July 1997. She is a non-practicing PRC certified public accountant. Ms. Zhang has been a supervisor of each of Sinopharm Beijing, Sinopharm Waigaoqiao and Sinopharm Shanxi since September 2007, October 2007 and November 2007, respectively. Ms. Zhang has also been a supervisor of National Medicines (a company listed on the Shanghai Stock Exchange) since May 2008 and their chief supervisor since August 2008. She has also been a supervisor of Xinjiang Company since March 2009. Ms. Zhang has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Senior Management

The following table sets forth information regarding the senior management of the Company.

The senior management of the Company all meet the qualification requirements under the relevant PRC laws and regulations for their respective positions. The senior management are responsible for the day-to-day management of the Company’s business.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Ms. Fu Mingzhong (付明仲)	59	Executive Director and General Manager
Mr. Wei Yulin (魏玉林)	52	Executive Director and Deputy General Manager
Mr. Gong Jiashen (龔家申)	55	Deputy General Manager
Ms. Shen Linian (沈立年)	52	Deputy General Manager
Mr. Lu Jun (盧軍)	51	Deputy General Manager
Mr. Wu Aimin (吳愛民)	39	Deputy General Manager, Joint Company Secretary and Secretary to the Board
Mr. Shi Jinming (施金明)	42	Deputy General Manager
Mr. Liu Yong (劉勇)	40	Deputy General Manager
Mr. Song Tingfeng (宋廷鋒)	41	Chief Financial Officer

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Ms. Fu Mingzhong is our general manager. Please refer to the section headed “Directors” in this document for her biography.

Mr. Wei Yulin is our deputy general manager. Please refer to the section headed “Directors” in this document for his biography.

Mr. Gong Jiashen joined our Company on 22 July 2006, and has been our deputy general manager since 20 March 2008. He has over 39 years of working experience, over 15 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Gong obtained a bachelor’s degree in economics, majoring in commercial economics, from Beijing Finance & Trade Institute (currently known as Capital University of Economics and Business) in July 1983. He was previously a deputy general manager of China Medicines (Group) Co., Ltd. (currently known as CNPGC) from December 1995 to January 2000. He was a deputy general manager and the general manager of National Medicines (a company listed on the Shanghai Stock Exchange) successively from January 2000 to April 2008, and has been their director and the chairman since January 2000 and April 2008, respectively. Mr. Gong has been the chairman of Sinopharm Tianjin and Sinopharm Beijing since May 2008. Save as disclosed above, Mr. Gong has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Ms. Shen Linian joined our Company on 16 January 2003, and has been our deputy general manager since then. She has over 33 years of working experience, over 11 years of which is management experience in the pharmaceutical and healthcare products industry. Ms. Shen obtained a master’s degree in business administration (specializing in International Business) from the Maastricht School of Management in August 2001 and obtained a graduate education in political economics from Jiangsu Province Administration Institute in July 2006. She was previously an assistant to the general manager and the head of the general manager’s office of Shanghai Company from November 1998 to November 1999, and then was their deputy general manager from November 1999 to January 2003. Ms. Shen has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Lu Jun joined our Company on 8 January 2003, and has been our deputy general manager since 29 June 2004, and served as our assistant to the general manager, the general manager of medicine retail business department and the head of our investment department at the same time from April 2003 to June 2004. He has over 33 years of working experience, over 10 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Lu obtained a master’s degree in business administration (specializing in International Business) from the Maastricht School of Management in August 2001. Mr. Lu was previously the general manager of each of China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd., Shanghai GuoDa Chain Store and Sinopharm GuoDa from August 1998 to January 2001, from January 2001 to December 2004 and from June 2004 to June 2008, respectively. Mr. Lu was also a director of Accord Pharma (a company listed on the Shenzhen Stock Exchange) from September 2007 to December 2008 and of Xinjiang Company from March 2009 to August 2009, respectively. Mr. Lu has been the chairman of Sinopharm GuoDa since July 2008. Save as disclosed above, Mr. Lu has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Wu Aimin joined our Company on 3 July 2003, and has been our deputy general manager since 13 December 2006, secretary to the Board since 20 March 2008 and one of the joint company secretaries since 31 August 2009. He was our chief financial officer from July 2003 to December 2006. Mr. Wu has around 17 years of working experience, all of which is financial management

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

experience. He obtained a bachelor's degree in engineering, majoring in technical economy, from Hunan University in July 1992 and an executive master of business administration degree from Shanghai Jiao Tong University in December 2006. He is a qualified accountant in the PRC. He previously worked successively as a manager of Suzhou Asset Appraisal Firm and as a partner of Jiangsu Renhe Assets Appraisal Co., Ltd. from August 1992 to June 1998 and from June 1998 to October 1999, respectively. Mr. Wu was also the chief financial officer of V V Food & Beverage Co., Ltd. (a company listed on the Shanghai Stock Exchange) from November 1999 to April 2003 and a director of National Medicines (a company listed on the Shanghai Stock Exchange) from December 2005 to May 2009. Mr. Wu has been a director of Accord Pharma (a company listed on the Shenzhen Stock Exchange) since January 2005 and a supervisor of National Medicines (a company listed on the Shanghai Stock Exchange) since May 2009. Save as disclosed above, Mr. Wu has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Shi Jinming joined our Company on 8 January 2003, and has been our deputy general manager since 9 January 2009. He has over 20 years of working experience, over 14 years of which is management experience. Mr. Shi obtained a bachelor's degree in Economics, majoring in trade and economy, from Shanghai University of Finance and Economics in July 1989 and an executive master of business administration degree from Sun Yat-sen University in June 2005. Mr. Shi was previously the general manager of Accord Pharma (a company listed on the Shenzhen Stock Exchange) from February 2004 to December 2008, and has been their chairman since December 2008. Mr. Shi has also been the chairman of each of Southwest Pharmaceutical, Sinopharm Hubei and Sinopharm Hunan since February 2009. Save as disclosed above, Mr. Shi has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Liu Yong joined our Company on 8 January 2003, and has been our deputy general manager since 9 January 2009. He has over 17 years of working experience, over 13 years of which is management experience. Mr. Liu obtained a bachelor's degree in science, majoring in business administration of pharmaceutical enterprises, from China Pharmaceutical University in July 1992 and a master's degree in business administration from Fudan University in January 2000. He was previously a deputy general manager of Shanghai GuoDa Chain Store from April 2000 to April 2003. Mr. Liu has been the general manager and the chairman of Sinopharm Shenyang since April 2003 and January 2009 respectively. He has also been the chairman of Chemical Reagent Company and Sinopharm Henan since February 2009. Mr. Liu has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Mr. Song Tingfeng joined our Company on 13 December 2006, and has been our chief financial officer since then. He has around 19 years of working experience, over 9 years of which is financial management experience. Mr. Song obtained a doctorate education in accounting from Renmin University of China in July 2002 and obtained an executive master of business administration degree from Cheung Kong Graduate School of Business in September 2008. He was previously the head of the financial management committee and a deputy head of the asset supervising center of Beijing Double-Crane Pharmaceutical Co., Ltd. (a company listed on the Shanghai Stock Exchange) from November 1999 to June 2003, and the chief financial officer of National Medicines (a company listed on the Shanghai Stock Exchange) from July 2003 to December 2006. Mr. Song was also an independent director of Jilin Huarun Bio-chemistry Co., Ltd. (currently known as Xi'an Aero-Engine PLC, a company listed on the Shanghai Stock Exchange) from April 2003 to August 2008. Mr. Song has also been the convener of the supervisory committee of Accord Pharma (a company listed on the Shenzhen Stock Exchange) since September 2007. Save as disclosed above, Mr. Song has not been a

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document.

Joint Company Secretaries

Mr. Wu Aimin, one of the joint company secretaries, is also our deputy general manager and secretary to the Board. Please refer to the section headed “Senior Management” in this document for his biography.

Mr. Ngai Wai Fung joined our Company on 31 August 2009, and has been one of our joint company secretaries since then. He holds a bachelor’s degree in laws from University of Wolverhampton, a master’s degree in business administration from Andrews University and a master’s degree in corporate finance from the Hong Kong Polytechnic University. Mr. Ngai is a fellow member of The Institute of Chartered Secretaries and Administrators in the United Kingdom, a fellow member of The Hong Kong Institute of Chartered Secretaries, a member of The Association of Chartered Certified Accountants in the United Kingdom, and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Ngai is currently a director and head of listing services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong, and the vice president of the Hong Kong Institute of Chartered Secretaries and the chairman of its Membership Committee.

BOARD COMMITTEES

The Board delegates certain responsibilities to various dedicated committees. In accordance with relevant PRC laws, regulations, the Articles and the Hong Kong Listing Rules, we have formed three board committees, namely the audit committee, the remuneration committee and the nomination committee.

Audit Committee

The audit committee of the Company consists of five Directors: Mr. Xie Rong, Mr. Wang Fanghua, Mr. Fan Banghan, Mr. Deng Jindong and Mr. Zhou Bajun. Mr. Xie Rong currently serves as the chairman of the audit committee. The primary responsibilities of the Company’s audit committee are to inspect, review and supervise the Company’s financial information and reporting process for financial information, and includes, among others:

- making recommendations to the Board on the appointment, reappointment and removal of the external auditor;
- reviewing and monitoring the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and
- developing and implementing policies on the engagement of an external auditor to supply non-audit services.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Remuneration Committee

The remuneration committee of the Company consists of five Directors: Mr. Tao Wuping, Mr. Wang Fanghua, Mr. Xie Rong, Mr. Fan Banghan and Mr. Liu Hailiang. Mr. Tao Wuping currently serves as the chairman of the Company’s remuneration committee. The primary responsibilities of the Company’s remuneration committee are to formulate and review the compensation policies and schemes for the Company’s Directors and senior management, and includes, among others:

- making recommendations to the Board on the Company’s policies and structure for all remuneration of Directors and senior management;
- having the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, and making recommendations to the Board of the remuneration of non-executive Directors; and
- reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

Nomination Committee

The nomination committee of the Company consists of five Directors: Mr. She Lulin, Mr. Wang Fanghua, Mr. Tao Wuping, Mr. Xie Rong and Mr. Fan Banghan. Mr. She Lulin currently serves as the chairman of the nomination committee. The primary responsibilities of the Company’s nomination committee are to formulate the nomination procedures and standards for candidates for Directors, and includes, among others:

- reviewing the structure, size and composition of the Board on a regular basis and making recommendations to the Board regarding any proposed changes;
- assessing the independence of independent non-executive Directors; and
- making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the General Manager.

WAIVERS BY THE HONG KONG STOCK EXCHANGE

Management Presence in Hong Kong

According to Rule 8.12 and Rule 19A.15 of the Hong Kong Listing Rules, the Company must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. The Company is a distributor and supply chain services provider for pharmaceutical and healthcare products in the PRC. Since our head office and substantially all of our business operations are based, managed and conducted in the PRC, we do not, and for the foreseeable future, will not, have executive Directors who are ordinarily residents in Hong Kong, for the purposes of satisfying the requirements under Rules 8.12 and 19A.15 of the Hong Kong Listing Rules. Currently, both of our two executive Directors reside in the PRC.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange [has granted] us, a waiver from strict compliance with Rule 8.12 and Rule 19A.15 of

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

the Hong Kong Listing Rules. We have made arrangements to maintain effective communication between the Hong Kong Stock Exchange and us as follows:

- Both of the Company’s authorized representatives, Fu Mingzhong, a PRC resident, and Wu Aimin, a PRC resident, will act as our principal channel of communication with the Hong Kong Stock Exchange. Although both Ms. Fu and Mr. Wu reside in the PRC, they possess valid travel documents and are able to renew such travel documents when they expire in order to visit Hong Kong. Accordingly, the authorized representatives of the Company will be able to meet with the relevant members of the Hong Kong Stock Exchange on short notice;
- Both of the authorized representatives of the Company have means of contacting all Directors (including the independent non-executive Directors) promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the Directors on any matters;
- Each Director has provided his contact number, fax number and e-mail address to the authorized representatives of the Company and the Hong Kong Stock Exchange and in the event that any Director expects to travel or otherwise be out of office, he will provide the phone number of the place of his accommodation to the authorized representatives;
- Each of the Directors who is not ordinarily resident in Hong Kong possesses valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Hong Kong Stock Exchange within a reasonable period of time;
- Mr. Ngai Wai Fung, one of the joint company secretaries of the Company, who is a Hong Kong resident, will act as the alternate of the Company’s authorized representatives to act at all times as a channel of communication with the Hong Kong Stock Exchange; and
- The Company has appointed CICC as our compliance adviser who will serve as a principal channel of communication with the Hong Kong Stock Exchange from [●] to the date when the Company mails its annual reports to its shareholders for the first full financial year immediately after [●] of our H Shares.

Appointment of Joint Company Secretaries

Rule 8.17

According to Rule 8.17 of the Hong Kong Listing Rules, the secretary of the Company must be a person who is ordinarily resident in Hong Kong and who has the requisite knowledge and experience to discharge the functions of a secretary of an issuer and who:

- is an ordinary member of The Hong Kong Institute of Chartered Secretaries, a solicitor or a barrister as defined in the Legal Practitioners Ordinance or a professional accountant; or
- is an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging those functions.

Rule 19A.16

Rule 19A.16 of the Hong Kong Listing Rules, however, does not require the secretary of a PRC issuer to be ordinarily resident in Hong Kong, provided that such person can meet the other requirements under Rule 8.17 of the Hong Kong Listing Rules.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Wu Aimin does not possess the specified qualifications required by Rule 8.17(2) and (3) of the Hong Kong Listing Rules in that although he is a qualified accountant in the PRC and has held various senior positions as indicated in his biography, he may not possess the relevant experience as required by the Hong Kong Stock Exchange in terms of his familiarity with the Hong Kong Listing Rules. Given the important role of the company secretary in the corporate governance of [●], particularly in assisting [●] as well as its directors in complying with the Hong Kong Listing Rules and other relevant laws and regulations, we have the following arrangements:

- Mr. Wu Aimin will endeavor to attend relevant training courses including briefing on the latest changes to the applicable Hong Kong laws and regulations and the Hong Kong Listing Rules organized by the Company's Hong Kong legal advisers on an invitation basis and seminars organized by the Hong Kong Stock Exchange for [●] from time to time.
- The Company has appointed Mr. Ngai Wai Fung who meets the requirements under Rule 8.17(2) of the Hong Kong Listing Rules, as a joint company secretary to assist Mr. Wu Aimin so as to enable him to acquire the relevant experience (as required under 8.17(3) of the Hong Kong Listing Rules) to discharge the duties and responsibilities as company secretary of the Company.
- Mr. Ngai Wai Fung, who will familiarize himself with the affairs of the Company, will communicate regularly with Mr. Wu Aimin on matters relating to corporate governance, the Hong Kong Listing Rules as well as other laws and regulations which are relevant to us and our other affairs. Mr. Ngai Wai Fung will work closely with, and provide assistance to, Mr. Wu Aimin in the discharge of his duties as a joint company secretary, including organizing the Company's board meetings and shareholders' meetings.
- Mr. Wu Aimin will be appointed for an initial period of three years from the date of [●] of the H Shares, provided that he will be assisted by Mr. Ngai Wai Fung. Upon expiry of the three year period, a further evaluation of the qualifications and experience of Mr. Wu Aimin and the need for on-going assistance would be made.

The Company has applied to the Hong Kong Stock Exchange for, and [has been granted,] a waiver from strict compliance with the requirements of Rule 8.17 and Rule 19A.16 of the Hong Kong Listing Rules. Upon the expiry of the initial three years period, the qualifications of Mr. Wu will be re-evaluated to determine whether the requirements as stipulated in Rule 8.17 of the Hong Kong Listing Rules can be satisfied. In the event that Mr. Wu has obtained relevant experience under Rule 8.17(3) of the Hong Kong Listing Rules at the end of the said initial three years period, the above joint company secretaries arrangement will no longer be required by the Company.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Directors, Supervisors and senior management receive compensation in the form of salaries, bonuses, housing allowances and other benefits-in-kind, including the Company's contribution to the pension plan on their behalf. Total compensation paid to the Directors (including the four independent non-executive Directors), Supervisors and senior management for the three years ended 31 December 2006, 2007 and 2008 were approximately RMB4,378,000, RMB5,671,000, and RMB6,899,000, respectively. Mr. Wei Yulin, who was not a director of our Company during the years ended 31 December 2006 and 2007, received remuneration from our Company as a member of senior management in those years. In addition, the non-executive Directors did not receive remuneration from our Company during the years ended 31 December 2006, 2007 and 2008, since they did not have any executive position in our Company. The Company understands that these non-executive Directors either received remuneration from CNPGC or from Fosun Company and its subsidiary(ies) or the

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Fosun Group, as the case may be, where they hold executive positions. In each of the years ended 31 December 2006, 2007 and 2008, the total compensation paid to the executive Directors was RMB842,000, RMB919,000 and RMB1,910,000 respectively, while the total compensation payable to the executive Directors for the year ending 31 December 2009 is estimated to be RMB1,979,000. No compensation was paid to the non-executive Directors in each of the years ended 31 December 2006, 2007 and 2008 and the Company does not expect any compensation to be paid to the non-executive Directors for the year ending 31 December 2009. In each of the years ended 31 December 2006, 2007 and 2008, the total compensation paid to the independent non-executive Directors was RMB240,000, RMB240,000 and RMB561,000 respectively, while the total compensation payable to the independent non-executive Directors for the year ending 31 December 2009 is estimated to be RMB654,000. In each of the years ended 31 December 2006 and 2007, no compensation was paid to the Supervisors, and in the year ended 31 December 2008, the total compensation paid to the Supervisors was RMB444,000, while the total compensation payable to the Supervisors for the year ending 31 December 2009 is estimated to be RMB449,000. In each of the years ended 31 December 2006, 2007 and 2008, the total compensation paid to senior management (exclusive of one executive Director in 2006 and 2007 and two executive Directors in 2008) was RMB3,296,000, RMB4,513,000 and RMB3,985,000 respectively, while the total compensation payable to senior management (exclusive of two executive Directors) for the year ending 31 December 2009 is estimated to be RMB5,928,000.

As required by PRC regulations, we participate in various defined pension schemes for our employees, including those organized by provincial or municipal governments as well as supplemental pension schemes. The employees covered by such schemes include our Directors, Supervisors and management personnel. The Company contributed RMB369,000 as pension funds for the Directors, Supervisors and senior management for the year ended 31 December 2008. The aggregate amount of compensation the Company paid to the five highest paid individuals (comprising of executive Directors and other senior management members) during the year ended 31 December 2008 was approximately RMB4,307,000. Under the existing arrangements currently in force, the aggregate remuneration payable to and benefits-in-kind receivable by the Directors (including four independent non-executive Directors) and Supervisors, in respect of the year ending 31 December 2009 are estimated to be approximately RMB2,633,000 (including RMB654,000 to be received by the independent non-executive Directors) and RMB449,000, respectively.

In determining the remuneration packages of the Directors, the Company will consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in our Company and desirability of performance-based remuneration.

COMPLIANCE ADVISER

The Company has agreed to appoint CICC to be its compliance adviser in compliance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. The Company expects to enter into a compliance adviser's agreement with the compliance adviser, the material terms of which are as follows:

- (a) the Company will appoint CICC as the compliance adviser for the purpose of Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules;
- (b) the compliance adviser will provide us with certain services, including providing us with proper guidance and advice as to compliance with the requirements under the Hong Kong Listing Rules and applicable laws, rules, codes and guidelines and provide advice to the Company on the continuing requirements under the Hong Kong Listing Rules and applicable laws and regulations;

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

- (c) the compliance adviser will, as soon as reasonably practicable, inform us of any amendment or supplement to the Hong Kong Listing Rules announced by the Hong Kong Stock Exchange from time to time, and of any amendment or supplement to the applicable laws and guidelines; and
- (d) the compliance adviser will serve as a principal channel of communication of the Company with the Hong Kong Stock Exchange.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

I. RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER

BACKGROUND

The Controlling Shareholder is an enterprise owned by the whole people established in the PRC in 1998 under the direct control of SASAC. According to the statistical report produced by CAPC on the PRC pharmaceutical sector from 2003 to 2008, the CNPGC Group was the largest pharmaceutical conglomerate by sales in the PRC pharmaceutical market.

The Controlling Shareholder's business strategy is and has always been for our Company to act as its flagship for the distribution of medicines and for members of the CNPGC Group (other than our Company) to focus on other principal businesses. The Controlling Shareholder owns certain interests in (i) the Excluded Companies, which engage in the distribution and/or production of medicines, and/or operation of retail drug stores and/or provision of import agency service; and (ii) members of the CNPGC Group (other than our Company and the Excluded Companies), which engage in the production of Chinese medicines, production of medical equipment, provision of pharmaceutical research and development service and provision of pharmaceutical related services (i.e. pharmaceutical exhibitions, provision of pharmaceutical related construction services, pharmaceutical magazines and property management).

The Controlling Shareholder provides pharmaceutical research and development services through its subsidiary, Sichuan Antibiotic Institute. Sichuan Antibiotic Institute primarily focuses on early stage discovery and basic research, such as theoretical research, new chemical discovery, and pre-clinical animal studies. Its customers include members of the CNPGC Group and independent third parties. Although our Company also carries on research and development activities, our Company does not carry on such activities as a separate business for third parties. Instead, our research and development activities are conducted for our Company's own internal needs only and mainly focus on later stage product development and commercialization research efforts, such as drug formulation and manufacturing process optimization.

The Controlling Shareholder provides import agency service through its two subsidiaries, Trading Company and South Trade. The types of products for which these two companies provide import agency services include not only medicines, but also a wide range of healthcare and non-healthcare general products. Although our Company also provides import agency services, we do not provide such services as a separate business. This service is an optional service which constitutes merely part of our Company's distribution business. Our Company neither provides such services to third parties other than its suppliers, nor to its suppliers on a standalone basis. We will only provide such services to our suppliers when they, e.g. foreign medicines producers, are unable to import their medicines into the PRC for any reason and require us to provide them with such services.

As such, the Directors consider that there is no competition between the provision of pharmaceutical research and development services and import agency services by the above subsidiaries of the Controlling Shareholder and by our Company.

The Directors consider that, other than the Excluded Companies and our Company, members of the CNPGC Group do not engage in businesses which directly or indirectly compete with our businesses. The Excluded Companies represent all the companies and businesses of the Parent Group that compete with our Company. The Excluded Companies have not been included in our Company for the reasons further described below. As such, this may result in competition between the Excluded Companies' and our Company's business operations in the PRC in the manner described below.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

COMPETITION

A. OUR CORE BUSINESS

Our core business is the distribution of Western medicines in the PRC. It is the intention of our Company to focus on our Core Business. The distribution of Western medicines by our Company accounted for more than 85% of our total audited revenue for the year ended 31 December 2008. Other than our Core Business, we also engage in, inter alia, the distribution of Chinese medicines, the operation of retail drug stores and the production of Western medicines. For the year ended 31 December 2008, the distribution of Chinese medicines, the operation of retail drug stores and the production of Western medicines by our Company accounted for less than 10%, approximately 2.5% and approximately 2.4% of our total audited revenue respectively.

B. BUSINESSES ENGAGED BY THE EXCLUDED COMPANIES (OTHER THAN XINJIANG COMPANY)

(i) Western Medicines Distribution Business

All the six following subsidiaries of the Controlling Shareholder engage in certain Western medicines distribution business in the PRC. For the years ended 31 December 2006, 2007 and 2008, the aggregate revenues audited or unaudited, as the case may be, of such companies attributable to their Western medicines distribution business as prepared in accordance with PRC GAAP were approximately RMB1,225 million, RMB1,466 million and RMB1,577 million, representing approximately 5.2%, 4.7% and 4.1% of our total audited revenues for the corresponding period.

Description of business

Industry Company and two of its subsidiaries

(1) Industry Company

Industry Company is a direct wholly-owned subsidiary of the Controlling Shareholder. Industry Company mainly engages in making investments in companies which produce Western medicines. The principal business of certain of its subsidiaries and associated companies is the production of Western medicines in the PRC. At the same time, Industry Company also engages in Western medicines distribution business. The target customers of Industry Company's Western medicines distribution business are hospitals in Beijing and pharmaceutical companies located in Beijing, Guangdong, Liaoning, Shandong and Tianjin. The unaudited revenues of Industry Company attributable to its Western medicines distribution business as prepared in accordance with PRC GAAP for the years ended 31 December 2006, 2007 and 2008 were approximately RMB441 million, RMB511 million and RMB426 million.

(2) Hubei Yibao

Hubei Yibao is owned as to 51% by Industry Company. The principal business of Hubei Yibao is the distribution of Western medicines in Hubei Province. The target customers of Hubei Yibao are hospitals in Wuhan. The audited revenues of Hubei Yibao attributable to its Western medicines distribution business as prepared in

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

accordance with PRC GAAP for the years ended 31 December 2006, 2007 and 2008 were approximately RMB95 million, RMB125 million and RMB104 million.

(3) Tianjin Company

Tianjin Company is owned as to 55% by Industry Company. The business of Tianjin Company is the distribution of Western medicines in Tianjin. The target customers of Tianjin Company are pharmaceutical companies and hospitals located in Tianjin. The audited revenues of Tianjin Company as prepared in accordance with PRC GAAP for the years ended 31 December 2006, 2007 and 2008 were approximately RMB40 million, RMB44 million and RMB44 million.

Trading Company and one of its subsidiaries

(1) Trading Company

Trading Company is a direct wholly-owned subsidiary of the Controlling Shareholder. The principal business of Trading Company is the provision of import agency services in the PRC. At the same time, Trading Company also engages in a limited Western medicines distribution business. The target customers of its Western medicines distribution business are pharmaceutical companies, end-customers and certain hospitals located in Beijing, Tianjin and Liaoning. The unaudited revenues of Trading Company attributable to its Western medicines distribution business as prepared in accordance with PRC GAAP for the years ended 31 December 2006, 2007 and 2008 were approximately RMB186 million, RMB234 million and RMB337 million.

(2) South Trade

South Trade is owned as to 51% by Trading Company. The principal business of South Trade is the provision of import agency services in relation to medicines and other products in the PRC. At the same time, South Trade also engages in a limited Western medicines distribution business. The target customers of its Western medicines distribution business are pharmaceutical companies and hospitals located in Guangdong Province and Southern China. The unaudited revenues of South Trade attributable to its Western medicines distribution business as prepared in accordance with PRC GAAP for the years ended 31 December 2006, 2007 and 2008 were approximately RMB121 million, RMB145 million and RMB173 million.

Guangdong Dong Fang

Guangdong Dong Fang is an indirect wholly-owned subsidiary of the Controlling Shareholder, which is held through its direct subsidiary Traditional & Herbal Medicine Company. The principal business of Guangdong Dong Fang is the distribution of Western medicines in Guangzhou. The target customers of Guangdong Dong Fang are hospitals and pharmaceutical companies located in Guangzhou. The audited revenues of Guangdong Dong Fang as prepared in accordance with PRC GAAP for the years ended 31 December 2006, 2007 and 2008 were approximately RMB342 million, RMB406 million and RMB493 million.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

Rationale for non-inclusion

The Directors consider that it is neither necessary nor appropriate to include the six companies above in our Company for the following reasons:

- (1) Industry Company mainly engages in making investments in companies which produce Western medicines and it also engages in a Western medicines distribution business. The principal business of certain of its subsidiaries and associated companies is the production of Western medicines in the PRC, not the distribution of Western medicines. Industry Company intends to cease its Western medicines distribution business within two years after [●]. After such cessation, the Directors consider there will not be any competition between (a) Industry Company and certain of its subsidiaries and associated companies which produce Western medicines; and (b) our Western medicines distribution business. Furthermore, Industry Company is currently operating its Western medicines distribution business at a loss. Therefore, the acquisition of Industry Company would not be in the best interests of our Company and our shareholders;
- (2) Hubei Yibao is operating at a loss and the size of its business operation is comparatively small. In addition, through our subsidiary Sinopharm Hubei, we have already established a strong platform in Hubei province to engage in the distribution of Western medicines in Hubei province. The audited revenue of Sinopharm Hubei as prepared in accordance with PRC GAAP for the year ended 31 December 2008 was approximately RMB885 million. Therefore, the Company is of the view that only very limited synergy (if any) will be achieved by the acquisition of Hubei Yibao and such acquisition would not be in the best interests of our Company and our shareholders;
- (3) Through our subsidiary Sinopharm Tianjin, we have already established a strong platform in Tianjin to engage in the distribution of Western medicines and other related businesses in Tianjin. The audited revenue of Sinopharm Tianjin as prepared in accordance with PRC GAAP for the year ended 31 December 2008 was approximately RMB6,388 million. Since Tianjin Company is currently operating at a loss and the operation of Sinopharm Tianjin is much bigger than that of Tianjin Company, the Company is of the view that only very limited synergy (if any) will be achieved by the acquisition of Tianjin Company and such acquisition would not be in the best interests of our Company and our shareholders. Industry Company is in the process of disposing of its entire equity interest in Tianjin Company through the Beijing Equity Exchange of the PRC;
- (4) Trading Company and South Trade only engage in a limited Western medicines distribution business and they intend to cease to engage in any Western medicines distribution business within two years after [●] and focus on their current principal businesses; and
- (5) Guangdong Dong Fang also intends to cease its Western medicines distribution business within two years after [●]. Furthermore, Guangdong Dong Fang is an enterprise owned by the whole people (全民所有制企業). Under the relevant PRC laws, it is not proper to include an enterprise owned by the whole people in a listed joint stock company. Therefore, Guangdong Dong Fang must be converted

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

into a limited liability company before it can be included in our Company. The procedures required for the conversion are complicated and time-consuming.

(ii) Chinese Medicines Distribution Business

Description of business

Traditional & Herbal Medicine Company and certain of its subsidiaries engage in limited Chinese medicines distribution business in the PRC. For the years ended 31 December 2006, 2007 and 2008, the aggregate unaudited revenues of such companies attributable to their Chinese medicines distribution business as prepared in accordance with PRC GAAP were approximately RMB196 million, RMB307 million and RMB337 million, representing approximately 0.8%, 1.0% and 0.9% of our total audited revenues for the corresponding periods.

Rationale for non-inclusion

Our core business is the distribution of Western medicines in the PRC, not Chinese medicines. The distribution of Chinese medicines by Traditional & Herbal Medicine Company and certain of its subsidiaries accounted for only approximately 0.9% of our total audited revenue for the year ended 31 December 2008.

The Directors consider that there is no material competition between the Chinese medicines distribution businesses engaged by Traditional & Herbal Medicine Company and certain of its subsidiaries, and the Western medicines distribution business engaged by us, since:

- (1) although some common diseases, such as flu, are treated by both Western medicines and Chinese medicines, the philosophy behind the treatments of Western medicines and Chinese medicines differ from each other. Western medicines tend to approach diseases on the philosophy that diseases are caused by external forces, such as viruses or bacteria, while Chinese medicines focus more on re-balancing the body's immune system to cure the disease;
- (2) for common diseases that can be treated by both Western medicines and Chinese medicines, the end customers, i.e. patients, may choose either or both types of medicines according to their own preference. However, for medicine distribution businesses, the major direct customers of Western medicines and Chinese medicines differ from each other. The direct customers of our Western medicines distribution business are mainly Western medicine hospitals and Western medicine pharmacies of other hospitals, while the direct customers of the Chinese medicines distribution business engaged by Traditional & Herbal Medicine Company and certain of its subsidiaries are mainly Chinese medicine hospitals and Chinese medicine pharmacies of the other hospitals;
- (3) the nature of Western medicines and Chinese medicines is different. The ingredients of Western medicines are mainly processed or extracted from chemicals, biological fungi, bacteria and other microorganisms, while Chinese

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

medicines are mainly extracted from plants or herbal substances. As such, the major suppliers, and the products distributed by Traditional & Herbal Medicine Company and certain of its subsidiaries, and our Western medicines distribution business are different.

As such, the Directors consider that it is neither necessary nor appropriate to include such non-core businesses carried on by Traditional & Herbal Medicine Company and certain of its subsidiaries into our Company.

The Controlling Shareholder did not include Traditional & Herbal Medicine Company and certain of its subsidiaries in our Company because the distribution of Chinese medicines is not our Core Business and the Controlling Shareholder only engages in a limited Chinese medicines distribution business. Furthermore, the Controlling Shareholder has decided to cease the Chinese medicines distribution business carried on by Traditional & Herbal Medicine Company and certain of its subsidiaries within two years after [●].

Delineation of business

Since distribution of Chinese medicines is not our Core Business, the Directors consider that there is no material competition between Traditional & Herbal Medicine Company and certain of its subsidiaries and our Company.

(iii) Western Medicines Production Business

Description of business

Certain of the subsidiaries and associated companies of Industry Company principally engage in the production of Western medicines in the PRC. Such companies sell the Western medicines they produce through the Excluded Companies which engage in Western medicines distribution business or our Company or other distributors. For the years ended 31 December 2006, 2007 and 2008, the unaudited consolidated revenues of Industry Company attributable to its sale of self-produced Western medicines business as prepared in accordance with PRC GAAP were approximately RMB323 million, RMB361 million and RMB397 million respectively, representing approximately 1.4%, 1.2% and 1.0% of our total audited revenues for the corresponding periods.

Rationale for non-inclusion

Our core business is the distribution of Western medicines in the PRC, not the production of Western medicines. The unaudited consolidated revenue of Industry Company attributable to its sale of self-produced Western medicines business as prepared in accordance with PRC GAAP accounted for only approximately 1.0% of our total audited revenue for the year ended 31 December 2008.

The Directors consider that there is no material competition between the Western medicines production business engaged in by certain of the subsidiaries and associated companies of Industry Company and our Western medicines production business, since (i) there is product delineation between the Western medicines produced by us and by such companies. The Western medicines produced by us are mainly antibiotics, respiratory related medicines and cardiovascular medicines, while those produced by such companies are mainly medicines in other treatment areas and anesthetics; and (ii)

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

the ultimate customers of our Western medicines production business and those of such companies are different, since the nature and treatment of their respective medicines are different.

Since production of Western medicines is not our Core Business, the Directors consider that it is neither necessary nor appropriate to include such companies in our Company.

The Controlling Shareholder did not and has no intention to include such companies in our Company because (i) the production of Western medicines is not our Core Business; and (ii) such inclusion is inconsistent with the Company’s business strategy to focus on the distribution of Western medicines.

Delineation of business

Due to the reasons set out above, the Directors consider that there is no material competition between the Western medicines production business engaged in by such companies and our Western medicines production business.

Even though the Directors consider that there is no material competition between the Excluded Companies which engage in Western medicines distribution business on the one hand, and our Company on the other hand, certain options and rights of first refusal granted by the Controlling Shareholder to our Company in respect of such companies or their businesses, as the case may be, under the Non-Competition Agreement described below can serve to mitigate competition between the Controlling Shareholder and our Company. In order to further protect the interests of the shareholders of the Company, the Controlling Shareholder has also given a non-competition undertaking to the Company under the Non-Competition Agreement. For further details, please refer to the section headed “Competition — Non-Competition Agreement” below.

Our Company is financially and operationally independent from each of the Excluded Companies (other than Xinjiang Company). For details regarding our Company’s management independence from the Excluded Companies (other than Xinjiang Company), please refer to the section headed “Independence from the Controlling Shareholder — Management Independence — Excluded Companies” below.

C. XINJIANG GROUP

Xinjiang Company is directly owned as to 80% by the Controlling Shareholder and 20% by the Xinjiang SASAC. It is the intention of the Controlling Shareholder to transfer its entire equity interest in Xinjiang Company to us. Therefore, an option and a right of first refusal have been granted by the Controlling Shareholder to our Company under the Non-Competition Agreement described below.

Our Company is financially independent from the Xianjiang Group. We are also operationally independent from the Xinjiang Group, even though we distribute medicines to certain members of the Xinjiang Group, representing only approximately 0.5% of our total audited revenue for the year ended 31 December 2008. For details regarding our Company’s management independence from Xinjiang Company, please refer to the section headed “Independence from the Controlling Shareholder — Management Independence — Excluded Companies” below.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

Description of business

The principal businesses of the Xinjiang Group are the distribution and production of medicines, and operation of retail drug stores in Xinjiang. The target customers of the Xinjiang Group are hospitals, wholesalers and retail drug stores located in Xinjiang.

The unaudited revenue of the Xinjiang Group attributable to its Western medicines distribution business, Chinese medicines distribution business, production of medicines business and operation of retail drug stores business as prepared in accordance with PRC GAAP (a) for the year ended 31 December 2006 were approximately RMB1,239 million, RMB310 million, RMB80 million, RMB130 million, respectively, representing approximately 5.2%, 1.3%, 0.3% and 0.5%, respectively, of our total audited revenue for the same period; (b) for the year ended 31 December 2007 were approximately RMB1,505 million, RMB376 million, RMB88 million and RMB151 million, respectively, representing approximately 4.8%, 1.2%, 0.3% and 0.5%, respectively, of our total audited revenue for the said period; and (c) for the year ended 31 December 2008 were approximately RMB2,037 million, RMB509 million, RMB89 million and RMB166 million, respectively, representing approximately 5.3%, 1.3%, 0.2% and 0.4%, respectively, of our total audited revenue for the same period.

Rationale for non-inclusion

The Directors consider that it is neither necessary nor appropriate to include the Xinjiang Group in our Company at this stage for the following reasons:

- (1) The Xinjiang Group engages in the distribution and production of medicines, and operation of retail drug stores in Xinjiang only. However, we do not engage in any distribution or production of medicines, or operation of retail drug stores in Xinjiang and do not serve the same customers of the Xinjiang Group. Therefore, no competition exists between the Xinjiang Group and our Company. In fact, our Company distributes medicines to certain members of the Xinjiang Group, i.e. they are our customers. For the years ended 31 December 2006, 2007 and 2008, such sales amounted to approximately RMB104 million, RMB135 million and RMB185 million, respectively, representing only approximately 0.4%, 0.4% and 0.5%, respectively, of our total audited revenue for the same periods.
- (2) Although it is the intention of the Controlling Shareholder to include the Xinjiang Group in our Company, it is impossible for it to do so before [●], due to the following legal hindrances:
 - 28 subsidiaries of Xinjiang Company are enterprises owned by the whole people. Under the relevant PRC laws, it is not proper to include an enterprise owned by the whole people in a listed joint stock company. Therefore, these 28 subsidiaries of Xinjiang Company must be converted into limited liability companies before they can be included in our Company. The procedures required for the conversion are complicated and time-consuming.
 - Certain properties of a few subsidiaries of Xinjiang Company have defective titles.

It is expected that the above legal hindrances can be cleared within two years after [●].

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

D. NON-COMPETITION AGREEMENT

Pursuant to the Non-Competition Agreement, 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 or may compete with our Core Business, subject to the following exceptions:

- (i) the holding of or interests in shares or other securities in any company which conducts or is engaged in any Core Business, provided that, (x) in the case of such shares, they are listed on a stock exchange; (y) the total number of shares held by the Controlling Shareholder and its Associates do not amount to more than 10% of the issued shares of the company in question; and (z) the Controlling Shareholder and its associates do not control the board of directors of such company and there is another shareholder holding more shares in such company; and
- (ii) taking up any Business Opportunity (as defined below) in the circumstances as described in the following paragraph (a).

The Controlling Shareholder has also undertaken in the Non-Competition Agreement that during the term of the Non-Competition Agreement if the Controlling Shareholder or any of its subsidiaries (other than our Company) becomes aware of any business opportunity to own, invest in, participate in, develop, operate or engage in any business or company which directly or indirectly competes with the Core Business (the "Business Opportunity"), it or any of its subsidiaries (other than our Company) shall first refer the Business Opportunity to the Company in writing immediately upon becoming aware of it. Any decision on whether to take up the Business Opportunity shall be decided by our independent non-executive Directors. The Controlling Shareholder or any of its subsidiaries (other than our Company) may only take up the Business Opportunity after the Company has issued a written confirmation signed by the independent non-executive Directors confirming that the Company has decided not to take up the Business Opportunity.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

The following table summarizes the main terms of the rights, options together with the special conditions imposed on the options granted in relation the Excluded Companies under the Non-Competition Agreement:

<u>Excluded Companies</u>	<u>Right of first refusal</u>	<u>Option</u>	<u>Special conditions imposed on the Option</u>
Industry Company	The Company has a right of first refusal to purchase the Western medicines distribution business carried on by Industry Company	The Company has an option to purchase the Western medicines distribution business carried on by Industry Company	The Option will only become exercisable by the Company if Industry Company fails to cease to engage in the distribution of Western medicines within two years after [●]
Hubei Yibao	Subject to the existing joint venture parties’ rights of first refusal, the Company has a right of first refusal to purchase the Controlling Shareholder’s or any of its subsidiaries’ (other than our Company’s) equity interest in Hubei Yibao	The Company has an option to purchase the Controlling Shareholder’s or any of its subsidiaries’ (other than our Company’s) equity interest in Hubei Yibao	Since Hubei Yibao is not wholly-owned by the Controlling Shareholder, the transfer of equity interest in Hubei Yibao will be subject to the existing joint venture parties’ rights of first refusal over such equity interest
Tianjin Company	Subject to the existing joint venture parties’ rights of first refusal, the Company has a right of first refusal to purchase the Controlling Shareholder’s or any of its subsidiaries’ (other than our Company’s) equity interest in Tianjin Company	The Company has an option to purchase the Controlling Shareholder’s or any of its subsidiaries’ (other than our Company’s) equity interest in Tianjin Company	The Option will only become exercisable by the Company if Industry Company, the Controlling Shareholder’s subsidiary and a shareholder of Tianjin Company, fails to dispose of its equity interest in Tianjin Company within two years after [●] Since Tianjin Company is not wholly-owned by the Controlling Shareholder, the transfer of equity interest in Tianjin Company will be subject to the existing joint venture parties’ rights of first refusal over such equity interest

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

<u>Excluded Companies</u>	<u>Right of first refusal</u>	<u>Option</u>	<u>Special conditions imposed on the Option</u>
Trading Company	The Company has a right of first refusal to purchase the Western medicines distribution business carried on by Trading Company	The Company has an option to purchase the Western medicines distribution business carried on by Trading Company	The Option will only become exercisable by the Company if Trading Company fails to cease to engage in the distribution of Western medicines within two years after [●]
South Trade	Subject to the existing joint venture parties’ rights of first refusal, the Company has a right of first refusal to purchase the Western medicines distribution business carried on by South Trade	The Company has an option to purchase the Western medicines distribution business carried on by South Trade	The Option will only become exercisable by the Company if South Trade fails to cease to engage in the distribution of Western medicines within two years after [●] The transfer will be subject to the existing joint venture parties’ approval of such transfer
Guangdong Dong Fang	The Company has a right of first refusal to purchase the Controlling Shareholder’s or any of its subsidiaries’ (other than our Company’s) equity interest in Guangdong Dong Fang	The Company has an option to purchase the Controlling Shareholder’s or any of its subsidiaries’ (other than our Company’s) equity interest in Guangdong Dong Fang	The Option will only become exercisable by the Company if Guangdong Dong Fang fails to cease to engage in the distribution of Western medicines within two years after [●]
Excluded Companies which engage in the Chinese medicines distribution business ⁽¹⁾	N/A	N/A	N/A
Excluded Companies which engage in the Western medicines production business	N/A	N/A	N/A

(1) The Controlling Shareholder has decided to cease such Chinese medicines distribution business within two years after [●].

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

<u>Excluded Companies</u>	<u>Right of first refusal</u>	<u>Option</u>	<u>Special conditions imposed on the Option</u>
Xinjiang Company	Subject to the existing joint venture parties’ rights of first refusal, the Company has a right of first refusal to purchase the Controlling Shareholder’s or any of its subsidiaries’ (other than our Company’s) equity interest in Xinjiang Company	The Company has an option to purchase the Controlling Shareholder’s or any of its subsidiaries’ (other than our Company’s) equity interest in Xinjiang Company	The Option will only become exercisable by the Company if all the legal hindrances mentioned in the section headed “Relationship with the Controlling Shareholder and Directors — Competition — Xinjiang Group — Rationale for non-inclusion” above are cleared Since Xinjiang Company is not wholly-owned by the Controlling Shareholder, the transfer of equity interest in Xinjiang Company will be subject to the existing joint venture parties’ rights of first refusal over such equity interest

The purchase price under the options granted to the Company under the Non-Competition Agreement shall be the fair value to be determined by the independent valuer to be jointly appointed by the Company and the Controlling Shareholder.

The Controlling Shareholder anticipates that it will take approximately two years after [●] to either cease or dispose of the existing Western medicines distribution business of or equity interest in each of Industry Company, Tianjin Company, Trading Company, South Trade and Guangdong Dong Fang (as the case may be), since such companies need to (i) complete their obligations under the existing contracts with suppliers, customers and/or others; (ii) deal with the assets of such businesses; and (iii) make arrangements for the relevant employees of such businesses (such as transferring the employees to other group companies, providing re-training to the employees and applying for the relevant Governmental approvals), in order to implement such cessation or disposal.

The Controlling Shareholder has not granted the Company any rights of first refusal or options, to purchase the equity interests in those Excluded Companies which engage in Chinese medicines distribution business or Western medicines production business, since these companies do not engage in the Core Business. Furthermore, the Controlling Shareholder has decided to cease the Chinese medicines distribution business within two years after [●].

The independent non-executive Directors should review, at least on an annual basis, the compliance by the Controlling Shareholder with the Non-Competition Agreement. The Controlling Shareholder further undertakes with the Company that it will provide all information necessary for the annual review to be conducted by the independent non-executive Directors and the enforcement of the Non-Competition Agreement.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

The Company shall disclose the review by the independent non-executive Directors relating to the compliance and enforcement of the Non-Competition Agreement either through the annual report or by way of an announcement to the public. The Controlling Shareholder shall make an annual declaration on its compliance with the terms of the Non-Competition Agreement in the annual report of the Company and such disclosure shall be consistent with the principles of making voluntary disclosures in the “Corporate Governance Report”.

The Non-Competition Agreement shall continue to be effective while the H Shares are listed on the Hong Kong Stock Exchange and while the Controlling Shareholder is the Company’s controlling shareholder (as defined under the Hong Kong Listing Rules).

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDER

Having considered the following factors, the Directors are of the view that the Company is capable of carrying on its business independently from the Controlling Shareholder.

A. MANAGEMENT INDEPENDENCE

1. The Company

The Board is comprised of two executive Directors, seven non-executive Directors and four independent non-executive Directors. The senior management of the Company consists of nine members, including our two executive Directors. All members of senior management are full-time employees of the Company. The daily operational decisions of the Company are made by such team of senior management, led by Fu Mingzhong, an executive Director and the General Manager of the Company.

2. Controlling Shareholder

The board of directors of the Controlling Shareholder is comprised of Song Zhiping, She Lulin, Liu Cunzhou, Jiang Longsheng, Chen Wenhao, Wen Keqin, Lin Jian and Sun Limin.

Three out of the 13 Directors hold directorships or management positions in the Controlling Shareholder.

The following table sets forth the directorships and management positions in the Controlling Shareholder held by those three Directors as of the Latest Practicable Date:

<u>Name</u>	<u>Position(s) held with the Company</u>	<u>Position(s) held with the Controlling Shareholder</u>
She Lulin	Non-executive Director and Chairman	Executive Director and General Manager
Deng Jindong	Non-executive Director	Chief Accountant
Lian Wanyong	Non-executive Director	Head of the investment management department

Notwithstanding the fact that three Directors are directors and/or members of management of the Controlling Shareholder, the Directors are of the view that the Company is managed independently of the Controlling Shareholder for the following reasons:

- There are only two executive Directors in the Company. The daily operational decisions of the Company are made by our senior management team as a collective

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

body, under the leadership of our General Manager, who is an executive Director. Wei Yulin, who is the other executive Director, has never been a director or a member of senior management of the Parent Group, other than Xinjiang Company during the period from March 2009 to August 2009.

- She Lulin, Deng Jindong and Lian Wanyong have management positions with the Controlling Shareholder, but they are non-executive Directors, who are not involved in the day-to-day operation and management of the Company. They have devoted substantially all of their time to the daily operations and management of the Controlling Shareholder and shall continue to do so.
- Other than the three Directors mentioned above, all the other Directors and members of senior management of the Company do not concurrently hold directorships and/or senior management positions in the Controlling Shareholder.

3. Subsidiaries of the Controlling Shareholder

- (i) The following table sets forth the directorships and senior management positions in the Excluded Companies held by the Directors and members of senior management of the Company as of the Latest Practicable Date:

<u>Name</u>	<u>Position(s) held with the Company</u>	<u>Position(s) held with the relevant Excluded Companies</u>
She Lulin	Non-executive Director and Chairman	Non-executive Director and the Chairman of Trading Company
Deng Jindong	Non-executive Director	Non-executive Director of Trading Company, Traditional & Herbal Medicine Company and Xinjiang Company
Lian Wanyong	Non-executive Director	Non-executive Director of Industry Company and Xinjiang Company

Notwithstanding the fact that the above Directors and Deputy General Managers are directors of certain Excluded Companies, the Directors are of the view that the Company is managed independently of the Excluded Companies for the following reasons:

- She Lulin, Deng Jindong and Lian Wanyong are non-executive Directors, who are not involved in the day-to-day operation and management of the Company.
- Deng Jindong and Lian Wanyong have since March 2009 been non-executive directors of Xinjiang Company and part of their role in Xinjiang Company is to monitor the clearance of the legal hindrances discussed in the section headed “Competition — Xinjiang Group — Rationale for non-inclusion” above. Although legal advisers are involved in handling the legal hindrances of the Xinjiang Group, their main role is to identify legal issues and prepare relevant legal documentation. Many decisions regarding what steps should be taken to clear the legal hindrances and the monitoring of the implementation of such steps need to be done by the directors of Xinjiang Company, after taking into account all business, financial, tax and legal factors. As such, each of Deng Jindong and Lian Wanyong will, by virtue of their respective financial and asset management expertise, be able to identify and solve the practical issues arising from the legal hindrances. They can

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

definitely assist in making the relevant business decisions and monitoring the implementation of relevant steps to clear such legal hindrances.

Furthermore, they are not involved in the day-to-day operation and management of Xinjiang Company.

- (ii) She Lulin, Fu Mingzhong, Wang Qunbin, Deng Jindong and Fan Banghan are directors and/or legal representative of Sinopharm Investment. For further details, please refer to the section headed “Positions and Roles of the Directors and Members of Senior Management of the Company in the Parent Group, Fosun Company and/or the Fosun Group” below. Since Sinopharm Investment is only an investment holding company which does not carry on any business, the Directors are of the view that the Company is still managed independent of the Controlling Shareholder notwithstanding these Directors’ positions in Sinopharm Investment.
- (iii) Other than the six individuals mentioned in (i) and (ii) above, all the other Directors and members of senior management of the Company do not concurrently hold directorships and/or senior management positions in any of the subsidiaries of the Controlling Shareholder.

4. Time Allocation and Source of Remuneration

The time to be allocated by the following Directors between our Company and the Parent Group and the source of remuneration payable to the relevant Director are as follows:-

Name of Director (source of remuneration)	Time to be allocated by the relevant Director to the Company after [●]	Time to be allocated by the relevant Director to the Parent Group after [●]
She Lulin (the Parent Group)	10%	90%
Deng Jindong (the Parent Group)	10%	90%
Lian Wanyong (the Parent Group)	5%	95%

In light of the above, the Directors are of the view that the Directors and senior management of the Company are independent from those of the Controlling Shareholder and the Excluded Companies.

B. OPERATIONAL INDEPENDENCE

Our Company makes business decisions independently. Our Company holds all relevant licenses necessary to carry on its businesses and has sufficient capital, equipment and employees to operate its businesses independently.

On the basis of the following reasons, the Directors consider that our Company will continue to be operationally independent from the Controlling Shareholder:

- (1) Our operational decisions are made by our senior management, led by Fu Mingzhong, an executive Director and the General Manager of the Company.
- (2) We have established our own operational structure made up of separate departments, each with a specific area of responsibility. We have also established a set of internal control procedures to facilitate the effective operation of our business. We operate independently through our own distribution, sales and marketing network.
- (3) Our Company has during the three years ended 31 December 2008 entered into various transactions with the Parent Group, which our Company expects to continue

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

after [●]. Since the transactions, namely, (a) the sale of pharmaceutical products, healthcare products and medical supplies to the Parent Group and the sale of chemical reagent and laboratory supplies to the Parent Group, represent only approximately 1.13%, 0.92% and 0.99% respectively, of our total audited revenue for the three years ended 31 December 2008, and (b) the purchase of pharmaceutical products, healthcare products and medical supplies from the Parent Group represents only approximately 3.04%, 2.46% and 2.25% respectively of our Company's cost of sales for the three years ended 31 December 2008, such transactions do not constitute a material part of our operations. Also, there are alternative independent suppliers (which provide the same goods with similar quality, price and terms), customers and production facilities in the market which are readily available, if required in the future, to our Company. Our Company has independence of access to such suppliers, customers and production facilities and does not rely on the Controlling Shareholder for its customers, suppliers and production facilities.

- (4) Under the Trademark License Agreement, the Controlling Shareholder has granted to the Company a non-exclusive license to use certain trademarks. The initial term of 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 three years. Please refer to the section headed "Connected Transactions" in this document for more details. Regarding the Trademark License Agreement, the Directors are of the view that our Company's operational independence is not affected for the following reasons:

- (a) No consideration is payable by the Company to the Controlling Shareholder under the Trademark License Agreement.
- (b) Similar to other H share companies, the Controlling Shareholder of the Company is a large conglomerate, which has companies (other than our Company) engaging in other businesses. In relation to those registered trademarks owned by the Controlling Shareholder and used and to be used by our Company, which are also currently used and will continue to be used by those other companies within the Parent Group, the Controlling Shareholder is only able to grant a non-exclusive license to our Company.

C. FINANCIAL INDEPENDENCE

Having considered the following factors, the Directors consider that our Company will be financially independent from the Controlling Shareholder upon [●]:

- (1) Pursuant to the Measures of the State for the Financial Administration of Medical Reserve Funds (國家醫藥儲備資金財務管理辦法) promulgated by the Ministry of Finance on 13 November 1997, central medical reserve funds (中央醫藥儲備資金) are allocated by the PRC Central Government to designated enterprises in order for them to purchase medical products (including medicines) required to respond to major disasters, epidemics and other emergencies. A designated enterprise must maintain an inventory of medical products worth at least 70% of such allocated fund. Such inventory forms part of the separated and special inventory of our Company. The PRC Central Government will bear the cost of stock loss or obsolete stock and all other

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

related costs in connection with the management and operation of such allocated funds.

The Controlling Shareholder is a designated state-owned enterprise directly under the PRC Central Government which has been granted central medical reserve funds by the PRC Central Government. It has re-allocated the funds in relation to medicines to our Company. There is no minimum funding threshold imposed upon the central medical reserve funds re-allocated to our Company by the Controlling Shareholder. As of 31 December 2008 and 31 May 2009, such central medical reserve funds received by our Company were in the amount of approximately RMB208 million. Any interest generated from the medical reserve funds are for the account of our Company. Our Company is not required to transfer such interest to the Controlling Shareholder.

Under a responsibility letter dated 4 January 2006 entered into between the Company and the Controlling Shareholder, we are responsible for (i) strictly implementing the central medical reserve plan and not changing the types and quantities of medical products purchased and kept without prior permission; (ii) making timely allocations of such medical products in accordance with CNPGC's instructions, which are received from the relevant PRC Government department; (iii) ensuring the quality of such medical products; (iv) ensuring the security of the central medical reserve funds; (v) returning the medical reserve funds to CNPGC unconditionally upon revocation of the Company's duties; (vi) establishing various kinds of rules, policies and measures to manage the central medical reserve funds; (vii) submitting various kinds of reports to CNPGC in relation to the use of the medical funds and medical products. Other than being responsible for these matters, the Company does not have any additional costs, benefits, obligations and liabilities after re-allocation and payment of the medical reserve funds to it by CNPGC.

Such central medical reserve funds received from the PRC Central Government via the Controlling Shareholder do not constitute financial assistance from the Controlling Shareholder due to the following reasons:

- (a) Pursuant to the above measures, it is a legal requirement for the Controlling Shareholder to maintain the central medical reserve funds. Our Company has to perform this legal obligation on behalf of the Controlling Shareholder, since we are the main group of companies held by the Controlling Shareholder principally engaged in the distribution of medicines.
 - (b) As a matter of accounting treatment, the central medical reserve funds are recorded as non-current liabilities of our Company on our balance sheets. However, neither our Company nor the Controlling Shareholder has any right under the above measures to repay such funds to the PRC Central Government without its prior consent.
 - (c) As a matter of fact, our Company does not require such central medical reserve funds to finance our business operations.
- (2) Save as disclosed above, all non-trade balances between the Controlling Shareholder and our Company have been settled and the Company has no borrowings, which are secured by guarantees or assets provided by the Controlling Shareholder.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

CORPORATE GOVERNANCE MEASURES

Our Company will continue to enter into connected transactions with the Controlling Shareholder and its Associates. The Controlling Shareholder has also undertaken to the Company under the Non-Competition Agreement that it shall not and shall procure that its subsidiaries (other than our Company) shall not own, invest in, participate in, develop, operate or engage in any business or company which directly or indirectly competes or may compete with our Core Business. In order to further avoid potential conflicts of interests between our Company and the Controlling Shareholder, the Company has implemented the following measures:

- A. The Company has amended its Articles of Association to comply with the Hong Kong Listing Rules. In particular, the Articles of Association provide that, except for certain exceptions permitted under the Hong Kong Listing Rules or the Hong Kong Stock Exchange, a Director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her Associates has a material interest, nor shall such Director be counted in the quorum present at the meeting. Furthermore, a Director who holds directorship and/or senior management positions in (a) the Controlling Shareholder or any of its subsidiaries (other than any member of our Company); or (b) Fosun Company or any of its subsidiaries, shall not vote on any board resolution regarding any transaction proposed to be entered into between any member of our Company and (i) the Controlling Shareholder or any of its subsidiaries (other than any member of our Company); or (ii) Fosun Company or any of its subsidiaries, nor shall such Director be counted in the quorum present at such meeting.
- B. The Company has appointed CICC as its compliance adviser, which will provide advice and guidance to the Company in respect of compliance with the applicable laws and the Hong Kong Listing Rules, including but not limited to various requirements relating to directors’ duties and internal controls.
- C. Any decision to take up or not to take up any Business Opportunity and any decision to exercise or not to exercise any option or right of first refusal granted to the Company under the Non-Competition Agreement with respect to any of the equity interests in Hubei Yibao, Tianjin Company, Guangdong Dong Fang and Xinjiang Company and the Western medicines distribution businesses carried on by Industry Company, Trading Company and South Trade (the “Business Interests”), shall be made by the independent non-executive Directors of the Company. The executive Directors and non-executive Directors are not allowed to attend any of the Company’s Board meetings or independent board committee meetings at which matters relating to the Non-Competition Agreement (including but not limited to whether to exercise any option or right of first refusal granted or whether to take up any Business Opportunity) are under consideration.
- D. When considering whether to take up any Business Opportunity pursuant to the Non-Competition Agreement, the independent non-executive Directors will take into consideration the following factors:
 - whether we have already established a business presence in the relevant location;
 - whether the relevant business or company has a good and broad client base;
 - whether the relevant Business Opportunity is expected to present a sustainable level of profitability;

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

- whether the relevant Business Opportunity accords with the then current development strategy of our Company; and
 - whether the relevant Business Opportunity in other respects would be in the best interests of the Company's shareholders as a whole.
- E. When considering the exercise or non-exercise of any option or right of first refusal granted under the Non-Competition Agreement with respect to any of the Business Interests, the independent non-executive Directors will take into consideration the following factors:
- if required, whether consents from the joint venture partners regarding the transfer of the relevant Business Interests can be obtained;
 - whether we have already established a business presence in the relevant location;
 - whether the relevant business or company has a good and broad client base;
 - whether the relevant Business Interests accord with the then current development strategy of our Company; and
 - whether the relevant Business Interests have reached sufficiently strong operations so that it would be in the interest of the Company's shareholders as a whole to exercise the relevant option or right of first refusal.
- F. As long as the Controlling Shareholder holds any direct or indirect (excluding indirect interest held through our Company) interest in the Business Interests, at the end of each half year period after [●], meetings between the Controlling Shareholder (and/or its representatives in such companies) and the Company shall be convened, during which the Company shall be advised of all the latest information relating to the Business Interests. Based on the latest information relating to the Business Interests obtained from such meetings, and the Company's management's understanding of the market, proposals as to whether to exercise the relevant option or right of first refusal and other information relating to the Non-Competition Agreement will be presented by the Company to the independent non-executive Directors for their consideration. The independent non-executive Directors will hold an independent board committee meeting to consider such proposal and to decide whether to exercise the relevant option or right of first refusal. At such meeting, the independent non-executive Directors will also consider whether the covenants contained in the Non-Competition Agreement have been complied with and what, if any, remedial actions (including but not limited to legal actions) should be taken. After each such meeting, the Company shall make an announcement to confirm whether the independent non-executive Directors have decided to exercise or not to exercise the relevant option or right of first refusal.
- G. The independent non-executive Directors have the right, where necessary and at our cost, to engage an independent financial adviser to advise them on matters relating to the Non-Competition Agreement (including as to whether or not to exercise any option or right of first refusal and the terms on which such option or right of first refusal should be exercised) or on any Business Opportunity which may be referred to the Company by the Controlling Shareholder or any of its subsidiaries.
- H. The transfer, exercise or non-exercise of any option or right of first refusal pursuant to the Non-Competition Agreement would constitute a connected transaction pursuant to the Hong Kong Listing Rules. The Company shall comply with all the applicable disclosure, reporting

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

and/or independent shareholders' approval requirements under the Hong Kong Listing Rules in relation to such connected transactions, including obtaining independent shareholder approval where relevant. The Company will also announce any decision to exercise or not to exercise any option or right of first refusal.

- I. The independent non-executive Directors will at the end of each calendar year review all the decisions made in every half year period of the year, if applicable, in relation to whether to exercise any option or right of first refusal pursuant to the Non-Competition Agreement and whether to take any Business Opportunity which is referred to the Company by the Controlling Shareholder or any of its subsidiaries (other than our Company), and also disclose such decisions and the rationale for them in the annual report of the Company.

The Company believes that three out of the four current independent non-executive Directors have sufficient experience and knowledge to exercise independent judgment of our Company's business. The three independent non-executive Directors are experts in the fields of management, law and accounting, respectively. Two of them joined the Company as independent non-executive Directors since its incorporation in January 2003, while the third has served as the Company's independent non-executive Director for almost two years. Over the years, the three independent non-executive Directors have, by attending board meetings and otherwise, gained and accumulated sufficient knowledge and familiarized themselves well with the operation and business of the Company. As such, the Company believes that the Board can function properly even in the worst case scenario that all conflicting Directors abstain from the Board meetings.

II. RELATIONSHIP WITH THE DIRECTORS

BACKGROUND

Guo Guangchang, a non-executive Director, is a substantial shareholder of each of the Fosun Distribution Companies, certain of the Fosun Retail Companies and certain of the Fosun Production Companies. Guo Guangchang is also a non-executive director of one of the Fosun Retail Companies. Fosun Company and Fosun Pharma are Associates of Guo Guangchang and hence they are Connected Persons of the Company.

Wang Qunbin, a non-executive Director, is a non-executive director of one of the Fosun Distribution Companies and two of the Fosun Production Companies.

Fan Banghan, a non-executive Director, is a non-executive director of each of the Fosun Distribution Companies and certain of the Fosun Retail Companies.

Liu Hailiang, a non-executive Director, is the chief supervisor of Fosun Pharma.

Certain of the Fosun Distribution Companies, the Fosun Production Companies and the Fosun Retail Companies are wholly-owned or controlled by Fosun Pharma.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

COMPETITION

Set out below is a summary of the facts and circumstances regarding the Fosun Distribution Companies, the Fosun Production Companies and the Fosun Retail Companies:

(i) Fosun Distribution Companies

Description of business

The Fosun Distribution Companies principally engage in the distribution of medicines in the PRC.

For the year ended 31 December 2008, the aggregate revenue of the Fosun Distribution Companies attributable to their medicines distribution business was approximately RMB1,289 million, representing only approximately 3.4% of our total audited revenue for the same period. Given the insignificant size of the Fosun Distribution Companies' total revenue generated from the distribution of medicines and the fact that such total revenue covered not only Western medicines but also Chinese medicines, the Directors believe that there is no material competition between the Fosun Distribution Companies and us.

Independence

Our Company is financially independent from the Fosun Distribution Companies. We are also operationally independent from the Fosun Distribution Companies, even though the sale/purchase of pharmaceutical products, healthcare products and medical supplies to/from all of the Fosun Distribution Companies represent only approximately 0.1% of our total audited revenue for the year ended 31 December 2008.

As mentioned above, Wang Qunbin, who is a non-executive Director, is a director of one of the Fosun Distribution Companies. Fan Banghan, who is a non-executive Director, is a director of each of the Fosun Distribution Companies. Other than these two non-executive Directors, who are not involved in the day-to-day operations and management of the Company, all the other Directors and members of senior management of the Company do not concurrently hold any director and/or senior management positions in any of the Fosun Distribution Companies. In light of the above, the Directors are of the view that the Directors and senior management of the Company are independent from those of the Fosun Distribution Companies.

(ii) Fosun Production Companies

Description of business

The Fosun Production Companies principally engage in the production of medicines in the PRC. The medicines produced by the Fosun Production Companies are mainly for the treatment of malaria, hepatic diseases, diabetes and gynaecological diseases, which are different and easily distinguishable from those produced by our Company, i.e. therapeutic products such as anti-infectious, respiratory, cardiovascular and gastrointestinal medicines. There is no overlap between our products and those of the Fosun Production Companies.

Our core business is the distribution of Western medicines in the PRC, not production of medicines. In addition, we only produce Western medicines and the production of Western medicines by our Company accounted for only approximately 2.4% of our total audited revenue for the year ended 31 December 2008. Furthermore, because, as discussed above, there is a clear delineation between the medicines produced by our Company and those produced by the Fosun Production Companies, the Directors believe that there is no competition between the Fosun Production Companies and us.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

Independence

Our Company is financially independent from the Fosun Production Companies. We are also operationally independent from the Fosun Production Companies, even though the sale/purchase of pharmaceutical products, healthcare products and medical supplies to/from and the sale of chemical reagent and laboratory supplies to, certain of the Fosun Production Companies represent only approximately 0.2% of our total audited revenue for the year ended 31 December 2008.

As mentioned above, Wang Qunbin, who is a non-executive Director, is a director of two of the Fosun Production Companies. Other than this non-executive Director, who is not involved in the day-to-day operations and management of the Company, all the other Directors and members of senior management of the Company do not concurrently hold any director and/or senior management positions in any of the Fosun Production Companies. In light of the above, the Directors are of the view that the Directors and senior management of the Company are independent from those of the Fosun Production Companies.

(iii) Fosun Retail Companies

Description of business

The Fosun Retail Companies only engage in the operation of retail drug stores in the PRC.

Our core business is the distribution of Western medicines in the PRC, not operation of retail drug stores. In addition, the operation of retail drug stores by the Fosun Retail Companies accounted for only approximately 2.2% of our total audited revenue for the year ended 31 December 2008. Since operation of retail drug stores is not our Core Business, the Directors believe that there is no material competition between the Fosun Retail Companies and us.

Independence

Our Company is financially independent from the Fosun Retail Companies. We are also operationally independent from the Fosun Retail Companies, even though the sale/purchase of pharmaceutical products, healthcare products and medical supplies to/from two of the Fosun Retail Companies represent only approximately 0.3% of our total audited revenue for the year ended 31 December 2008.

As mentioned above, Guo Guangchang, who is a non-executive Director, is a director of one of the Fosun Retail Companies. Fan Banghan, who is a non-executive Director, is a director of certain of the Fosun Retail Companies. Other than these two non-executive Directors, who are not involved in the day-to-day operations and management of the Company, all the other Directors and members of senior management of the Company do not concurrently hold any director and/or senior management positions in any of the Fosun Retail Companies. In light of the above, the Directors are of the view that the Directors and senior management of the Company are independent from those of the Fosun Retail Companies.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

TIME ALLOCATION AND SOURCE OF REMUNERATION

The time to be allocated by the following Directors between our Company and Fosun Company and its subsidiaries or the Fosun Group and the source of remuneration payable to the relevant Director after [●] are as follows:-

Name of Director (source of remuneration)	Time to be allocated by the relevant Director to the Company after [●]	Time to be allocated by the relevant Director to Fosun Company and its subsidiaries or the Fosun Group after [●]
Guo Guangchang (Fosun Company and its subsidiaries)	5%	95%
Wang Qunbin (Fosun Company and its subsidiary)	5%	95%
Fan Banghan (the Fosun Group)	10%	90%
Liu Hailiang (the Fosun Group)	5%	95%

Although Guo Guangchang, Wang Qunbin, Fan Banghan and Liu Hailiang have executive positions with Fosun Company and/or the Fosun Group as set out in the section headed “Positions and Roles of the Directors and Members of Senior Management of the Company in the Parent Group, Fosun Company and/or the Fosun Group” below, they are non-executive Directors, who are not involved in the day-to-day operation and management of the Company. They have devoted substantially all of their time to the daily operations and management of Fosun Company or the Fosun Group and shall continue to do so after [●]. As such, the Directors are of the view that the Company is managed independently of Fosun Company and the Fosun Group.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

POSITIONS AND ROLES OF THE DIRECTORS AND MEMBERS OF SENIOR MANAGEMENT OF THE COMPANY IN THE PARENT GROUP, FOSUN COMPANY AND/OR THE FOSUN GROUP

Positions in the Company	Positions and Roles in the Parent Group		Positions and Roles in Fosun Company or the Fosun Group	
	Companies and Positions	Roles	Companies and Positions	Roles
She Lulin				
Non-executive Director and Chairman of the Company	Executive director and general manager of CNPGC	overseas day-to-day management of the company’s operations and formulates business strategies, annual business plan and objectives of the company	Nil	
	Director and legal representative of Sinopharm Investment	organizes and supervises the management of the company’s operations and represents the company to handle all its matters		
	Non-executive Director and Chairman of Trading Company	convenes and presides over board of directors meetings		
Guo Guangchang				
Non-executive Director and vice Chairman of the Company	Nil		Vice chairman of Nanjing Iron & Steel United Co., Ltd., director of Fosun Pharma and non-executive director of Shanghai Forte Land Co., Ltd.	attends board of directors meetings
			Chairman and executive director of Fosun Company, and chairman of Fosun High Technology and Fosun Investment, respectively	convenes and presides over board of directors meetings and overseas day-to-day management of the company’s operations
			Chairman of Shanghai Fosun Industry Technology Development Co., Ltd.	convenes and presides over board of directors meetings and overseas day-to-day management of the company’s operations
Fu Mingzhong				
Executive director and the general manager of the Company	Director of Sinopharm Investment	makes decisions on all the important business decisions of the company		

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

Positions in the Company	Positions and Roles in the Parent Group		Positions and Roles in Fosun Company or the Fosun Group	
	Companies and Positions	Roles	Companies and Positions	Roles
Wang Qunbin				
Non-executive Director of the Company	Director of Sinopharm Investment	attends board of directors meetings	Chairman of Fosun Pharma	convenes and presides over board of directors meetings and overseas day-to-day management of the company’s operations
			Executive director and president of Fosun Company and director and president of Fosun High Technology	overseas day-to-day management of the company’s operations
			Vice chairman of Jiangsu Xuzhou Wanbang Jinqiao Pharmaceutical Co., Ltd.	attends board of directors meetings
			Director of each of Shanghai Fosun Pharmaceutical Industry Development Co., Ltd., and Shanghai Fosun Pharmaceutical Investment Co., Ltd., respectively	attends board of directors meetings
Deng Jindong				
Non-executive Director of the Company	Chief accountant of CNPGC	assists the general manager in finance, investment and assets management	Nil	
	Director and chief financial officer of Sinopharm Investment	makes decisions on all the important business decisions of the company		
	Director of Xinjiang Company	monitors the clearance of the legal hindrances of the Xinjiang Group		
	Non-executive Director of Trading Company and Traditional & Herbal Medicine Company, respectively	attends board of directors meetings		

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

Positions in the Company	Positions and Roles in the Parent Group		Positions and Roles in Fosun Company or the Fosun Group	
	Companies and Positions	Roles	Companies and Positions	Roles
Fan Banghan				
Non-executive Director of the Company	Director and general manager of Sinopharm Investment	overseas day-to-day management of the company’s operations and formulates business strategies and objectives of the company	Deputy general manager of Fosun Pharma	overseas day-to-day management of the company’s operations
			Director of each of Shanghai Fosun Pharmaceutical Industry Development Co., Ltd., Fosun Grand Medicine, Shanghai Fosun Pharmaceutical Co., Ltd., Zhejiang Fosun Pharmaceutical Co., Ltd. and Huzhou Fosun Grand Medicine Chain Operating Co., Ltd., respectively	attends board of directors meetings
			Chairman of Shanghai Fosun Pharmaceutical Investment Co., Ltd.	convenes and presides over board of directors meetings and overseas day-to-day management of the company’s operations
Liu Hailiang				
Non-executive Director of the Company	Nil		Chief supervisor of Fosun Pharma	convenes and presides over the supervisory committee meetings and supervises the performance of duties by the company’s directors and members of senior management
			Supervisor of Shanghai Fosun Pharmaceutical Industry Development Co., Ltd.	supervises the performance of duties by the company’s directors and members of senior management
Lian Wanyong				
Non-executive Director of the Company	Head of the investment management department of CNPGC	implements investment plans of the company and supervises the restructuring of the subsidiaries of the company	Nil	
	Director of Xinjiang Company	monitors the clearance of the legal hindrances of the Xinjiang Group		
	Supervisor of Sichuan Antibiotic Institute	supervises the performance of duties by the company’s directors and members of senior management		
	Non-executive Director of Industry Company	attends board of directors meetings		

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND DIRECTORS

None of Wei Yulin (executive Director and deputy general manager), Wang Fanghua (independent non-executive Director), Tao Wuping (independent non-executive Director), Xie Rong (independent non-executive Director), Zhou Bajun (independent non-executive Director) and all the other members of senior management of the Company, namely Gong Jiashen, Shen Linian, Lu Jun, Wu Aimin, Shi Jinming, Liu Yong, and Song Tingfeng holds any position in the Parent Group, Fosun Company or the Fosun Group.

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

CONNECTED TRANSACTIONS

- (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

CONNECTED TRANSACTIONS

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.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

CONNECTED TRANSACTIONS

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

CONNECTED TRANSACTIONS

<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

CONNECTED TRANSACTIONS

<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.

CONNECTED TRANSACTIONS

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.

CONNECTED TRANSACTIONS

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	● 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	● 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	● 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	● 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	● purchase of pharmaceutical products, healthcare products and medical supplies ● other related or ancillary goods and services	0.48	0.64	0.42	5.44

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

CONNECTED TRANSACTIONS

Title	Products and services providers	Types of products and services	Historical figures			
			2006	2007	2008	From 1 January 2009 to 31 July 2009
2) Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Zhejiang Intmedic	By Zhejiang Intmedic to our Company	● 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
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	● 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	● 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	● 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⁾

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

CONNECTED TRANSACTIONS

Title	Products and services providers	Types of products and services	Historical figures				Proposed annual caps		
			2006	2007	2008	From	2009	2010	2011
						1 January 2009 to 31 July 2009			
			(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	● 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	● 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	- 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

CONNECTED TRANSACTIONS

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;

CONNECTED TRANSACTIONS

- 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

CONNECTED TRANSACTIONS

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.

REGULATION

REGULATORY FRAMEWORK

Our products are subject to regulatory controls governing pharmaceutical products and medical appliances and equipment. As a distributor, retailer and manufacturer of pharmaceutical products, we are subject to regulation and oversight by different levels of the food and drug administration in China, in particular, the SFDA. The *Law of the People’s Republic of China on the Administration of Pharmaceuticals* (中華人民共和國藥品管理法), as amended on 28 February 2001, provides the basic legal framework for the administration of the production and sale of pharmaceutical products in China and covers the manufacturing, distributing, packaging, pricing and advertising of pharmaceutical products in China. Its implementation regulations set out detailed implementation rules with respect to the administration of pharmaceutical products in China.

We are also subject to other PRC laws and regulations that are applicable to manufacturing, retail and distribution, as well as PRC laws and regulations applicable to chemical reagents and logistics.

Principal Administrative Authorities

Two administrative agencies, the SFDA and the Ministry of Health, have principal regulatory authority over the pharmaceutical industry.

In the PRC, the SFDA is the authority that monitors and supervises the administration of pharmaceutical products and medical appliances and equipment as well as consumer food products and cosmetics. The SFDA’s predecessor, the State Drug Administration, or the SDA, was established in August 1998 as an organization under the State Council to assume the responsibilities previously handled by the Ministry of Health, the State Pharmaceutical Administration Bureau of the People’s Republic of China and the State Administration of Traditional Chinese Medicine of the People’s Republic of China. The SFDA was founded in March 2003 to replace the SDA.

The primary responsibilities of the SFDA include but are not limited to:

- monitoring and supervising the security administration of drugs, medical supplies, consumer food safety and cosmetics in the PRC;
- formulating administrative rules and policies concerning the supervision and administration of drugs, medical supplies, consumer food products and cosmetics;
- formulating and monitoring quality standards for the research and development, manufacture, distributing and utilization of drugs and medical supplies;
- supervising and monitoring registration of drugs and medical supplies, participating in the formulation of the National List of Essential Drugs, implementing the classification and administration of prescription drugs and over-the-counter drugs; and
- inspecting illegal activities in relation to consumer food safety, and the research and development, manufacture, distribution and utilization of drugs, medical supplies and cosmetics.

The Ministry of Health is a ministerial department under the direct supervision of the State Council. Prior to the formation of the SFDA, the Ministry of Health shared responsibility for monitoring and supervising the pharmaceutical industry and promulgating rules and formulating policies to regulate the industry. Since the establishment of the SFDA, the Ministry of Health has focused primarily on public healthcare matters that are not directly related to the pharmaceutical industry. The Ministry of Health also performs a variety of regulatory roles in relation to drug

REGULATION

administration, including, without limitation, carrying out healthcare system reform, formulating and implementing the National Essential Drugs System, formulating the National Drug Code and the National List of Essential Drugs, proposing pricing policies for National Essential Drugs, and supervising healthcare institutions. The Ministry of Health is responsible for supervising and overseeing the SFDA.

DISTRIBUTION OF PHARMACEUTICAL PRODUCTS

Pharmaceutical Operation Permit and Business License

The establishment of a wholesale pharmaceutical distribution company requires the approval of the local food and drug administration of the people’s government of the province, autonomous region or municipality directly under the PRC Central Government. Upon approval, the authority will grant a pharmaceutical operation permit. The establishment of a retail pharmacy requires the approval of the local food and drug administration at or above the county level. Upon approval, the authority will grant a pharmaceutical operation permit. Once these permits are received, the wholesale and retail pharmaceutical company shall be registered with the relevant administration for industry and commerce. The grant of such permit is subject to an inspection of the operator’s facilities, warehouse, hygiene environment, quality control systems, personnel (including of whether pharmacists and other professionals have the relevant qualifications) and equipment. Under *The Measures for the Administration of Pharmaceutical Operation Permit* (藥品經營許可證管理辦法) effective on 1 April 2004, the pharmaceutical operation permit is valid for five years. Each operation permit holder must apply for an extension of its permit six months prior to expiration, and extensions are granted only after a reexamination of the permit holder by the authority which issued the permit. In addition, a pharmaceutical operator must obtain a business license from the relevant administration for industry and commerce prior to commencing its business.

As of the Latest Practicable Date, we had obtained 665 pharmaceutical operation permits for our entities engaged in the retail and wholesale operation of pharmaceutical products each of which is currently valid, and one permit is in the process of being renewed. We do not believe it would be difficult for us to renew these certifications.

Good Supply Practices

Each retail or wholesale operator of pharmaceutical products is required to obtain a GSP certificate from relevant food and drug administration prior to commencing its business. GSP standards, which comprise a set of quality guidelines for operations related to pharmaceutical products, regulate pharmaceutical wholesale and retail operators to ensure the quality of pharmaceutical products in China. The current applicable GSP standards require pharmaceutical operators to implement strict controls on the operation of pharmaceutical products, including standards regarding staff qualifications, premises, warehouses, inspection equipment and facilities, management and quality control. Under *The Administrative Measures for Certification of Good Supply Practices* (藥品經營質量管理規範認證管理辦法) announced on 24 April 2003, the GSP certificate is valid for five years and may be extended three months’ prior to its expiration upon a reexamination by the relevant authority.

As of the Latest Practicable Date, we had obtained 48 GSP certificates for our subsidiaries engaged in the retail or wholesale operations related to pharmaceutical products, of which two are subject to renewal. We do not believe it would be difficult for us to renew these certificates.

REGULATION

Medical Device Operation Permit

In accordance with the *Regulations on the Supervision and Administration of Medical Devices* (醫療器械監督管理條例) that became effective on 1 April 2000 and *Measures for the Administration of Permits for Medical Devices Operation Enterprises* (醫療器械經營企業許可證管理辦法) that became effective on 9 August 2004, an enterprise engaged in the wholesale or retail of medical devices must obtain an operation permit from the provincial level food and drug administration before commencing the distribution of Class II and Class III medical devices. An exemption from this requirement exists in the case of a distributor of a small number of Class II medical devices where the distributor is able to guarantee the safety and effectiveness of the medical devices. An operation permit is valid for five years and is renewable upon expiration. To renew an operation permit, a distributor needs to submit to the provincial level food and drug administration an application to renew the operation permit, along with required information six months before the expiration date of the permit.

In December 2008, the SFDA and the Ministry of Health jointly released *the Measures on the Adverse Events Monitoring and Re-Evaluation of Medical Devices (Trial)* (醫療器械不良事件監測和再評價管理辦法 (試行)). The Measures specify the process and timelines for reporting, monitoring and investigating adverse incidents involving medical devices.

As of the Latest Practicable Date, we had obtained 363 operation permits of medical devices for our subsidiaries engaged in the retail or wholesale operations related to medical devices, each of which is currently valid. We do not believe it will be difficult for us to renew these operation permits.

Anesthetics and Anti-Psychotic Drugs

China regulates the distribution of anesthetics and anti-psychotic drugs pursuant to the *Regulations on the Administration of Anesthetics and Anti-Psychotic Drugs* (麻醉藥品和精神藥品管理條例), which became effective on 1 November 2005. In China, anti-psychotic drugs are classified into two different categories, category I and category II, with category I being subject to the highest level of regulation. Under these regulations, an enterprise engaged in the wholesale distribution of anesthetics and category I anti-psychotic drugs across a province, autonomous region or municipality directly under the PRC Central Government (a national wholesale enterprise) must obtain the prior approval of the SFDA. An enterprise engaged in the wholesale distribution of anesthetics and category I anti-psychotic drugs entirely within its own province, autonomous region or municipality directly under the PRC Central Government (a regional wholesale enterprise) must obtain the prior approval of the provincial food and drug administration. An enterprise engaged in the wholesale distribution of category II anti-psychotic drugs, whether or not across provincial boundaries, must obtain the prior approval of the provincial food and drug administration. National wholesale enterprises and regional wholesale enterprises may engage in the wholesale distribution of category II anti-psychotic drugs. A national wholesale enterprise may sell anesthetics and category I anti-psychotic drugs to regional wholesale enterprises, or to the hospitals and other medical institutions that have obtained the appropriate qualification for prescribing anesthetics and anti-psychotic drugs under an approval of the provincial food and drug administration in the jurisdiction where the hospital or other medical institution is located, or to such other organizations as permitted under applicable law.

As of the Latest Practicable Date, National Medicines, our subsidiary, was one of three national wholesale enterprises engaged in the wholesale distribution of anesthetics and category I anti-psychotic drugs.

REGULATION

Manufacture and Distribution of Substances Regulated by the Anti-Doping Regulations

China strictly regulates the manufacture and distribution of substances banned by the World Anti-Doping Agency and other sport bodies. These include anabolic steroids, peptide hormones, stimulants and other anabolic agents. The *Anti-Doping Regulations* (反興奮劑條例), which became effective on 1 March 2004, gives the State authority to regulate banned substances and authorizes the State Council department in charge of sports to formulate, revise and make public a catalog of banned substances in cooperation with the SFDA, the Ministry of Health, the Ministry of Commerce and the General Administration of Customs. Under the *Anti-Doping Regulations*, a pharmaceutical distributor must obtain the prior approval of the provincial food and drug administration before commencing the distribution of anabolic steroids and peptide hormones contained in the list of banned substances. The distributor may only distribute the banned substances to hospitals and other healthcare institutions, manufacturers of such products and other pharmaceutical distributors of such products.

As of the Latest Practicable Date, 12 of our subsidiaries had obtained distribution permits for the distribution of anabolic steroids and peptide hormones contained in the catalog of banned substances.

Online Pharmaceutical Operation Permit

The *Interim Regulations on the Examination and Approval of Providing Drug Transaction Services on the Internet* (《互聯網藥品交易服務審批暫行規定》), which became effective on 1 December 2005, define providing drug transaction services on the Internet as online drug transactions between a wholesale pharmaceutical distribution company and unrelated third parties using the website of the distribution company. These transactions are subject to inspection by, and the pharmaceutical distribution company must obtain a qualification certificate from, the provincial food and drug administration. The qualification certificate is valid for five years and may be renewed by filing for an extension at least six months prior to its expiration date and undergoing a reexamination by the relevant authority.

Sinopharm Henan, a subsidiary, obtained an Internet drug transaction service qualification certificate from the Henan Food and Drug Administration on 15 November 2007. We do not believe it would be difficult for us to renew this qualification certificate.

The *Measures regarding the Administration of Drug Information Service Over the Internet* (互聯網藥品信息服務管理辦法), which became effective on 8 July 2004 define the delivery of free publicly available drug information services over the Internet as a non-profit online drug information service. This service requires a qualification certificate from the provincial food and drug administration. The provincial food and drug administration must file its approval with the SFDA for records and make a public announcement. The qualification certificate is valid for five years and may be renewed by filing for an extension at least six months prior to its expiration date and undergoing a reexamination by the relevant authority.

As of the Latest Practicable Date, we had obtained Internet drug information service qualification certificates for three of our subsidiaries. We do not believe it would be difficult for us to renew these certificates.

Logistics Operation Permit

In accordance with the *Regulations on Road Transport* (道路運輸條例), which became effective on 1 July 2004, any enterprise engaged in the business of transporting goods must obtain a road transport business license from the road transport administration authority at the county level.

REGULATION

As of the Latest Practicable Date, we had obtained eight road transport business licenses for our subsidiaries mainly engaged in the business of transporting goods.

COMMERCIAL FRANCHISE REGULATIONS

The PRC State Council promulgated the *Regulations on the Administration of Commercial Franchises* (商業特許經營管理條例), or Franchise Regulations, on 6 February 2007. The *Franchise Regulations*, which became effective on 1 May 2007, are intended to further liberalize the regime governing commercial franchising activities in the PRC. In addition to the Franchise Regulations, the Ministry of Commerce has promulgated two implementing regulations, the *Administrative Measures for Archival Filing of Commercial Franchises* (商業特許經營備案管理辦法), or Archival Filing Measures, and the *Administrative Measures on Information Disclosure Requirements for Commercial Franchises* (商業特許經營信息披露管理辦法), or Disclosure Measures, collectively the Administrative Measures, which are also effective from 1 May 2007. The Franchise Regulations, Archival Filing Measures and Disclosure Measures form the basic legal framework for the regulation of PRC franchise operations, and addresses the requirements, fees, qualifications, administrative reporting and compliance procedures and other issues related to franchising.

MANUFACTURING OF PHARMACEUTICAL PRODUCTS

A manufacturer of pharmaceutical products must obtain a variety of permits and licenses before commencing operations. These include a business license, a pharmaceutical manufacturing permit, a GMP certification(s) and a medicine approval document(s).

Pharmaceutical Manufacturing Permit and Business License

A manufacturer of pharmaceutical products must obtain a pharmaceutical manufacturing permit from the provincial food and drug administration of the PRC government. The grant of such permit is subject to an inspection of the manufacturing facilities, and a finding that their sanitary condition, quality assurance systems, management structure and equipment meet the required standards. According to the *Regulations of Implementation of the Law of the People's Republic of China on the Administration of Pharmaceuticals* (中華人民共和國藥品管理法實施條例) effective on 15 September 2002, this permit is valid for five years and may be renewed at least six months prior to its expiration date upon a reexamination by the relevant authority.

In addition, before commencing business, a pharmaceutical manufacturer must also obtain a business license from the relevant administration for industry and commerce.

As of the Latest Practicable Date, we had obtained four pharmaceutical manufacturing permits for our subsidiaries that engage in manufacturing operations. We do not believe it would be difficult for us to renew the pharmaceutical manufacturing permits.

Good Manufacturing Practices

A manufacturer of pharmaceutical products and pharmaceutical materials must obtain GMP certification to produce pharmaceutical products and pharmaceutical materials in China. GMP comprises a set of detailed guidelines on practices governing the production of pharmaceutical products. GMP certification criteria include institution and staff qualifications, production premises and facilities, equipment, hygiene conditions, production management, quality controls, product operation, maintenance of sales records and manner of handling customer complaints and adverse reaction reports. Under the *Administrative Measures for Certification of the Good Manufacturing Practices* (藥品生產質量管理規範認證管理辦法) a GMP certificate is valid for five years. The certificate may be renewed at least six months before its expiration date upon a reexamination by the relevant authority.

REGULATION

As of the Latest Practicable Date, our four subsidiaries engaged in pharmaceutical manufacturing had obtained 17 GMP certifications, each of which is valid.

Formulated by the World Health Organization, the guidelines were designed to protect consumers by minimizing production errors and the possibility of contamination. The concept of GMP was introduced in the PRC in 1982 and was published in the *Guidelines on the Implementation of GMP Standards* (藥品生產質量管理規範實施指南) in 1985. In 1988, the Ministry of Health promulgated the first version of GMP standards, which was subsequently amended in 1992 and 1999. On 18 June 1999, SDA published the current version of GMP standards (1998 revised edition), which became effective on 1 August 1999.

Approval and Registration of Pharmaceutical Products

In Accordance with the *Measures for the Administration of Drug Registration* (藥品註冊管理辦法) effective on 1 October 2007, a new medicine must be registered and approved by the SFDA before it can be manufactured. The registration and approval process requires the manufacturer to submit to the SFDA a registration application containing detailed information concerning the efficacy and quality of the medicine and the manufacturing process and the production facilities the manufacturer expects to use. This process generally takes at least a few months and could be longer, depending on the nature of the medicine under review, the quality of the data provided and the workload of the SFDA. To obtain the SFDA registration and approval necessary for commencing production, the manufacturer is also required to conduct pre-clinical trials, apply to the SFDA for permission to conduct clinical trials, and, after clinical trials are completed, file clinical data with the SFDA for approval. In January 2009, the SFDA issued the *Provisions on Special Approval for the Registration of New Drugs* (新藥註冊特殊審批管理規定) that created a fast track process for the approval of certain new drugs.

If a medicine is approved by the SFDA as a new medicine, the SFDA will issue a new medicine certificate to the manufacturer and may impose a monitoring period of not more than five years. During the monitoring period, the SFDA will monitor the safety of the new medicine, and will not accept new medicine certificate registrations for an identical medicine by another pharmaceutical company, change the ingredients of the registered medicine to be identical to the new medicine, nor approve the production or import of an identical medicine by other pharmaceutical companies.

Continuing SFDA Regulation

A manufacturer of pharmaceutical products is subject to periodic inspection and safety monitoring by the SFDA to determine compliance with regulatory requirements. The SFDA has a variety of enforcement actions available to enforce its regulations and rules, such as fines and injunctions, recalls or seizure of products, imposition of operating restrictions, partial suspension or complete shutdown of production and transfer to the relevant authority for criminal investigation.

Permits and Licenses for Chemical Reagents

Pursuant to the *Regulations on the Safety Administration of Dangerous Chemicals* (危險化學品安全管理條例), chemical reagents are divided into hazardous chemicals and non-hazardous chemicals. An enterprise manufacturing and marketing hazardous chemicals must obtain a special operating license for manufacturing hazardous chemicals from the relevant authority for work safety and apply for registration with the relevant administration for industry and commerce prior to manufacturing or marketing hazardous chemicals.

REGULATION

PRESCRIPTION DRUGS AND OVER-THE-COUNTER DRUGS

In order to promote safety, efficacy and convenience in the use of pharmaceutical products, the SDA, the predecessor of the SFDA, published the *Trial Administrative Measures regarding the Classification of Prescription Drugs and Over-the-Counter Drugs* (處方藥與非處方藥分類管理辦法 (試行)) in June 1999, which were implemented with effect from 1 January 2000. These administrative measures divide drugs according to their type, specification, the relevant disease or ailment which they are designed to treat, dosage and method of administration. Prescription drugs relate to those whose prescription, purchase and intake require prescription by practicing doctors or assistant doctors. Over-the-counter drugs relate to those whose prescription, purchase and intake do not require prescription by practicing doctors or assistant doctors.

The SFDA is responsible for the selection, approval, publication, and revision of the *State Non-Prescription Medicine Catalog* (國家非處方藥目錄). Depending on the safety of the relevant drug, over-the-counter drugs are further subdivided into type A and type B and administered separately. Manufacturers of both prescription and over-the-counter drugs are required to obtain a Pharmaceutical Manufacturing Permit and to obtain production approvals for the relevant drugs. Retailers and wholesalers of prescription drugs and over-the-counter drugs and retail outlets selling prescription medicines and type A over-the-counter drugs are required to obtain a Pharmaceutical Operation Permit. Retail outlets selling type B over-the-counter drugs require approval from the provincial food and drug administration or with the designated bureau. In addition, retail outlets selling type B over-the-counter drugs are required to have professionally trained and suitably qualified staff before engaging in the sale of type B over-the-counter drugs. Retail outlets are required to source their drugs from qualified manufacturers and operators holding the prerequisite permits and approvals.

NATIONAL LIST OF ESSENTIAL DRUGS

On 18 August 2009, the Ministry of Health and other eight ministries and commissions in China issued the *Provisional Measures on the Administration of National List of Essential Drugs* (國家基本藥物目錄管理辦法 (暫行)), or the Measures, and the *Guidelines on the Implementation of the National List of Essential Drugs System* (關於建立國家基本藥物制度的實施意見), or the Essential Drugs Guidelines, that aims to promote essential medicines sold to consumers at fair prices in China and ensure that the general public in China has equal access to the drugs contained in the National List of Essential Drugs. On the same day, the Ministry of Health promulgated the *National List of Essential Drugs (Catalog for the Basic Healthcare Institutions)* (國家基本藥物目錄 (基層醫療衛生機構配備使用部分)), which applies only to basic healthcare institutions.

Basic healthcare institutions primarily include county-level hospitals, county-level Chinese medicine hospitals, rural clinics and community clinics. Pharmaceutical sales from basic healthcare institutions comprise a small part of the pharmaceutical market in China. For this reason, we do not believe the Measures and Essential Drugs Guidelines will have a material impact on our pharmaceutical distribution, retail pharmacy or other business operations. In particular, distribution sales to hospitals, direct or indirect through distributor customers, constitute the major part of our pharmaceutical distribution operations. Distribution sales to clinics, retail pharmacies and other healthcare institutions represented approximately 7.2% and 8.8% of our total sales in 2008 and the five months ended 31 May 2009. In general, we believe the National List of Essential Drugs will benefit leading pharmaceutical distributors because the Measures and Essential Drugs Guidelines provide for pharmaceutical distributors with "modern logistics capabilities" to play a major role in pharmaceutical distribution in China and encourage further industry consolidation, both of which should benefit our operations. However, as of the Latest Practicable Date, the PRC Government has not yet released further detailed implementation rules in relation to the National List of Essential Drugs and the full

REGULATION

National List of Essential Drugs has not yet been released. As a result, the full impact of these and future regulatory actions by the PRC Government with respect to its essential drug policies on our business and results of operations is uncertain.

PRICE CONTROLS

Pursuant to the *Opinion of the Bureau of State Planning Commission regarding Reforms on Price Administration of Pharmaceutical Products* (國家計委關於改革藥品價格管理的意見) issued by Bureau of State Planning Commission, the predecessor of the National Development and Reform Commission on 20 July 2000, and the *Circular of the National Development and Reform Commission on Issue of Price-controlled Pharmaceutical Products Catalog of National Development and Reform Commission* (國家發展改革委員會關於印發《國家發展改革委定價藥品目錄》的通知) effective on 1 August 2005, prices of pharmaceutical products are either determined by the PRC Government or by market conditions. The prices of certain pharmaceutical products sold in China, primarily those included in the national and provincial Medical Insurance Catalog are subject to price controls mainly in the form of fixed prices or price ceilings. Manufacturers and operators cannot set the actual price for any given price-controlled product above the price ceiling or deviate from the fixed price imposed by the government. The prices of medicines that are not subject to price controls are determined freely at the discretion of the respective pharmaceutical companies. Sales of pharmaceutical products by pharmaceutical manufacturers in China to overseas markets are not subject to any price control by the PRC Government.

The prices of medicines that are subject to price controls are administered by the NDRC and provincial and regional price control authorities. From time to time, the NDRC publishes and updates a list of medicines that are subject to price controls. Fixed prices and price ceilings on medicines are determined based on profit margins that the relevant government authorities deem reasonable, the type and quality of the medicine, its average production costs, and the prices of substitute medicines. The NDRC directly regulates the price of a portion of the medicines on the list, and delegates to provincial and regional price control authorities the authority to regulate the pricing of the rest of the medicines on the list. According to information published by the PRC Central Government in 2006, approximately 2,400 types of pharmaceutical products, were subject to price controls. As of the Latest Practicable Date, we were not aware of any material changes to the number of products since the publication of the such information. Of the total pharmaceutical products we manufactured as of 31 May 2009, 100 products were subject to price controls. During the Track Record Period, over 80% of our revenue from the pharmaceutical manufacturing operations, before the eliminations of inter-segment sales, was derived from the sales of pharmaceutical products that were subject to price controls.

Since May 1998, the PRC Government has ordered reductions in the retail prices of various pharmaceutical products 24 times. The latest price reductions occurred in January and March 2007 and affected 354 and 278 different pharmaceutical products, respectively. During the Track Record Period, the PRC Government implemented seven rounds of reductions in the retail prices of various pharmaceutical products, which affected substantially all the products in our pharmaceutical distribution and retail pharmacy segments and the products we manufacture in our other business operations segment.

The manufacturer of a medicine or the distributor of an imported medicine may apply for an increase in the price of the medicine and it must either apply to the provincial price control authorities in the province where it is incorporated, if the medicine is provincially regulated, or to the NDRC, if the medicine is centrally regulated. For a provincially regulated medicine, in cases where provincial price control authorities approve an application, the provincial price control authorities must file the new approved price with the NDRC for record and make an announcement to the public through designated media.

REGULATION

In addition, if a particular pharmaceutical product is significantly superior to comparable products in terms of effectiveness, safety, treatment cycle and costs of treatment, its manufacturer or operator may apply for an approval for separate pricing, subject to approval of NDRC.

With respect to pharmaceutical products whose prices are determined by market conditions, the pharmaceutical manufacturers are able to determine the retail price of their products based on their production cost and market demand and supply for the relevant product. Wholesalers and retailers of such products are permitted to determine the actual retail price to the end-users, provided that such price does not exceed the retail price determined by the manufacturers. The pharmaceutical manufacturers are required to adjust the retail prices from time to time based on their production cost and the market demand and supply for the relevant product.

REIMBURSEMENT UNDER THE NATIONAL MEDICAL INSURANCE PROGRAM

Pharmaceutical products listed in the *State Basic Medical Insurance Medicine Catalog* (國家基本醫療保險藥品目錄), or the Medical Insurance Catalog, are covered by the national medical insurance program. The national medical insurance program was adopted pursuant to the *Decision of the State Council on the Establishment of Basic Medical Insurance System for Urban Employees* (國務院關於建立城鎮職工基本醫療保險制度的決定) issued by the State Council on 14 December 1998, under which all employers in urban cities are required to enroll their employees in the basic medical insurance program and the insurance premium is jointly contributed by the employers and employees.

According to the PRC National Bureau of Statistics, as of 31 December 2007, 180.2 million people in China were enrolled in the national medical insurance program. Most program participants are urban residents who are currently employed or retired. Participants of the national medical insurance program and their employers are required to contribute to the payment of insurance premium on a monthly basis. Program participants are eligible for full or partial reimbursement of the cost of medicines included in the national Medical Insurance Catalog, which is divided into two tiers. Purchases of Tier A medicines are fully reimbursable, but certain Tier A medicines are only reimbursable if the medicine is used for a particular stated purpose in the Medical Insurance Catalog. Purchasers of Tier B medicines are required to pay a deductible, with the remaining amount being reimbursable. The amount of deductibles and the percentage reimbursement for Tier B medicines varies in different regions in the PRC.

Factors that affect the inclusion of medicines in the Medical Insurance Catalog include whether the medicine is consumed in large volumes and commonly prescribed for clinical use in China and whether it is considered to be important in meeting the basic healthcare needs of the general public. The PRC Ministry of Human Resources and Social Security, together with other government authorities, has the power to determine which medicines are included in the national Medicine Insurance Catalog, under which of the two tiers the included medicine falls, and whether an included medicine should be removed from the catalog. Provincial governments are required to include all Tier A medicines listed on the National Medical Insurance Catalog in their provincial Medical Insurance Catalog. For Tier B medicines listed in the national Medical Insurance Catalog, provincial governments have the discretion to adjust upwards or downwards by no more than 15% from the number of Tier B medicines listed in the national Medical Insurance Catalog that is to be included in the provincial Medical Insurance Catalog.

The total amount of reimbursement for the cost of medicines, in addition to other medical expenses, for an individual participant under the National Medical Insurance Program in a calendar year is capped to the amounts in that participant's individual account under the program. The amount in a participant's account varies, depending on the amount of contributions from the participant and his or her employer.

REGULATION

TENDERING REQUIREMENTS FOR HOSPITAL PURCHASES OF MEDICINES

The *Guiding Opinions concerning the Urban Medical and Health System Reform* (關於城鎮醫藥衛生體制改革的指導意見), promulgated on 21 February 2000 by the State Commission for Restructuring Economic Systems and seven other ministries and commissions in the PRC, require public hospitals and healthcare institutions to purchase medicines through a centralized tendering process. The Ministry of Health and other relevant government authorities have promulgated a series of regulations and releases in order to implement the tendering requirements. On 12 November 2001, the Ministry of Health and five other ministries and commissions jointly promulgated the *Working Regulations of Medical Institutions for Purchase of Medicines by Centralized Tendering and Price Negotiations (Trial)* (醫療機構藥品集中招標採購和集中議價採購工作規範(試行)), or the Working Regulations, to implement the tendering process requirements and ensure the requirements are followed uniformly throughout the country. In November 2001, the Ministry of Health also promulgated the Sample Document for Medical Institutions for Purchase of Medicines by Centralized Tendering and Price Negotiations (Trial) (醫療機構藥品集中採購和集中議價採購文件範本(試行)), or the Sample Document, as the operational document of the Working Regulations. The Working Regulations and the Sample Document provide rules for the tendering process and negotiations of the prices of pharmaceutical products, operational procedures, a code of conduct and standards or measures of evaluating bids and negotiating prices. On 23 September 2004 and 17 January 2009, the Ministry of Health and the other relevant government authorities promulgated the *Provisions on Further Regulating Purchase of Medicines by Medical Institutions through Centralized Tendering* (關於進一步規範醫療機構藥品集中招標採購的若干規定) and the *Opinions concerning Further Regulating Purchase of Medicines by Medical Institutions through Centralized Tendering* (關於進一步規範醫療機構藥品集中採購工作的意見), respectively, to modify and perfect the tendering process system.

In accordance with these laws and regulations, public hospitals and healthcare institutions belonging to the people's government at the county level or above must comply with the centralized tendering process requirements. The tendering process is operated and organized by provincial and municipal government agencies such as provincial or municipal health departments. The centralized tendering process is conducted once every year in the relevant province or city in China. With the exception of medicines included in the National List of Essential Drugs and certain other special medicines, public hospitals and healthcare institutions that participate in the tendering process in principle shall use medicines included in the provincial medicine purchasing catalogs, as formulated by the relevant provincial and municipal government authorities. These public hospitals and healthcare institutions must only purchase these medicines through a public tender, online price bids, centralized price negotiations and direct online price listings, including through implementation of government-mandated price controls. The Sample Document must be included in the tendering documents prepared in relation to the centralized tendering process and may not be modified. To increase the transparency of medicine purchases, public hospitals and healthcare institutions are required to make their purchases of medicines through an online platform established by each provincial and municipal government authority.

The manufacturers of medicines that are on the hospitals' formularies and are in demand by these hospitals are invited to bid and participate in the centralized tendering process, which they must do directly. These manufacturers may, however, be advised by pharmaceutical distribution companies and they may use pharmaceutical distribution companies to distribute the medicines to the hospitals and healthcare institutions. A duly organized bid-evaluation committee, which is composed of pharmaceutical experts and clinical medical experts who will be randomly selected from a database of experts established by the relevant competent government authority, is responsible for bid evaluations. The selection is based on a number of factors, including bid price, quality, clinical effectiveness, and manufacturer's reputation and service.

REGULATION

ENVIRONMENTAL PROTECTION

The Ministry of Environmental Protection of the People's Republic of China is responsible for uniform supervision and control of environmental protection in China. It formulates national environmental quality and discharge standards and monitors China's environmental system. Environmental protection bureaus at the county level and above are responsible for environmental protection within their areas of jurisdiction.

Pursuant to the *Environmental Protection Law of the People's Republic of China* (中華人民共和國環境保護法), or the Environmental Protection Law, promulgated and effective on 26 December 1989, the environmental protection department of the State Council is in charge of promulgating national standards for environmental protection. The provincial governments and the local governments in autonomous regions and municipalities directly under the PRC Central Government may also promulgate local standards for environmental protection on matters not specified under national standards, providing that local governments must report such standards to the relevant department of environmental protection administration under the State Council for record.

Pursuant to the *Law on Environmental Impact Evaluation of the People's Republic of China* (中華人民共和國環境影響評價法) promulgated on 28 October 2002 and effective on 1 September 2003, manufacturers must prepare and file an environmental impact report setting forth the impact that the proposed construction project may have on the environment and the measures to prevent or mitigate the impact for approval by the relevant government authority prior to commencement of construction of the relevant project. New facilities built pursuant to this approval are not permitted to operate until the relevant environmental bureau has performed an inspection and is satisfied that the facilities are in compliance with environmental standards.

The Environmental Protection Law requires any facility that produces pollutants or other hazards to incorporate environmental protection measures in its operations and establish an environmental protection responsibility system. Such system includes adoption of effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials. Any entity that discharges pollution must register with the relevant environmental protection authority.

Remedial measures for breaches of the Environmental Protection Law include a warning, payment of damages or imposition of a fine. Any entity undertaking a construction project that fails to install pollution prevention and control facilities in compliance with environmental standards for a construction project may be ordered to suspend production or operations and may be fined. Criminal liability may be imposed for a material violation of environmental laws and regulations that causes loss of property or personal injuries or death.

OCCUPATIONAL HEALTH AND SAFETY

Pursuant to the *Labor Law of the People's Republic of China* (中華人民共和國勞動法) effective on 1 January 1995, employers must establish a comprehensive management system to protect the rights of their employees, including a system governing occupational health and safety to provide employees with occupational training to prevent occupational injury.

Pursuant to the *Law of Manufacturing Safety of the People's Republic of China* (中華人民共和國安全生產法) effective on 1 November 2002, manufacturers must establish a comprehensive management system to ensure manufacturing safety in accordance with applicable laws and regulations. Manufacturers not meeting relevant legal requirements are not permitted to commence their manufacturing activities.

REGULATION

Pursuant to the *Administrative Measures Governing the Production Quality of Pharmaceutical Products* (藥品生產質量管理規範) effective on 1 August 1999, manufacturers of pharmaceutical products are required to establish production safety and labor protection measures in connection with the operation of their manufacturing equipment and manufacturing process.

PRODUCT LIABILITY AND PROTECTION OF CONSUMERS

Product liability claims may arise if the products sold have any harmful effect on consumers. The injured party can claim for damages or compensation. The *General Principles of the Civil Law of the People’s Republic of China* (中華人民共和國民法通則), which became effective on 1 January 1987, states that manufacturers and sellers of defective products causing property damage or injury shall incur civil liabilities.

The *Product Quality Law of the People’s Republic of China* (中華人民共和國產品質量法) was enacted in 1993 and amended in 2000 to strengthen quality control of products and protect consumers’ rights. Under this law, manufacturers and operators who produce and sell defective products may be subject to confiscation of earnings from such sales, the revocation of business licenses and imposition of fines, and in severe circumstances, may be subject to criminal liability.

The *Law of the People’s Republic of China on the Protection of the Rights and Interests of Consumers* (中華人民共和國消費者權益保護法) was promulgated on 31 October 1993 and enacted from 1 January 1994 to protect consumers’ rights when they purchase or use goods and accept services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to customers. In extreme situations, pharmaceutical manufacturers and operators may be subject to criminal liability if their goods or services lead to the death or injuries of customers or other third parties.

PRC PATENT LAW

The PRC first allowed patents for the protection of proprietary rights, as set forth in the *People’s Republic of China Patent Law*, or Patent Law, (中華人民共和國專利法), which became effective in 1985 and later amended on 27 December 2008. Pharmaceutical inventions became patentable after the Patent Law was amended on 1 January 1993. Patents relating to pharmaceutical inventions are effective for 20 years from the initial date the patent application was filed. Patents relating to utility model patents and design patents are effective for ten years from the initial date the patent application was filed.

Patent Prosecution

The patent system in China, like most countries other than the United States, adopts the principle of “first to file”. This means that, where more than one person files a patent application for the same invention, a patent will be granted to the person who first filed the application. The United States uses a principle of first to invent to determine the granting of patents. In China, a patent must possess novelty, innovation and practical application. Under the Patent Law as amended, novelty means that before a patent application is filed, no identical invention or utility model has been publicly disclosed in any publication in China or abroad or has been publicly used or made known to the public by any other means, whether in or outside of China, nor has any other person filed with the patent authority an application which describes an identical invention or utility model and is published after the filing date. Patents issued in the PRC are not enforceable in Hong Kong, Taiwan or Macao, each of which has independent patent system. Patents in the PRC are filed at the SIPO in Beijing. Normally, the SIPO publishes an application for a pharmaceutical invention 18 months after the application is filed, which may be shortened upon request by the applicant. The applicant shall apply to the SIPO for a substantive examination within three years from the date the application is filed.

REGULATION

Patent Enforcement

When a dispute arises as a result of infringement of the patent holder’s patent right, PRC law requires that the parties first attempt to settle the dispute through consultation between the respective parties. However, if the dispute cannot be settled through consultation, the patent holder or an interested party who believes the patent is being infringed may either file a civil legal suit or file an administrative complaint with the relevant patent administration authority under the SIPO. A PRC court may issue a preliminary injunction upon the patent holder’s or an interested party’s request before instituting any legal proceedings or during the proceedings. Damages for infringement are calculated as either the loss suffered by the patent holder arising from the infringement or the benefit gained by the infringer from the infringement. If it is difficult to ascertain damages in this manner, damages may be determined by using a reasonable multiple of the license fee under a contractual license. As in other jurisdictions, with one notable exception, the patent holder in the PRC has the burden of proving that the patent is being infringed. However, if the holder of a manufacturing process patent alleges infringement of such patent, the alleged infringing party has the burden of proving that there has been no infringement.

Compulsory License

According to the Patent Law, the SIPO may grant a person who is not the patent holder a compulsory license under certain circumstances, where, for example, a person possesses the means to utilize a patented technology, but such person cannot obtain a license from the patent holder on reasonable terms and in a reasonable period of time, or where a national emergency or any extraordinary state of affairs occurs or where the public interest so requires.

International Patent Treaties

The PRC is also a signatory to all major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, Madrid Agreement concerning the International Registration of Marks and Madrid Protocol, Patent Cooperation Treaty, Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure and the Agreement on Trade-Related Aspects of Intellectual Property Rights.

Although patent rights are national rights, there is also a large degree of international co-operation under the Patent Cooperation Treaty, to which China is a signatory. Under the Patent Cooperation Treaty, applicants in one country can seek patent protection for an invention simultaneously in a number of other member countries by filing a single international patent application. The fact that a patent application is pending is no guarantee that a patent will be granted, and even if granted, the scope of a patent may not be as broad as the subject of the initial application.

TRADEMARKS

The *People’s Republic of China Trademark Law* (中華人民共和國商標法) was promulgated in 1982 (later amended on 27 October 2001) and the *People’s Republic of China Trademark Implementing Regulations* (中華人民共和國商標法實施條例) was promulgated on 3 August 2002. These laws provide the basic legal framework for the regulation of trademarks in China. The Trademark Office is responsible for the registration and administration of trademarks throughout the country. Like patents, the PRC has adopted a “first-to-file” principle with respect to trademarks.

REGULATION

PRC law provides that the following acts constitute infringement of the exclusive right to use a registered trademark:

- use of a trademark that is identical with or similar to a registered trademark in respect of the same kind of or similar commodities without the authorization of the trademark registrant;
- sale of commodities infringing upon the exclusive right to use the registered trademark;
- counterfeiting or making, without authorization, representations of a registered trademark of another person, or sale of such representations of a registered trademark;
- changing a registered trademark and selling products on which the changed registered trademark is used without the consent of the trademark registrant; and
- otherwise infringing upon the exclusive right of another person to use a registered trademark.

In the PRC, a registered trademark owner who believes the registered trademark is being infringed has three options:

- The registered trademark owner can provide his trademark registration certificate and other relevant evidence to the State or local administration for industry and commerce, which can, at its discretion, launch an investigation. The Administration for Industry and Commerce may take such actions as: order the infringer to immediately cease the infringing behavior, seize and destroy any infringing products and representations of the trademark in question, close the facilities used to manufacture the infringing products or impose a fine. If the registered trademark owner is dissatisfied with the Administration for Industry and Commerce's decision, he may, within 15 days of receiving the Administration for Industry and Commerce's decision, institute administrative proceedings in court.
- The registered trademark owner may institute civil proceedings directly in court. Civil redress for trademark infringement includes:
 - injunctions;
 - requiring the infringer to take steps to mitigate the damage (i.e., print notices in newspapers); and
 - damages (i.e. compensation for the economic loss and injury to reputation as a result of trademark infringement suffered by the trademark holder).

The amount of compensation is calculated according to either the gains acquired by the infringer from the infringement during the infringement, or the loss suffered by the registered trademark owner, including expenses incurred by the trademark holder to deter such infringement. If it is difficult to determine the gains acquired by the infringer from the infringement, or the loss suffered by the trademark owner, the court may elect to award compensation of not more than RMB500,000.

- If a crime is suspected to be committed, the case shall be promptly transferred to the judicial departments for handling according to law.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

SUBSTANTIAL SHAREHOLDERS

As of the Latest Practicable Date, so far as our Directors are aware, each of the following persons, not being (i) a Director, Supervisor or chief executive of the Company or (ii) a member of our Company, were directly or indirectly interested in 10% or more of the nominal value of any class of share capital, carrying rights to vote in all circumstances at general meetings of any other member of our Company:

Name of subsidiary	Name of shareholder	Percentage of shareholding
China National Pharmaceutical Group Chengdu Chemical Reagent Co., Ltd.	Sichuan Antibiotic Institute	40%
China National Pharmaceutical Group Northwest Medicine Co., Ltd.	Shanxi Pharmaceutical Corporation	40%
China National Pharmaceutical Group Shenyang Chemical Reagent Co., Ltd.	Shenyang Pharmaceutical	49%
Hebei Aijia	Hebei Medicines	20%
Logistics Company	Arich Enterprise Co., Ltd. (Taiwan)	17.7% ⁽¹⁾
Shanghai Guoda Chain Store	Shanghai Bailian Group Co., Ltd.	35%
Shanghai Guoda Dongsheng Drugstore Co., Ltd.	Fu Zhigang	50%
Shanghai Guoda Shanghong Qibao Drugstore Co., Ltd.	Shanghai Hongqiao Pharmaceutical Co., Ltd.	49%
Shanxi Dongshi Business Enterprise Development Co., Ltd.	Shanghai Dongshi Business Enterprise Development Co., Ltd.	10%
Shenyang Tianyitang	(1) Shenyang Pharmaceutical	30%
	(2) Shenzhen Yanfeng Medical Co., Ltd.	19%
Sinopharm Anhui	Anhui Yian	33%
Sinopharm Beijing Huahong	Beijing Chang Xin Yi Da Investment Adviser Co., Ltd.	40%
Sinopharm Henan	(1) Cui Lihong	25% ⁽¹⁾
	(2) Wang Wei	24% ⁽¹⁾
Sinopharm Holding Beijing Kangchen Bio-medicine Co., Ltd.	Healthstar Pharmaceutical Co., Ltd.	49%
Sinopharm Hubei	Wuhan Ruipu Investment Co., Ltd.	25.8%

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

SUBSTANTIAL SHAREHOLDERS

Name of subsidiary	Name of shareholder	Percentage of shareholding
Sinopharm Hunan	Hainan Jiyuan	20%
Sinopharm Jiangsu	(1) Jiangsu Jinmao Chemical Engineering & Medicine Group Co., Ltd.	20.7%
	(2) Zhou Baoyu	14.5% ⁽¹⁾
Sinopharm Liuzhou	Liuzhou Trade and Business Holding Co., Ltd.	40% ⁽¹⁾
Southwest Pharmaceutical	Lu Yi	30%
Sinopharm Shanxi	Niu Yuzhong	18%
Sinopharm Suzhou	Zhu Jingwei	30%
Suzhou Zhijun Wanqing	Yang Qiaoming	25%
Taicang Hushi Chemical Reagent Co., Ltd	Shen Wenhua	20%
Tianjin Orient Bookcom Pharmaceutical Trade Co., Ltd.	Yang Hao	49%
Zhejiang Intmedic Drugstore Co., Ltd.	(1) Zhejiang Intmedic	39%
	(2) Zhejiang Dong Ming Industrial Co., Ltd.	10%
Zhejiang Intmedic Drugstore Dongshan Pharmacy Co., Ltd	Hangzhou West Lake District Trade Corporation	49%

(1) Figures are approximate figures.

During the Track Record Period, there were changes in the ownership of the Company and our substantial shareholders. See “History, Restructuring and Corporate Structure — Restructuring”.

We are not aware of any arrangement which may at a subsequent date result in a change of control of the Company.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

SHARE CAPITAL

SHARE CAPITAL

Our registered capital is RMB1,637,037,451, divided into 1,637,037,451 Domestic Shares of par value RMB1.00 each.

The following table sets forth a description of our share capital in issue:

<u>Description of Shares</u>	<u>As of the date of this document</u>	
	<u>(shares)</u>	<u>(%)</u>
Domestic Shares	1,637,037,451	100.0

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

FUTURE PLANS

FUTURE PLANS

See “Business — Our Business Strategies” for a detailed description of our Company’s future plans.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

The following is the text of a report received from the Company’s reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, HongKong

[Date]

The Directors
Sinopharm Group Co. Ltd.
[●]

Dear Sirs

We set out below our report on the financial information (the “Financial Information”) of Sinopharm Group Co. Ltd. (the “Company”) and its subsidiaries (together, the “Group”) set out in Sections I to III below, for inclusion in [●]. The Financial Information comprises the consolidated balance sheets as at 31 December 2006, 2007 and 2008 and 31 May 2009, the balance sheets of the Company as at 31 December 2006, 2007 and 2008 and 31 May 2009, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory notes.

The Company was incorporated in the People’s Republic of China (the “PRC”) on 8 January 2003 as a limited liability company under the Company Law of the PRC. On 6 October 2008, the Company was converted into a joint stock limited company under the Company Law of the PRC by converting its registered capital and reserves as at 30 September 2007 with the proportion of 1:0.8699 into 1,637,037,451 shares of RMB1 each.

As at the date of this report, the Company has direct and indirect interests in subsidiaries and associates set out in Note 40 of Section II below.

All companies comprising the Group and associates have adopted 31 December as their financial year end date. The financial statements of these companies were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises incorporated in the PRC (the “PRC GAAP”). The financial statements of subsidiaries and associates were audited by auditors other than PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the details of which are set out in Note 40 of Section II below. Except for Shenzhen Accord Pharmaceutical Co., Ltd. (“Accord Pharma”) and China National Medicines Corporation Ltd. (“National Medicines”), all of these companies are private companies.

For the purpose of this report, the directors of the Company have prepared consolidated financial statements of the Company for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) (the “Underlying Financial Statements”). We have audited the Underlying Financial Statements for each of the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009 in accordance with Hong Kong Standards on Auditing.

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

Directors’ responsibility

The directors of the Company are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements in accordance with HKFRS.

For the financial information for each of the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, the directors of the Company are responsible for the preparation and the true and fair presentation of the financial information in accordance with HKFRS. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

For the financial information for the five months ended 31 May 2008, the directors of the Company are responsible for the preparation and the presentation of the financial information in accordance with the accounting policies set out in Note 2 of Section II below which are in conformity with HKFRS.

Reporting accountant’s responsibility

For the financial information for each of the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, our responsibility is to express an opinion on the financial information based on our examination and to report our opinion to you. We examined the Underlying Financial Statements used in preparing the Financial Information, and carried out such additional procedures as we consider necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

For the financial information for the five months ended 31 May 2008, our responsibility is to express a conclusion on the financial information, based on our review and to report our conclusion to you. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by HKICPA. A review of the financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Opinion and review conclusion

In our opinion, the financial information for each of the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009, for the purpose of this report, gives a true and fair view of the state of affairs of the Company and the Group as at 31 December 2006, 2007 and 2008 and 31 May 2009 and of the Group’s results and cash flows for the respective years and period then ended.

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the financial information for the five months ended 31 May 2008, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below which are in conformity with HKFRS.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

I. CONSOLIDATED FINANCIAL STATEMENTS

1 CONSOLIDATED BALANCE SHEETS

	Section II	As at 31 December			As at 31 May
	Note	2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Land use rights	6	397,839	384,639	402,947	437,388
Investment properties	7	78,120	81,615	61,782	59,553
Property, plant and equipment	8	1,087,957	1,192,945	1,257,019	1,331,887
Intangible assets	9	215,830	217,145	204,020	296,927
Investments in associates	11	216,532	255,360	306,528	317,548
Available-for-sale financial assets	12	35,650	56,967	52,911	57,650
Deferred income tax assets	13	148,168	138,519	143,035	138,045
Other non-current assets		12,579	4,783	5,185	6,128
		<u>2,192,675</u>	<u>2,331,973</u>	<u>2,433,427</u>	<u>2,645,126</u>
Current assets					
Inventories	14	2,043,361	2,634,374	3,154,820	3,613,012
Trade receivables	15	4,871,520	6,110,476	7,911,774	9,347,940
Prepayments and other receivables	16	519,232	605,504	616,907	572,300
Available-for-sale financial assets	12	15	15	15	15
Pledged bank deposits	17	124,665	649,323	285,835	247,840
Cash and cash equivalents	17	1,838,797	1,955,596	1,712,119	2,602,116
		<u>9,397,590</u>	<u>11,955,288</u>	<u>13,681,470</u>	<u>16,383,223</u>
Total assets		<u>11,590,265</u>	<u>14,287,261</u>	<u>16,114,897</u>	<u>19,028,349</u>
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Paid-in capital	18	1,637,037	1,637,037	1,637,037	1,637,037
Reserves	19	122,591	46,722	627,193	947,444
Minority interest in equity	19	830,633	934,589	1,146,352	1,293,112
Total equity		<u>2,590,261</u>	<u>2,618,348</u>	<u>3,410,582</u>	<u>3,877,593</u>
LIABILITIES					
Non-current liabilities					
Bank borrowings	20	177,720	157,720	130,000	60,000
Deferred income tax liabilities	13	69,724	66,776	63,977	76,664
Post-employment benefit obligations	21	241,668	250,220	302,697	299,949
Other non-current liabilities	22	241,184	247,305	329,865	346,171
		<u>730,296</u>	<u>722,021</u>	<u>826,539</u>	<u>782,784</u>
Current liabilities					
Trade payables	23	5,629,830	7,209,584	9,053,071	10,404,170
Accruals and other payables	24	872,487	996,870	860,532	1,028,023
Dividends payable	39(b)	-	463,959	363,959	363,959
Current income tax liabilities		63,040	114,883	96,044	106,881
Bank borrowings	20	1,704,351	1,521,596	1,504,170	2,464,939
Loans from parent company	20	-	640,000	-	-
		<u>8,269,708</u>	<u>10,946,892</u>	<u>11,877,776</u>	<u>14,367,972</u>
Total liabilities		<u>9,000,004</u>	<u>11,668,913</u>	<u>12,704,315</u>	<u>15,150,756</u>
Total equity and liabilities		<u>11,590,265</u>	<u>14,287,261</u>	<u>16,114,897</u>	<u>19,028,349</u>
Net current assets		<u>1,127,882</u>	<u>1,008,396</u>	<u>1,803,694</u>	<u>2,015,251</u>
Total assets less current liabilities		<u>3,320,557</u>	<u>3,340,369</u>	<u>4,237,121</u>	<u>4,660,377</u>

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

2 COMPANY BALANCE SHEETS

	Section II	As at 31 December			As at 31 May
	Note	2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Investment properties		6,476	6,329	6,083	5,980
Property, plant and equipment	8	12,670	15,162	13,960	12,349
Investments in subsidiaries	10	1,629,336	1,751,800	2,091,663	2,233,972
Investments in associates	11	13,993	-	14,690	14,690
Available-for-sale financial assets	12	6,760	6,760	20,394	20,394
Deferred income tax assets	13	23,918	23,886	27,999	18,024
Other non-current assets		6,725	1,940	1,421	1,205
		<u>1,699,878</u>	<u>1,805,877</u>	<u>2,176,210</u>	<u>2,306,614</u>
Current assets					
Inventories	14	394,058	479,092	581,264	671,756
Trade receivables	15	897,039	814,662	1,295,948	2,240,159
Prepayments and other receivables	16	740,711	1,167,178	1,078,924	795,093
Pledged bank deposits	17	13,695	20,422	-	-
Cash and cash equivalents	17	838,610	359,002	301,008	719,842
		<u>2,884,113</u>	<u>2,840,356</u>	<u>3,257,144</u>	<u>4,426,850</u>
Total assets		<u>4,583,991</u>	<u>4,646,233</u>	<u>5,433,354</u>	<u>6,733,464</u>
EQUITY					
Paid-in capital	18	1,637,037	1,637,037	1,637,037	1,637,037
Reserves	19	137,956	(231,244)	332,246	570,525
Total equity		<u>1,774,993</u>	<u>1,405,793</u>	<u>1,969,283</u>	<u>2,207,562</u>
LIABILITIES					
Non-current liabilities					
Other non-current liabilities	22	176,087	175,426	222,422	222,361
Post-employment benefit obligations		23,162	32,407	40,150	40,177
		<u>199,249</u>	<u>207,833</u>	<u>262,572</u>	<u>262,538</u>
Current liabilities					
Trade payables	23	1,174,602	1,315,838	1,707,023	2,285,181
Accruals and other payables	24	275,439	282,135	493,630	369,928
Dividends payable		-	463,959	363,959	363,959
Current income tax liabilities		17,708	27,353	31,887	40,537
Bank borrowings	20	1,142,000	383,322	605,000	1,203,759
Loans from parent company	20	-	560,000	-	-
		<u>2,609,749</u>	<u>3,032,607</u>	<u>3,201,499</u>	<u>4,263,364</u>
Total liabilities		<u>2,808,998</u>	<u>3,240,440</u>	<u>3,464,071</u>	<u>4,525,902</u>
Total equity and liabilities		<u>4,583,991</u>	<u>4,646,233</u>	<u>5,433,354</u>	<u>6,733,464</u>
Net current assets/(liabilities)		<u>274,364</u>	<u>(192,251)</u>	<u>55,645</u>	<u>163,486</u>
Total assets less current liabilities		<u>1,974,242</u>	<u>1,613,626</u>	<u>2,231,855</u>	<u>2,470,100</u>

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

3 CONSOLIDATED INCOME STATEMENTS

	Section II Note	Year ended 31 December			Five months ended 31 May	
		2006	2007	2008	2008	2009
		RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Revenue	5, 25	23,736,642	31,110,214	38,187,433	15,007,230	18,048,041
Cost of sales		(21,747,100)	(28,559,991)	(35,152,478)	(13,794,590)	(16,610,004)
Gross profit		1,989,542	2,550,223	3,034,955	1,212,640	1,438,037
Other income	26	17,272	23,994	69,923	16,159	19,668
Distribution and selling expenses		(778,961)	(945,284)	(966,013)	(364,980)	(408,611)
General and administrative expenses		(747,602)	(839,587)	(966,727)	(354,387)	(346,502)
Operating profit		480,251	789,346	1,172,138	509,432	702,592
Other gains/(loss) – net ..	27	(45,633)	124,137	92,749	79,394	103,965
Finance income		11,695	17,759	24,312	7,280	8,998
Finance costs		(101,539)	(150,868)	(265,996)	(98,065)	(93,867)
Finance costs – net	31	(89,844)	(133,109)	(241,684)	(90,785)	(84,869)
Share of results of associates	11	19,193	40,035	54,186	22,799	25,063
Profit before income tax		363,967	820,409	1,077,389	520,840	746,751
Income tax expense	32	(181,519)	(284,460)	(259,286)	(119,015)	(193,840)
Profit for the year/ period		182,448	535,949	818,103	401,825	552,911
Attributable to:						
Equity holders of the Company		101,331	380,920	585,673	297,005	421,502
Minority interests		81,117	155,029	232,430	104,820	131,409
		182,448	535,949	818,103	401,825	552,911
Earnings per share for profit attributable to the equity holders of the Company during the year/period						
- Basic and fully diluted	34	0.06	0.23	0.36	0.18	0.26
Dividends	35	165,769	298,190	105,699	-	279,469

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

4 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Section II Note	Attributable to equity holders of the Company RMB'000	Attributable to minority interests RMB'000	Total equity RMB'000
Year ended 31 December 2006				
Profit for the year		101,331	81,117	182,448
Other comprehensive income:				
Revaluation of available-for-sale financial assets				
- gross	12, 19	(1,031)	(1,001)	(2,032)
- tax	13	394	278	672
Other comprehensive income, net of tax		(637)	(723)	(1,360)
Total comprehensive income		100,694	80,394	181,088
Year ended 31 December 2007				
Profit for the year		380,920	155,029	535,949
Other comprehensive income:				
Revaluation of available-for-sale financial assets				
- gross	12, 19	9,459	10,206	19,665
- tax	13	(2,289)	(1,615)	(3,904)
Other comprehensive income, net of tax		7,170	8,591	15,761
Total comprehensive income		388,090	163,620	551,710
Year ended 31 December 2008				
Profit for the year		585,673	232,430	818,103
Other comprehensive income:				
Revaluation of available-for-sale financial assets				
- gross	12, 19	(6,857)	(7,837)	(14,694)
- tax	13	1,655	2,018	3,673
Other comprehensive income, net of tax		(5,202)	(5,819)	(11,021)
Total comprehensive income		580,471	226,611	807,082

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

4 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

	<u>Section II</u> <u>Note</u>	<u>Attributable</u> <u>to equity</u> <u>holders of</u> <u>the Company</u> <u>RMB’000</u>	<u>Attributable</u> <u>to minority</u> <u>interests</u> <u>RMB’000</u>	<u>Total</u> <u>equity</u> <u>RMB’000</u>
Five months ended 31 May 2009				
Profit for the period		421,502	131,409	552,911
Other comprehensive income:				
Revaluation of available-for-sale financial assets				
- gross	12, 19	6,641	8,740	15,381
- tax	13	(1,693)	(2,153)	(3,846)
Other comprehensive income, net of tax		4,948	6,587	11,535
Total comprehensive income		<u>426,450</u>	<u>137,996</u>	<u>564,446</u>
Five months ended 31 May 2008 (Unaudited)				
Profit for the period		297,005	104,820	401,825
Other comprehensive income:				
Revaluation of available-for-sale financial assets				
- gross		(2,276)	(2,331)	(4,607)
- tax		521	631	1,152
Other comprehensive income, net of tax		(1,755)	(1,700)	(3,455)
Total comprehensive income		<u>295,250</u>	<u>103,120</u>	<u>398,370</u>

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

5 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Section II Note	Paid-in capital RMB'000	Reserves RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance at 31 December 2005		1,027,954	450,590	1,478,544	719,661	2,198,205
Total comprehensive income		-	100,694	100,694	80,394	181,088
Changes in shareholding of subsidiaries		-	-	-	(28,911)	(28,911)
Capital injections from equity holders ...	18, 19	609,083	(299,458)	309,625	-	309,625
Dividends	35	-	(92,112)	(92,112)	(22,721)	(114,833)
Share surrendered to minority interest holders	27	-	-	-	82,210	82,210
Distribution of a subsidiary prior to the Reorganisation	18, 19	-	(37,123)	(37,123)	-	(37,123)
As at 31 December 2006		1,637,037	122,591	1,759,628	830,633	2,590,261
Total comprehensive income		-	388,090	388,090	163,620	551,710
Changes in shareholding of subsidiaries		-	-	-	(22,021)	(22,021)
Dividends	35	-	(463,959)	(463,959)	(37,643)	(501,602)
As at 31 December 2007		1,637,037	46,722	1,683,759	934,589	2,618,348
Total comprehensive income		-	580,471	580,471	226,611	807,082
Changes in shareholding of subsidiaries		-	-	-	14,903	14,903
Dividends	35	-	-	-	(29,751)	(29,751)
As at 31 December 2008		1,637,037	627,193	2,264,230	1,146,352	3,410,582
Total comprehensive income		-	426,450	426,450	137,996	564,446
Changes in shareholding of subsidiaries		-	-	-	76,729	76,729
Effect of business combination of Guangxi Guoda Pharmacy Chainstore Co., Ltd. under common control		-	(500)	(500)	-	(500)
Dividends	35	-	(105,699)	(105,699)	(67,965)	(173,664)
As at 31 May 2009		1,637,037	947,444	2,584,481	1,293,112	3,877,593
As at 31 December 2007		1,637,037	46,722	1,683,759	934,589	2,618,348
Total comprehensive income		-	295,250	295,250	103,120	398,370
Changes in shareholding of subsidiaries		-	-	-	17,850	17,850
Dividends	35	-	-	-	(4,295)	(4,295)
As at 31 May 2008 (Unaudited)		1,637,037	341,972	1,979,009	1,051,264	3,030,273

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

6 CONSOLIDATED CASH FLOW STATEMENTS

	Section II Note	Year ended 31 December			Five months ended 31 May	
		2006	2007	2008	2008	2009
		RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Cash flows from operating activities:						
Cash generated from operations	36	787,527	671,829	955,240	(321,678)	447,137
Income tax paid		(149,088)	(230,649)	(301,391)	(152,327)	(183,003)
Net cash generated from operating activities		638,439	441,180	653,849	(474,005)	264,134
Cash flows from investing activities:						
Proceeds from disposal of land use rights		7,156	22,828	6,823	-	-
Proceeds from disposal of property, plant and equipment		39,592	81,142	36,378	13,307	14,060
Proceeds from disposal of available-for-sale financial assets		5,343	3,116	470	-	1,684
Proceeds from disposal of certain interests in associates		685	1,755	26,207	-	-
Proceeds from disposal of partial interests in subsidiaries		-	103,701	83,172	63,683	111,244
Disposal of subsidiaries, net of cash disposed	36	-	(49,080)	6,168	5,056	-
Dividends received from associates		14,875	29,531	25,289	15,729	9,203
Dividends received from available-for-sale financial assets	26	536	139	4	-	-
Interest received		11,159	13,191	23,828	7,280	8,721
Acquisition of land use rights		(68,328)	(21,677)	(29,258)	(24,006)	(22,443)
Acquisition of property, plant and equipment		(180,464)	(236,006)	(269,345)	(73,631)	(63,966)
Acquisition of intangible assets		(11,236)	(2,442)	(7,331)	-	(3,683)
Acquisition of associates		(28,550)	-	(14,690)	-	-
Purchase of available-for-sale financial assets		(1,471)	-	-	-	-
Acquisition of subsidiaries, net of cash acquired	38	(18,589)	54,913	(24,923)	(9,616)	(92,073)
Acquisition of additional interests in subsidiaries		(41,607)	(15,508)	(10,745)	-	-
Net cash used in investing activities		(270,899)	(14,397)	(147,953)	(2,198)	(37,253)

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

6 CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

	Section II Note	Year ended 31 December			Five months ended 31 May	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flows from financing activities:						
(Increase)/Decrease in pledge bank deposits	17	(23,522)	(524,658)	363,488	(32,391)	37,995
Proceeds from bank borrowings		1,774,229	1,435,823	1,416,467	1,382,680	2,296,495
Proceeds from loans from parent company		-	640,000	1,680,000	60,000	1,850,000
Repayments of bank borrowings		(1,382,845)	(1,690,990)	(1,496,596)	(630,647)	(1,445,870)
Repayments of loans from parent company		(350,000)	-	(2,320,000)	(700,000)	(1,850,000)
Capital injections from equity holders	18(ii)	309,626	-	-	-	-
Capital injections from minority shareholders of subsidiaries		15,518	6,507	9,705	-	11,250
Dividends paid to equity holders	35	(101,490)	-	(127,745)	-	(105,699)
Dividends paid to minority shareholders of subsidiaries		(25,927)	(37,643)	(30,521)	(4,295)	(48,504)
Interest paid		(95,755)	(139,023)	(244,171)	(91,298)	(82,551)
Net cash generated from/(used in) financing activities		119,834	(309,984)	(749,373)	(15,951)	663,116
Increase/(Decrease) in cash and cash equivalents		487,374	116,799	(243,477)	(492,154)	889,997
Cash and cash equivalents at beginning of year/period	17	1,351,423	1,838,797	1,955,596	1,955,596	1,712,119
Cash and cash equivalents at end of year/period	17	1,838,797	1,955,596	1,712,119	1,463,442	2,602,116

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Organisation and principal activities

The Company was incorporated on 8 January 2003 by China National Pharmaceutical Group Corporation (中國醫藥集團總公司; “CNPGC”) and Shanghai Fosun Industrial Investment Co., Ltd. (“Fosun Investment”), which held 51% and 49% equity interests, respectively, in the Company. On 24 May 2004, Shanghai Fosun Industrial Investment Co., Ltd. transferred its 40% equity interests in the Company to Shanghai Fosun Grand Medicine Chain Operating Co., Ltd. (上海復星大藥房連鎖經營有限公司; “Fosun Grand Medicine”) and 9% equity interest in the Company to Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (復星醫藥(集團)股份有限公司; “Fosun Pharma”). After the transfers, CNPGC, Fosun Grand Medicine and Fosun Pharma held 51%, 40% and 9% equity interests, respectively, in the Company.

[●], certain restructuring of equity holders of the Company was carried out.

Upon the completion of the restructuring in July 2008, Sinopharm Industrial Investment Co., Ltd. (國藥產業投資有限公司 or “Sinopharm Investment”), a subsidiary of CNPGC, and CNPGC hold 96% and 4% equity interests, respectively, in the Company. CNPGC and Shanghai Qishen Investment Co., Ltd. (上海齊紳投資管理有限公司 or “Qishen Investment”) hold 51% and 49% equity interests, respectively, in Sinopharm Investment.

The ultimate holding company of Fosun Investment, Fosun Grand Medicine, Fosun Pharma and Qishen Investment is Fosun International Holdings Limited.

On 6 October 2008, the Company was transformed into a joint stock limited liability company under the PRC Company Law by converting its registered share capital and reserves as at 30 September 2007 with the proportion of 1: 0.8699 into 1,637,037,451 shares of RMB1 each. The address of its registered office is 221 Fuzhou Road, Huangpu District, Shanghai, PRC.

The Group is mainly engaged in: (1) distribution of medicines and pharmaceutical products to wholesale customers including hospitals and other distributors, (2) operation of pharmaceutical chain stores, and (3) manufacture and sale of certain antibiotic and herbal medicines, distribution of chemical reagents, healthcare products and laboratory supplies, and property rental operations.

The ultimate holding company of the Company is CNPGC, which is incorporated in the PRC.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years/ periods presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4 of this section.

During the Relevant Periods, the Company acquired 58.67% equity interests in National Medicines from CNPGC, its holding company (Note 19) and acquired 100% equity interests in Guangxi Guoda Pharmacy Chainstore Co., Ltd. from a wholly-owned subsidiary of CNPGC. These transactions have been accounted for using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5, “Merger Accounting for Common Control Combinations” issued by the HKICPA. The consolidated financial statements include the financial position, results and cash flows of National Medicines and Guangxi Guoda Pharmacy Chainstore Co., Ltd. as if the acquisition had been completed prior to the beginning of the Relevant Periods. For the other companies acquired from (or disposed to) a third party during the Relevant Periods, they are included in (excluded from) the consolidated financial statements of the Group from the date of the relevant acquisition (disposal).

(i) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group’s accounting periods beginning on or after 1 June 2009 or later periods, but the Group has not early adopted them:

- HKAS 27 (Revised), ‘Consolidated and separate financial statements’ (effective for annual period starting from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from the financial year beginning on 1 January 2010.
- HKFRS 3 (Revised), ‘Business combinations’ (effective for annual period starting from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from the financial year beginning on 1 January 2010.
- HKFRS 5 (Amendment), ‘Non-current assets held for sale and discontinued operations’ (and consequential amendment to HKFRS 1, ‘First-time adoption’) (effective for annual period starting from 1 July 2009). The amendment clarifies that all of a subsidiary’s assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply HKFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

- There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 1, 'Presentation of financial statements', HKAS 7, 'Statement of cash flows', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 17, 'Leases', HKAS 18, 'Revenue', HKAS 34, 'Interim financial reporting', HKAS 36, 'Impairment of assets', HKAS 38, 'Intangible assets', HKAS 39, 'Financial instruments: Recognition and measurement', HKFRS 5, 'Non-current assets held for sale and discontinued operations' and HKFRS 8, 'Operating Segments' which are not addressed above. These amendments are unlikely to have any significant impact on the Group's financial statements and have therefore not been analysed in detail.

(ii) Amendments and interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 June 2009 or later periods but are not relevant for the Group's operations:

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective for annual period starting from 1 July 2009).
- HK(IFRIC) — Int 17, 'Distributions of non-cash assets to owners' (effective for annual period starting from 1 July 2009).
- HK(IFRIC) — Int 18, 'Transfers of Assets from Customers' (effective for annual period starting from 1 July 2009).
- HKFRS 2, 'Share-based payment' (effective for annual period starting from 1 July 2009).
- HKAS 39, 'Financial instruments: Recognition and measurement' (effective for annual period starting from 1 January 2010).
- HK(IFRIC) — Int 9, 'Reassessment of embedded derivatives' (effective for annual period starting from 1 July 2009).
- HK(IFRIC) — Int 16, 'Hedges of a net investment in a foreign operation' (effective for annual period starting from 1 July 2009)

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Control also exists when the Company owns half or less of the voting rights of an entity when there is: (1) the Company is the largest shareholder of the entity; (2) the other shareholdings in

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

the entity individually or in aggregate are widely dispersed; (3) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by the Company; and (4) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by the Company.

(ii) Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

(iii) Accounting for business combinations not under common control

Subsidiaries acquired from third parties are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group from third parties. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2(i)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

(iv) Inter-company eliminations

Inter-company transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

(v) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests, including the transfer for no consideration of equity interests in Accord Pharma and National Medicines (Note 27), as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group and are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

As noted in Note 2(a), once HKAS 27 (revised) becomes effective, transaction with minority interests will be treated as equity transactions and will no longer result in goodwill or gains and losses.

(vi) Company’s balance sheets

In the Company’s balance sheets, the investments in subsidiaries are stated at cost less provision for impairment losses (if any). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(c) **Associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group’s share of its associates’ post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company’s balance sheet, the investments in associates are stated at cost less provision for impairment losses. The results of associate companies are accounted for by the Company on the basis of dividend received and receivable.

(d) **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the operating committee (comprising the general manager and the general manager office) that makes strategic decisions.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in Renminbi (“RMB”), which is the Group’s presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the respective functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within finance income or cost. All other foreign exchange gains and losses are presented in the income statement within other (losses)/gains - net.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(f) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	20-40 years
Plant and machinery	8-15 years
Motor vehicles	5 years
Furniture, fittings and equipment	5-8 years

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost. Cost includes the costs of construction of buildings and costs of plant and machinery. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains - net, in the income statement.

(g) Investment property

Investment property is held for long-term rental yields and is not occupied by the Group.

The land component of leasehold investment property is accounted for as land use rights.

The building component of investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of 20 to 40 years.

The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in the income statement when the changes arise.

(h) Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses (if any). Cost represents consideration paid for the rights to use the land for periods ranging from 40 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the rights.

(i) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested for impairment and carried at cost less accumulated impairment losses (if any). Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

(ii) Sales network

Sales network are measured initially at cost and are amortised using the straight-line method over their estimated useful lives of 9 years.

(iii) Trademarks and patent rights

Trademarks are measured initially at cost and are amortised using the straight-line method over their estimated useful lives of 10 years. Patent rights are initially recorded at actual cost and are amortised using the straight-line method over the estimated useful lives of 1 to 20 years.

(iv) Computer software

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 to 5 years.

(j) Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that have finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Financial assets

Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivable and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables, pledged bank deposits and cash and cash equivalents in the balance sheet.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the income statement within other (losses)/gains – net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group’s right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group’s right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in (m).

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(m) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within general and administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the consolidated income statement.

(n) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(o) Paid-in capital

Paid-in capital is classified as equity. Incremental costs directly attributable to paid-in capital are shown in equity as a deduction, net of tax, from the proceeds.

(p) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

(q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(r) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed as incurred.

(s) Current and deferred income tax

Tax expense comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(t) Employee benefits

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of the RMB denominated (the currency in which the benefits will be paid) PRC government bonds, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the income statement.

Past-service costs are recognised immediately as incurred, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

(u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(v) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group’s activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

met for each of the Group’s activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods — pharmaceutical distribution

The Group sells a range of medicine, pharmaceutical and other products in the wholesale market. Sales of goods are recognised when a Group entity has delivered products to the wholesaler (including hospital and distributor), the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler’s acceptance of the products. Delivery does not occur until the products have been delivered to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Medicine products are often sold with volume discounts. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts at the time of sale. Accumulated experience is used to estimate and provide for the discounts. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of 30 to 180 days, which is consistent with the market practice.

(ii) Sales of goods — retail pharmacy operations

The Group operates a chain of retail outlets for selling medicines and other pharmaceutical products. Sales of goods are recognised when a Group entity sells a product to the customer. Retail sales are usually in cash or by debit or credit cards.

(iii) Sales of services

The Group provides import and export agency service, consulting service and other miscellaneous services. Revenue from fixed-price contracts for delivering services is recognised in the period when the services are provided.

(iv) Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease.

(v) Franchise income

Franchise income is recognised as revenue when all material services relating to the contract have been substantially performed.

(vi) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the investment, and continues unwinding the discount as interest income.

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

(vii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(w) **Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for land use rights, are charged to the income statement on a straight-line basis over the period of the lease.

(x) **Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(y) **Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 **Financial risk management**

(a) **Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and fair value and cash flow interest rate risk), credit risk and liquidity risk. The ongoing global financial crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have led to bank failures and bank rescues in the United States of America ("USA"), Western Europe and elsewhere. The global financial crisis has also led to current or potential recession in major economies. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has not used derivative financial instruments to hedge its risk exposures on changes in foreign currency exchange rates and interest rates.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

(i) Foreign currency risk

The Group mainly operates in the PRC with most of the Group’s transactions denominated and settled in RMB. However, the Group has certain cash and cash equivalents and trade payables denominated in foreign currencies, mainly United States Dollars (“USD”), Hong Kong Dollars (“HKD”) and Euro (“EUR”), which are exposed to foreign currency translation risk. The Group has not hedged its foreign currency risk.

As at 31 December 2006, 2007, 2008 and 31 May 2009, if RMB had strengthened/weakened by 10% against USD, HKD and EUR with all other variables held constant, post-tax profit for the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009 would have been approximately RMB8,579,000 higher/lower, RMB38,898,000 higher/lower, RMB19,667,000 higher/lower and RMB46,029,347 higher/lower, respectively, mainly as a result of foreign exchange losses/gains or gains/losses on translation of USD, HKD and EUR-denominated cash and cash equivalents and trade payables.

(ii) Fair value and cash flow interest rate risk

Except for bank deposits which earn interest at floating rates, the Group has no significant interest-bearing assets. The Group’s income and operating cash flows are substantially independent of changes in market interest rates.

As at 31 December 2006, 2007 and 2008 and 31 May 2009, if interest rates on bank deposits had been 15% higher/lower than the actual benchmark annual rate of 0.72%, 0.72%, 0.36% and 0.36% announced by the People’s Bank of China (“PBOC”) respectively with all other variables held constant, the post-tax profit for the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009 would have been RMB1,175,000, RMB1,914,000, RMB2,808,000 and RMB1,012,987 higher/lower, respectively, mainly as a result of higher/lower interest income on bank deposits.

The Group’s interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk.

As at 31 December 2006, 2007 and 2008 and 31 May 2009, if interest rates on bank borrowings had been 15% higher/lower than the actual benchmark annual rate of 6.1%, 7.5%, 5.3% and 5.3% announced by PBOC respectively with all other variables held constant, the post-tax profit for the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009 would have been RMB7,104,000, RMB8,076,000, RMB13,684,000 and RMB5,341,040 lower/higher, respectively, mainly as a result of higher/lower interest expense on bank borrowings.

(iii) Credit risk

The carrying amounts of pledged bank deposits, cash and cash equivalents, trade and other receivables included in the consolidated financial statements represent the Group’s maximum exposure to credit risk in relation to its financial assets.

Under the ongoing global financial crisis, debtors of the Group may be affected by the unfavourable economic conditions and the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

The Group has policy in place to ensure credit sales are made to customers with an appropriate credit history. Credit terms are approved after credit evaluations/reviews. Majority of trade receivables are with customers having an appropriate credit history.

The Group has policies to place its cash and cash equivalents only with major financial institutions. As at 31 December 2006, 2007, 2008 and 31 May 2009, most of the pledged bank deposits and cash and cash equivalents were deposited with major financial institutions in Mainland China.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities, discounting of bank acceptance notes to banks and the ability to close out market positions. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group. Details of the undrawn borrowing facilities available to the Group are disclosed in Note 20.

The Group has agreed to receive bank acceptance notes from certain customers with long-term business trading history and most of these notes are guaranteed by major banks in Mainland China. The maturity of these bank acceptance notes ranges from 3 to 6 months. To maintain flexibility in the Group's funding requirements, a major portion of these bank acceptance notes are discounted to banks with effective interest rates ranging from 1.92% to 8.16% per annum. The Group derecognises the related receivables once it has transferred substantially all the risks and rewards to its bankers upon discounting.

The liquidity crisis under the ongoing global financial crisis could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Management believes that they are taking all the necessary measures to maintain sufficient liquidity reserve to support sustainability and growth of the Group's business in the current circumstances and to repay outstanding borrowings when they fall due. Currently, the Group finances its working capital requirements through a combination of funds generated from operations and bank borrowings.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

The table below analyses the Group’s financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year RMB’000	Between 1 and 2 years RMB’000	Between 2 and 5 years RMB’000	Over 5 years RMB’000	Total RMB’000
As at 31 December 2006					
Borrowings	1,704,351	-	177,720	-	1,882,071
Interests payments on borrowings (Note)	40,921	12,138	19,006	-	72,065
Trade and other payables	6,502,317	-	-	-	6,502,317
	<u>8,247,589</u>	<u>12,138</u>	<u>196,726</u>	<u>-</u>	<u>8,456,453</u>
As at 31 December 2007					
Borrowings	2,161,596	57,720	100,000	-	2,319,316
Interests payments on borrowings (Note)	41,370	10,118	10,293	-	61,781
Trade and other payables	8,206,454	-	-	-	8,206,454
	<u>10,409,420</u>	<u>67,838</u>	<u>110,293</u>	<u>-</u>	<u>10,587,551</u>
As at 31 December 2008					
Borrowings	1,504,170	30,000	100,000	-	1,634,170
Interests payments on borrowings (Note)	39,291	8,144	3,526	-	50,961
Trade and other payables	9,913,603	-	-	-	9,913,603
	<u>11,457,064</u>	<u>38,144</u>	<u>103,526</u>	<u>-</u>	<u>11,598,734</u>
As at 31 May 2009					
Borrowings	2,464,939	30,000	30,000	-	2,524,939
Interests payments on borrowings (Note)	28,901	1,786	204	-	30,891
Trade and other payables	11,432,193	-	-	-	11,432,193
	<u>13,926,033</u>	<u>31,786</u>	<u>30,204</u>	<u>-</u>	<u>13,988,023</u>

Note: Interest is based on borrowings as at 31 December 2006, 2007, 2008 and 31 May 2009 and the interest rate as at 31 December 2006, 2007, 2008 and 31 May 2009.

(b) Capital risk management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

As at 31 December 2006, 2007, 2008 and 31 May 2009, the Group was in a net cash position (total bank borrowings and loan from parent company (if any) were less than the total of pledged bank deposits and cash and cash equivalents).

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total bank borrowings and loan from parent company (if any) divided by capital and reserves attributable to the Company’s equity holders.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

The gearing ratios are as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Bank borrowings	1,882,071	1,679,316	1,634,170	2,524,939
Loan from parent company	-	640,000	-	-
Total borrowings	1,882,071	2,319,316	1,634,170	2,524,939
Capital and reserves attributable to the Company’s equity holders	1,759,628	1,683,759	2,264,230	2,584,481
Gearing ratio	107%	138%	72%	98%

(c) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) De facto control over Accord Pharma and National Medicines

The Company’s directors and the Group’s management are of the view that the Group has the power to govern the financial and operating policies of Accord Pharma although it has held less than 50% of its equity interests since December 2004, after considering that (1) the Company has been the single largest shareholder of Accord Pharma; (2) the shareholding in Accord Pharma was dispersed and the other top ten shareholders held less than 4% and 18% equity interests individually or in aggregate; (3) the participation of the other shareholders at the shareholders’ meetings has been relatively low and passive; and (4) the majority of the executive directors of Accord Pharma were representatives of the Company.

The Company’s directors and the Group’s management are of the view that the Group has the power to govern the financial and operating policies of National Medicines during the Relevant Periods although its equity interests in this company was decreased to below 50%

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

following the completion of the share reform in August 2006 (Note 27), after considering that (1) the Company has been the single largest shareholder of National Medicines; (2) the shareholding in National Medicines was dispersed and the other top ten shareholders held less than 4% and 19% equity interests individually or in aggregate; (3) the participation of the other shareholders at the shareholders' meetings has been relatively low and passive; and (4) the majority of the executive directors of National Medicines were representatives of the Company.

(b) Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

(c) Useful lives of sales network, trademarks and patent rights

The Group determines the estimated useful lives and consequently the related amortisation charges for its sales network, trademarks and patent rights. These estimates are based on the historical experience of the actual useful lives of sales network, trademarks and patent rights of similar nature and functions. Management will increase the amortisation charges where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in amortisable lives and therefore amortisation expenses in future periods.

(d) Impairment of property, plant and equipment and land use rights

Property, plant and equipment and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicated that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated income statement.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

(e) Impairment of receivables

The Group’s management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provisions at each balance sheet date.

(f) Net realisable value of inventories

Net realisable value of inventory is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(g) Income taxes and deferred income tax

The Group is subject to income taxes in Mainland China jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates are changed.

(h) Post-employment benefit obligations

The valuation of the present value of post-employment benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of benefit obligations. Key assumptions for benefit obligations are based in part on current market conditions. Additional information is disclosed in Note 21.

(i) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2 (i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 9).

5 Segment information

Management has determined the operating segments based on the reports reviewed by the operating committee (comprising the general manager and the general manager office) that are used to make strategic decisions. The operating committee considers the business from a

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

business type perspective. The reportable operating segments derive their revenue primarily from the following three business types in the PRC:

- (1) Pharmaceutical distribution — distribution of medicine and pharmaceutical products to wholesale customers, including hospitals and distributors;
- (2) Retail pharmacy operations — operation of medicine chain stores; and
- (3) Other business operations — distribution of laboratory supplies, manufacturing and distribution of chemical reagents and production and sale of pharmaceutical.

Inter-segment revenue are conducted at prices and terms mutually agreed amongst those business segments.

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets consist primarily of land use rights, investment properties, property, plant and equipment, intangible assets, inventories, receivables and operating cash.

Segment liabilities are those operating liabilities that result from the operating activities of a segment. Segment liabilities do not include borrowings and other liabilities that are incurred for financing rather than operating purpose.

Unallocated assets mainly represent deferred income tax assets. Unallocated liabilities mainly represent corporate borrowings and deferred income tax liabilities.

Capital expenditure comprises mainly additions to land use rights, investment properties, property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

The segment information provided to the operating committee is as follows:

(i) As at and for the year ended 31 December 2006

	Pharmaceutical distribution	Retail pharmacy operations	Other business operations	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment results					
External segment revenue	21,927,216	823,171	986,255	-	23,736,642
Inter-segment revenue	87,199	-	90,398	(177,597)	-
Revenue	22,014,415	823,171	1,076,653	(177,597)	23,736,642
Operating profit	396,766	12,337	73,803	(2,655)	480,251
Other (losses)/gains	(45,641)	(108)	116	-	(45,633)
Share of results of associates	20,251	-	(1,058)	-	19,193
	371,376	12,229	72,861	(2,655)	453,811
Finance costs – net					(89,844)
Profit before income tax					363,967
Income tax expense					(181,519)
Profit for the year					182,448
Other segment items included in the income statement					
Provision for impairment of trade and other receivables	37,225	1,248	9,596		48,069
Provision for impairment of inventories	1,414	1,809	941		4,164
Amortisation of land use rights	6,451	-	2,566		9,017
Depreciation of property, plant and equipment	52,877	12,457	18,841		84,175
Depreciation of investment properties	-	-	3,695		3,695
Amortisation of intangible assets	22,362	87	7,380		29,829
Segment assets and liabilities					
Segment assets	9,807,470	492,160	1,345,441	(202,974)	11,442,097
Segment assets include:					
Investment in associate	204,121	-	12,411	-	216,532
Unallocated assets					148,168
Total assets					11,590,265
Segment liabilities	6,216,073	384,209	641,415	(193,488)	7,048,209
Unallocated liabilities					1,951,795
Total liabilities					9,000,004
Capital expenditures	150,746	17,843	109,562	-	278,151

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

(ii) As at and for the year ended 31 December 2007

	Pharmaceutical distribution	Retail pharmacy operations	Other business operations	Elimination	Group
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Segment results					
External segment revenue	28,997,317	835,624	1,277,273	-	31,110,214
Inter-segment revenue	128,042	-	97,893	(225,935)	-
Revenue	<u>29,125,359</u>	<u>835,624</u>	<u>1,375,166</u>	<u>(225,935)</u>	<u>31,110,214</u>
Operating profit	682,251	24,226	84,496	(1,627)	789,346
Other gains/(losses)	128,065	(1,079)	(2,849)	-	124,137
Share of results of associates	41,245	-	(1,210)	-	40,035
	851,561	23,147	80,437	(1,627)	953,518
Finance costs – net					(133,109)
Profit before income tax					820,409
Income tax expense					(284,460)
Profit for the year					<u>535,949</u>
Other segment items included in the income statement					
Provision for impairment of trade and other receivables	38,622	1,640	2,965		43,227
Provision for impairment of inventories	1,020	439	6,484		7,943
Amortisation of land use rights	6,223	-	2,566		8,789
Depreciation of property, plant and equipment	59,153	12,482	20,708		92,343
Depreciation of investment properties	-	-	3,539		3,539
Amortisation of intangible assets	23,022	50	7,187		30,259
Segment assets and liabilities					
Segment assets	12,605,622	337,881	1,465,250	(260,011)	14,148,742
Segment assets include:					
Investment in associate	245,883	-	9,477	-	255,360
Unallocated assets					138,519
Total assets					<u>14,287,261</u>
Segment liabilities	8,602,504	211,958	717,259	(248,900)	9,282,821
Unallocated liabilities					2,386,092
Total liabilities					<u>11,668,913</u>
Capital expenditures	<u>232,260</u>	<u>17,865</u>	<u>64,021</u>	<u>-</u>	<u>314,146</u>

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

(iii) As at and for the year ended 31 December 2008

	Pharmaceutical distribution	Retail pharmacy operations	Other business operations	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment results					
External segment revenue	35,745,080	952,162	1,490,191	-	38,187,433
Inter-segment revenue	213,020	-	98,144	(311,164)	-
Revenue	<u>35,958,100</u>	<u>952,162</u>	<u>1,588,335</u>	<u>(311,164)</u>	<u>38,187,433</u>
Operating profit	1,057,293	11,896	106,507	(3,558)	1,172,138
Other gains/(losses)	93,564	(616)	(199)	-	92,749
Share of results of associates	54,137	-	49	-	54,186
	1,204,994	11,280	106,357	(3,558)	1,319,073
Finance costs – net					(241,684)
Profit before income tax					1,077,389
Income tax expense					(259,286)
Profit for the year					<u>818,103</u>
Other segment items included in the income statement					
(Write-back of)/provision for impairment of trade and other receivables	(2,508)	(1,146)	85		(3,569)
Provision for impairment of inventories	1,060	1,061	2,365		4,486
Amortisation of land use rights	8,180	-	2,770		10,950
Depreciation of property, plant and equipment	71,117	14,292	33,208		118,617
Depreciation of investment properties	-	-	6,776		6,776
Amortisation of intangible assets	<u>34,859</u>	<u>80</u>	<u>1,437</u>		<u>36,376</u>
Segment assets and liabilities					
Segment assets	14,527,096	422,576	1,368,699	(346,509)	15,971,862
Segment assets include:					
Investment in associate	282,246	-	24,282	-	306,528
Unallocated assets					143,035
Total assets					<u>16,114,897</u>
Segment liabilities	10,318,922	299,396	712,108	(324,259)	11,006,167
Unallocated liabilities					1,698,148
Total liabilities					<u>12,704,315</u>
Capital expenditures	<u>132,276</u>	<u>9,522</u>	<u>139,641</u>	<u>-</u>	<u>281,439</u>

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

(iv) As at and for the five months ended 31 May 2009

	Pharmaceutical distribution RMB'000	Retail pharmacy operations RMB'000	Other business operations RMB'000	Elimination RMB'000	Group RMB'000
Segment results					
External segment revenue	16,845,715	463,206	739,120	-	18,048,041
Inter-segment revenue	99,183	-	48,384	(147,567)	-
Revenue	16,944,898	463,206	787,504	(147,567)	18,048,041
Operating profit	633,726	4,201	68,607	(3,942)	702,592
Other gains/(losses)	102,058	(391)	2,298	-	103,965
Share of results of associates	25,063	-	-	-	25,063
	760,847	3,810	70,905	(3,942)	831,620
Finance costs – net					(84,869)
Profit before income tax					746,751
Income tax expense					(193,840)
Profit for the period					552,911
Other segment items included in the income statement					
Provision for/(writeback of) impairment of trade and other receivables	8,163	(53)	416		8,526
Provision for impairment of inventories	2,105	119	2,366		4,590
Amortisation of land use rights	2,610	-	1,099		3,709
Depreciation of property, plant and equipment	29,397	5,904	17,733		53,034
Depreciation of investment properties	-	-	1,308		1,308
Amortisation of intangible assets	14,633	34	4,279		18,946
Segment assets and liabilities					
Segment assets	17,164,576	480,341	1,596,579	(351,192)	18,890,304
Segment assets include:					
Investment in associate	309,241	-	8,307	-	317,548
Unallocated assets					138,045
Total assets					19,028,349
Segment liabilities	11,753,334	193,822	948,658	(346,518)	12,549,296
Unallocated liabilities					2,601,460
Total liabilities					15,150,756
Capital expenditures	121,529	3,381	149,784	-	274,694

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

(v) As at and for the five months ended 31 May 2008 (Unaudited)

	Pharmaceutical distribution RMB'000	Retail pharmacy operations RMB'000	Other business operations RMB'000	Elimination RMB'000	Group RMB'000
Segment results					
External segment revenue	14,017,737	389,016	600,477	-	15,007,230
Inter-segment revenue	102,661	-	38,236	(140,897)	-
Revenue	14,120,398	389,016	638,713	(140,897)	15,007,230
Operating profit	453,665	4,970	56,225	(5,428)	509,432
Other (losses)/gains	79,421	(279)	252	-	79,394
Share of results of associates	22,799	-	-	-	22,799
	555,885	4,691	56,477	(5,428)	611,625
Finance costs – net					(90,785)
Profit before income tax					520,840
Income tax expense					(119,015)
Profit for the period					401,825
Other segment items included in the income statement					
Provision for/(writeback of) impairment of trade and other receivables	11,519	(1,263)	468		10,724
Provision for impairment of inventories	(3,869)	-	48		(3,821)
Amortisation of land use rights	1,946	-	1,091		3,037
Depreciation of property, plant and equipment	32,938	3,813	14,224		50,975
Depreciation of investment properties	-	-	1,170		1,170
Amortisation of intangible assets	13,868	23	745		14,636
Segment assets and liabilities					
Segment assets	14,473,263	439,817	1,195,734	(315,889)	15,792,925
Segment assets include:					
Investment in associate	247,426	-	7,314	-	254,740
Unallocated assets					133,280
Total assets					15,926,205
Segment liabilities	9,854,151	257,879	580,391	(318,966)	10,373,455
Unallocated liabilities					2,522,476
Total liabilities					12,895,931
Capital expenditures	48,349	2,684	25,666	-	76,699

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

6 Land use rights — Group

Land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group has acquired rights to use certain land. The Group's interests in land use rights represent prepaid operating lease payments and their net book amount are analysed as follows:

	Year ended 31 December			Five months ended 31 May 2009
	2006 RMB'000	2007 RMB'000	2008 RMB'000	RMB'000
Cost	437,761	430,725	459,984	498,134
Accumulated amortisation	(39,922)	(46,086)	(57,037)	(60,746)
Net book amount	397,839	384,639	402,947	437,388
Opening net book amount	348,528	397,839	384,639	402,947
Additions	65,639	18,321	29,258	22,443
Acquisition of subsidiaries	-	-	-	15,707
Amortisation	(9,017)	(8,789)	(10,950)	(3,709)
Disposals	(7,311)	(22,732)	-	-
Closing net book amount	397,839	384,639	402,947	437,388

Land use rights are located in Mainland China with tenure between 40 to 50 years.

Amortisation of land use rights has been included in general and administrative expenses.

Land use rights with net book amount of approximately RMB42,181,000, RMB41,366,000, RMB40,550,000 and nil as at 31 December 2006, 2007, 2008 and 31 May 2009, respectively, are pledged as collaterals for the Group's bank borrowings (Note 20).

7 Investment properties — Group

	Year ended 31 December			Five months ended 31 May 2009
	2006 RMB'000	2007 RMB'000	2008 RMB'000	RMB'000
Cost	101,056	109,156	87,927	86,555
Accumulated depreciation	(22,936)	(27,541)	(26,145)	(27,002)
Net book amount	78,120	81,615	61,782	59,553
Opening net book amount	65,170	78,120	81,615	61,782
Acquisition of a subsidiary (Note 38)	-	5,942	-	-
Transfer from property, plant and equipment (Note 8)	16,645	1,414	956	-
Transfer to property, plant and equipment (Note 8) ..	-	(322)	(14,013)	(921)
Depreciation	(3,695)	(3,539)	(6,776)	(1,308)
Closing net book amount	78,120	81,615	61,782	59,553

Investment properties are located in Mainland China, on land with use rights between 40 to 50 years.

As at 31 May 2009, the property rights of buildings with a net book amount of RMB11,345,000 were absent.

Except for buildings without property rights for which no commercial value belongs to the Group, the fair values of the investment properties were RMB122,664,000, RMB134,524,000,

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

RMB101,691,000 and RMB119,783,000 as at 31 December 2006, 2007, 2008 and 31 May 2009, respectively. These estimates by the directors were based on market transacted prices for similar properties in the vicinity of the relevant properties. In case where market transacted prices were not available, fair values were estimated using published price indices and guidelines from the relevant government authorities. Considering that the carrying amounts of investment properties are not significant to the Group, the directors of the Company are of the view that the fair value of the investment properties can be estimated with reference to the market value of properties in the vicinity and the therefore valuation by independent property valuers is not considered necessary.

Investment properties with net book amount of nil, RMB29,979,000, nil and nil as at 31 December 2006, 2007, 2008 and 31 May 2009 were pledged as collateral for the Group's bank borrowings (Note 20).

Lease rental income relating to the lease of investment properties has been included in the consolidated income statements as follows:

	Year ended 31 December			Five months ended 31 May	
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000 (Unaudited)	2009 RMB'000
Revenue (Note 25)	25,736	36,855	31,242	15,069	15,868

8 Property, plant and equipment

The Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2006						
Cost	625,285	259,836	98,264	137,444	277,893	1,398,722
Accumulated depreciation and impairment	(150,020)	(105,254)	(60,651)	(54,131)	-	(370,056)
Net book amount	475,265	154,582	37,613	83,313	277,893	1,028,666
Year ended 31 December 2006						
Opening net book amount	475,265	154,582	37,613	83,313	277,893	1,028,666
Acquisition of a subsidiary (Note 38)	2,859	-	1,122	367	-	4,348
Additions	26,413	5,149	74,318	17,166	62,473	185,519
Transfers	126,182	4,681	-	-	(130,863)	-
Transfer to investment properties (Note 7)	(16,645)	-	-	-	-	(16,645)
Disposals	(20,658)	(1,266)	(2,922)	(4,910)	-	(29,756)
Depreciation	(19,672)	(17,695)	(27,705)	(19,103)	-	(84,175)
Closing net book amount	573,744	145,451	82,426	76,833	209,503	1,087,957
At 1 January 2007						
Cost	742,895	263,811	162,895	129,745	209,503	1,508,849
Accumulated depreciation and impairment	(169,151)	(118,360)	(80,469)	(52,912)	-	(420,892)
Net book amount	573,744	145,451	82,426	76,833	209,503	1,087,957

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

	<u>Buildings</u> <u>RMB'000</u>	<u>Plant and</u> <u>machinery</u> <u>RMB'000</u>	<u>Furniture,</u> <u>fittings and</u> <u>equipment</u> <u>RMB'000</u>	<u>Motor</u> <u>vehicles</u> <u>RMB'000</u>	<u>Construction</u> <u>in progress</u> <u>RMB'000</u>	<u>Total</u> <u>RMB'000</u>
Year ended 31 December 2007						
Opening net book amount . . .	573,744	145,451	82,426	76,833	209,503	1,087,957
Acquisition of a subsidiary (Note 38)	44,953	-	546	1,659	-	47,158
Additions	48,799	15,567	64,148	25,191	81,343	235,048
Transfers	146,979	69,200	-	-	(216,179)	-
Transfer from investment properties (Note 7)	322	-	-	-	-	322
Transfer to investment properties (Note 7)	(1,414)	-	-	-	-	(1,414)
Disposal of subsidiaries	(21,846)	-	-	-	-	(21,846)
Disposals	(23,240)	(13,669)	(13,444)	(8,096)	(3,488)	(61,937)
Depreciation	(28,367)	(17,955)	(29,180)	(16,841)	-	(92,343)
Closing net book amount	<u>739,930</u>	<u>198,594</u>	<u>104,496</u>	<u>78,746</u>	<u>71,179</u>	<u>1,192,945</u>
At 1 January 2008						
Cost	946,111	312,869	195,295	140,102	71,179	1,665,556
Accumulated depreciation and impairment	<u>(206,181)</u>	<u>(114,275)</u>	<u>(90,799)</u>	<u>(61,356)</u>	<u>-</u>	<u>(472,611)</u>
Net book amount	<u>739,930</u>	<u>198,594</u>	<u>104,496</u>	<u>78,746</u>	<u>71,179</u>	<u>1,192,945</u>
Year ended 31 December 2008						
Opening net book amount . . .	739,930	198,594	104,496	78,746	71,179	1,192,945
Acquisition of subsidiaries (Note 38)	4,916	-	-	-	-	4,916
Additions	20,011	9,871	57,533	23,791	104,240	215,446
Transfers	16,920	17,022	-	-	(33,942)	-
Transfer from investment properties (Note 7)	14,013	-	-	-	-	14,013
Transfer to investment properties (Note 7)	(956)	-	-	-	-	(956)
Disposal of subsidiaries	(7,847)	(2,089)	(8,214)	(759)	-	(18,909)
Disposals	(21,187)	(2,300)	(5,407)	(2,925)	-	(31,819)
Depreciation	(37,621)	(25,712)	(34,400)	(20,884)	-	(118,617)
Closing net book amount	<u>728,179</u>	<u>195,386</u>	<u>114,008</u>	<u>77,969</u>	<u>141,477</u>	<u>1,257,019</u>
At 31 December 2008						
Cost	952,582	302,300	220,472	147,713	141,477	1,764,544
Accumulated depreciation and impairment	<u>(224,403)</u>	<u>(106,914)</u>	<u>(106,464)</u>	<u>(69,744)</u>	<u>-</u>	<u>(507,525)</u>
Net book amount	<u>728,179</u>	<u>195,386</u>	<u>114,008</u>	<u>77,969</u>	<u>141,477</u>	<u>1,257,019</u>

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

	<u>Buildings</u> RMB'000	<u>Plant and machinery</u> RMB'000	<u>Furniture, fittings and equipment</u> RMB'000	<u>Motor vehicles</u> RMB'000	<u>Construction in progress</u> RMB'000	<u>Total</u> RMB'000
Five months ended 31 May 2009						
Opening net book amount . . .	728,179	195,386	114,008	77,969	141,477	1,257,019
Acquisition of subsidiaries (Note 38)	7,897	53,716	5,930	3,095	2,230	72,868
Additions	17,232	14,581	6,085	16,521	11,866	66,285
Transfers	78,979	25,646	-	-	(104,625)	-
Transfer from investment properties (Note 7)	921	-	-	-	-	921
Disposals	(5,198)	(4,758)	(1,918)	(298)	-	(12,172)
Depreciation	(17,370)	(14,517)	(7,841)	(13,306)	-	(53,034)
Closing net book amount	<u>810,640</u>	<u>270,054</u>	<u>116,264</u>	<u>83,981</u>	<u>50,948</u>	<u>1,331,887</u>
At 31 May 2009						
Cost	1,048,215	401,463	228,155	164,486	50,948	1,893,267
Accumulated depreciation and impairment	(237,575)	(131,409)	(111,891)	(80,505)	-	(561,380)
Net book amount	<u>810,640</u>	<u>270,054</u>	<u>116,264</u>	<u>83,981</u>	<u>50,948</u>	<u>1,331,887</u>

Depreciation expenses were charged to the consolidated income statements as follows:

	<u>Year ended 31 December</u>			<u>Five months ended 31 May</u>	
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
				(Unaudited)	
Cost of sales	28,637	35,160	46,533	20,645	21,224
Distribution and selling expenses	5,098	4,734	7,107	2,750	4,942
General and administrative expenses	50,440	52,449	64,977	27,580	26,868
	<u>84,175</u>	<u>92,343</u>	<u>118,617</u>	<u>50,975</u>	<u>53,034</u>

Property, plant and equipment with net book amount of approximately RMB155,075,000, RMB213,601,000, RMB147,600,000 and RMB65,637,000 as at 31 December 2006, 2007, 2008 and 31 May 2009, respectively, were pledged as collateral of the Group's bank borrowings (Note 20).

As at 31 May 2009, the property rights of buildings with net book amount of RMB34,843,000 are absent.

Details of the borrowing cost capitalised into the cost of property, plant and equipment were as follows:

	<u>Year ended 31 December</u>			<u>Five months ended 31 May</u>	
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
				(Unaudited)	
Borrowing cost capitalised	1,461	2,998	3,202	1,597	1,231
Weighted average of the borrowing cost rate	5.4%	4.4%	5.9%	5.9%	5.4%

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

The Company

	Buildings RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2006					
Cost	705	6,839	6,589	-	14,133
Accumulated depreciation	(273)	(1,690)	(1,454)	-	(3,417)
Net book amount	432	5,149	5,135	-	10,716
Year ended 31 December 2006					
Opening net book amount	432	5,149	5,135	-	10,716
Additions	-	1,106	3,065	752	4,923
Transfers	287	-	-	(287)	-
Disposals	(209)	-	(406)	-	(615)
Depreciation	-	(1,366)	(988)	-	(2,354)
Closing net book amount	510	4,889	6,806	465	12,670
At 31 December 2006					
Cost	768	7,945	8,928	465	18,106
Accumulated depreciation	(258)	(3,056)	(2,122)	-	(5,436)
Net book amount	510	4,889	6,806	465	12,670
Year ended 31 December 2007					
Opening net book amount	510	4,889	6,806	465	12,670
Additions	-	2,432	1,546	1,851	5,829
Transfers	-	2,316	-	(2,316)	-
Disposals	-	(5)	(204)	-	(209)
Depreciation	-	(1,598)	(1,530)	-	(3,128)
Closing net book amount	510	8,034	6,618	-	15,162
At 31 December 2007					
Cost	768	12,597	10,234	-	23,599
Accumulated depreciation	(258)	(4,563)	(3,616)	-	(8,437)
Net book amount	510	8,034	6,618	-	15,162
Year ended 31 December 2008					
Opening net book amount	510	8,034	6,618	-	15,162
Additions	-	2,153	-	-	2,153
Disposals	-	-	80	-	80
Depreciation	-	(1,662)	(1,773)	-	(3,435)
Closing net book amount	510	8,525	4,925	-	13,960
At 31 December 2008					
Cost	768	14,750	10,234	-	25,752
Accumulated depreciation	(258)	(6,225)	(5,309)	-	(11,792)
Net book amount	510	8,525	4,925	-	13,960
Five months ended 31 May 2009					
Opening net book amount	510	8,525	4,925	-	13,960
Additions	-	58	-	-	58
Disposals	-	(132)	-	-	(132)
Depreciation	-	(895)	(642)	-	(1,537)
Closing net book amount	510	7,556	4,283	-	12,349
At 31 May 2009					
Cost	768	14,676	10,234	-	25,678
Accumulated depreciation	(258)	(7,120)	(5,951)	-	(13,329)
Net book amount	510	7,556	4,283	-	12,349

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

9 Intangible assets — Group

	Goodwill	Sales	Trademarks	Software	Total
	RMB’000	network	and patent	RMB’000	RMB’000
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
At 1 January 2006					
Cost	11,704	152,238	79,363	17,247	260,552
Accumulated amortisation	-	(24,565)	(7,601)	(8,011)	(40,177)
Net book amount	11,704	127,673	71,762	9,236	220,375
Year ended 31 December 2006					
Opening net book amount	11,704	127,673	71,762	9,236	220,375
Acquisition of subsidiaries	8,287	-	-	-	8,287
Acquisition of additional interests in subsidiaries	5,869	-	-	-	5,869
Additions	-	-	-	11,128	11,128
Amortisation	-	(16,915)	(7,095)	(5,819)	(29,829)
Closing net book amount	25,860	110,758	64,667	14,545	215,830
At 1 January 2007					
Cost	25,860	152,238	79,363	28,375	285,836
Accumulated amortisation	-	(41,480)	(14,696)	(13,830)	(70,006)
Net book amount	25,860	110,758	64,667	14,545	215,830
Year ended 31 December 2007					
Opening net book amount	25,860	110,758	64,667	14,545	215,830
Acquisition of subsidiaries	-	24,083	-	-	24,083
Additions	-	-	2,542	4,949	7,491
Amortisation	-	(17,933)	(7,090)	(5,236)	(30,259)
Closing net book amount	25,860	116,908	60,119	14,258	217,145
At 1 January 2008					
Cost	25,860	176,321	81,905	33,324	317,410
Accumulated amortisation	-	(59,413)	(21,786)	(19,066)	(100,265)
Net book amount	25,860	116,908	60,119	14,258	217,145
Year ended 31 December 2008					
Opening net book amount	25,860	116,908	60,119	14,258	217,145
Acquisition of subsidiaries	4,733	32,184	-	19	36,936
Disposal of subsidiaries	-	-	(20,998)	-	(20,998)
Additions	-	-	2,200	5,113	7,313
Amortisation	-	(23,072)	(6,576)	(6,728)	(36,376)
Closing net book amount	30,593	126,020	34,745	12,662	204,020
At 31 December 2008					
Cost	30,593	208,505	63,107	38,456	340,661
Accumulated amortisation	-	(82,485)	(28,362)	(25,794)	(136,641)
Net book amount	30,593	126,020	34,745	12,662	204,020
Five months ended of 31 May 2009					
Opening net book amount	30,593	126,020	34,745	12,662	204,020
Acquisition of subsidiaries	44,363	26,645	37,162	-	108,170
Additions	-	-	-	3,683	3,683
Amortisation	-	(10,556)	(6,232)	(2,158)	(18,946)
Closing net book amount	74,956	142,109	65,675	14,187	296,927
At 31 May 2009					
Cost	74,956	235,151	100,269	33,936	444,312
Accumulated amortisation	-	(93,042)	(34,594)	(19,749)	(147,385)
Net book amount	74,956	142,109	65,675	14,187	296,927

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

Amortisation expenses were charged to the consolidated income statements as follows:

	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Distribution and selling expenses	17,217	17,931	25,942	10,994	10,556
General and administrative expenses	12,612	12,328	10,434	3,642	8,390
	29,829	30,259	36,376	14,636	18,946

Impairment tests for goodwill:

Goodwill is allocated to the Group’s cash-generating units (CGUs) identified according to business segment, as follows:

	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Pharmaceutical distribution	4,127	4,127	4,127	4,127	8,657
Retail pharmacy operations	15,194	15,194	19,927	16,882	19,927
Other business operations	6,539	6,539	6,539	6,539	46,372
	25,860	25,860	30,593	27,548	74,956

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the businesses in which the CGUs operate. The key assumptions used for value-in-use calculations are as follows:

	Pharmaceutical distribution	Retail pharmacy operations	Other business operations
Gross margin	6.0%	21.0%	30.0%
Growth rate to extrapolate cash flows beyond the budget period . . .	4.0%	0.3%	6.0%
Discount rate	12.6%	12.9%	13.5%

Management determined budgeted gross margin and growth rates based on past performance and its expectations for market development. The discount rates used are pre-tax after reflecting specific risks of the relevant businesses.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

10 Investments in subsidiaries — Company

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Investments at cost				
- Listed shares (i)	526,299	518,893	511,686	500,421
- Unlisted shares	1,103,037	1,232,907	1,579,977	1,733,551
	<u>1,629,336</u>	<u>1,751,800</u>	<u>2,091,663</u>	<u>2,233,972</u>
Quoted market value of listed shares	<u>1,917,572</u>	<u>6,170,180</u>	<u>4,930,405</u>	<u>5,286,560</u>

Note –

- (i) This represents the Group’s investments in Accord Pharma and National Medicines, companies listed on the Shenzhen and Shanghai Stock Exchanges respectively in Mainland China.

Particulars of the Company’s principal subsidiaries are set out in Note 40.

11 Investments in associates

The Group

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Share of net assets	193,133	233,255	289,175	300,195
Goodwill	23,399	22,105	17,353	17,353
End of the year/period	<u>216,532</u>	<u>255,360</u>	<u>306,528</u>	<u>317,548</u>
Beginning of the year/period	185,822	216,532	255,360	306,528
Acquisitions	28,550	-	14,690	-
Reclassification from investments in subsidiaries upon cessation of control	-	35,865	21,956	-
Reclassification from available-for-sale financial assets (Note 12)	-	-	-	1,915
Share of results	19,193	40,035	54,186	25,063
Dividends declared by associates attributable to the Group	(16,348)	(21,324)	(25,713)	(15,958)
Disposals	(685)	(1,755)	(13,951)	-
Reclassification to investments in subsidiaries upon transfer of control to the Group (Note 38)	-	(13,993)	-	-
End of the year/period	<u>216,532</u>	<u>255,360</u>	<u>306,528</u>	<u>317,548</u>

The Group’s shares of the assets, liabilities, revenues and results of the associates are as follows:

	Year ended 31 December			Five months ended 31 May 2009
	2006	2007	2008	
	RMB’000	RMB’000	RMB’000	RMB’000
Assets	<u>452,129</u>	<u>440,303</u>	<u>524,332</u>	<u>752,317</u>
Liabilities	<u>258,996</u>	<u>207,048</u>	<u>235,157</u>	<u>452,122</u>
Revenues	<u>671,218</u>	<u>816,147</u>	<u>1,023,589</u>	<u>529,027</u>
Profit for the year/period	<u>19,193</u>	<u>40,035</u>	<u>54,186</u>	<u>25,063</u>

Particulars of the Company’s principal associates, all of which are unlisted, are set out in Note 40.

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

The Company

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Investments at cost				
- Unlisted shares	13,993	-	14,690	14,690

12 Available-for-sale financial assets

The Group

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Listed equity investments, at fair value	16,165	35,828	21,137	36,521
Unlisted equity investments, at fair value	19,500	21,154	31,789	21,144
	35,665	56,982	52,926	57,665
Less: Current portion	(15)	(15)	(15)	(15)
	35,650	56,967	52,911	57,650

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	44,202	35,665	56,982	52,926
Additions	1,543	5,580	13,661	-
Net (losses)/gains transferred to equity	(2,032)	19,665	(14,694)	15,381
Disposals	(8,048)	(3,928)	(3,023)	(1,672)
Reclassification to investments in associates (Note 11)	-	-	-	(1,915)
Provision for impairment	-	-	-	(7,055)
At 31 December	35,665	56,982	52,926	57,665

The Company

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	7,420	6,760	6,760	20,394
Additions	-	-	13,634	-
Disposals	(660)	-	-	-
Unlisted equity investments, at fair value	6,760	6,760	20,394	20,394

The fair value of listed equity investments is based on the quoted market values. The fair value of unlisted equity investments is determined based on the consideration for disposal of similar available-for-sale financial assets by the Group during the Relevant Periods. The directors consider that such consideration approximates the fair value of existing available-for-sale financial assets as these investments are within the same industry and are of similar sizes. For unlisted investments where there was no disposal of similar investments by the Group during the Relevant Periods, the directors estimate the fair values of these investments mainly based on the historical performance of these companies, market environment and the prospective industry overview.

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

13 Deferred income tax

The Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net amounts are as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income tax assets				
- to be recovered after more than 12 months	131,435	134,013	134,603	127,926
- to be recovered within 12 months	16,733	4,506	8,432	10,119
	<u>148,168</u>	<u>138,519</u>	<u>143,035</u>	<u>138,045</u>
Deferred income tax liabilities				
- to be settled after more than 12 months	(64,639)	(60,501)	(57,702)	(65,524)
- to be settled within 12 months	(5,085)	(6,275)	(6,275)	(11,140)
	<u>(69,724)</u>	<u>(66,776)</u>	<u>(63,977)</u>	<u>(76,664)</u>
Deferred income tax assets - net	<u>78,444</u>	<u>71,743</u>	<u>79,058</u>	<u>61,381</u>

The movements in the deferred income tax account are as follows:

	Year ended 31 December			Five months ended
	2006	2007	2008	31 May 2009
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of the year/period	79,983	78,444	71,743	79,058
Disposal of subsidiaries	(697)	(1,690)	-	-
Acquisition of subsidiaries (Note 38)	53	(3,079)	(8,031)	(14,017)
Recognised in the consolidated income statements (Note 32(a))	(1,567)	1,972	11,673	186
Recognised in equity	<u>672</u>	<u>(3,904)</u>	<u>3,673</u>	<u>(3,846)</u>
End of the year/period	<u>78,444</u>	<u>71,743</u>	<u>79,058</u>	<u>61,381</u>

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

The movements in deferred income tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets

	Employee benefit obligations	Impairment provision on assets	Tax losses	Others	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
At 1 January 2006	80,664	43,679	22,616	3,462	150,421
Acquisition of a subsidiary (Note 38)	-	53	-	-	53
Disposal of subsidiaries	-	(697)	-	-	(697)
Recognised in the consolidated income statements	(244)	283	(4,584)	2,936	(1,609)
At 31 December 2006	80,420	43,318	18,032	6,398	148,168
Acquisition of a subsidiary (Note 38)	1,875	2,137	-	-	4,012
Disposal of subsidiaries	-	(1,690)	-	-	(1,690)
Recognised in the consolidated income statements	(12,456)	(2,377)	(9,127)	11,989	(11,971)
At 31 December 2007	69,839	41,388	8,905	18,387	138,519
Acquisition of subsidiaries (Note 38)	-	15	-	-	15
Disposal of subsidiaries	-	-	-	-	-
Recognised in the consolidated income statements	14,231	(709)	(5,118)	(3,903)	4,501
At 31 December 2008	84,070	40,694	3,787	14,484	143,035
Acquisition of subsidiaries (Note 38)	-	175	-	-	175
Recognised in the consolidated income statements	(10,739)	6,878	(334)	(970)	(5,165)
At 31 May 2009	73,331	47,747	3,453	13,514	138,045

Deferred income tax liabilities

	Fair value adjustments on assets relating to business combinations	Fair value gains from available-for-sale financial assets	Others	Total
	RMB’000	RMB’000	RMB’000	RMB’000
At 1 January 2006	59,804	4,851	5,783	70,438
Recognised in the consolidated income statements	(6,009)	-	5,967	(42)
Recognised in equity	-	(672)	-	(672)
At 31 December 2006	53,795	4,179	11,750	69,724
Acquisition of a subsidiary (Note 38)	7,091	-	-	7,091
Recognised in the consolidated income statements	(2,193)	-	(11,750)	(13,943)
Recognised in equity	-	3,904	-	3,904
At 31 December 2007	58,693	8,083	-	66,776
Acquisition of a subsidiary (Note 38)	8,046	-	-	8,046
Recognised in the consolidated income statements	(7,172)	-	-	(7,172)
Recognised in equity	-	(3,673)	-	(3,673)
At 31 December 2008	59,567	4,410	-	63,977
Acquisition of subsidiaries (Note 38)	14,192	-	-	14,192
Recognised in the consolidated income statements	(5,351)	-	-	(5,351)
Recognised in equity	-	3,846	-	3,846
At 31 May 2009	68,408	8,256	-	76,664

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately RMB24,124,000, RMB34,291,000, RMB26,905,000 and RMB25,128,000 in respect of tax losses amounting to approximately RMB96,931,000, RMB137,166,000, RMB107,619,000 and RMB111,205,000 as at 31 December 2006, 2007 and 2008 and 31 May 2009, respectively. As at 31 December 2008, tax losses amounting to RMB15,642,000, RMB29,338,000, RMB17,573,000, RMB29,304,000 and RMB15,763,000 will expire in 2009, 2010, 2011, 2012 and 2013, respectively.

The Company

The gross movements in deferred income tax account are as follows:

	Year ended 31 December			Five months ended 31 May 2009
	2006 RMB'000	2007 RMB'000	2008 RMB'000	RMB'000
Beginning of year/period	16,879	23,918	23,886	27,999
Recognised in the income statements	7,039	(32)	4,113	(9,975)
End of year/period	23,918	23,886	27,999	18,024

The movements in deferred income tax assets, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets

	Employee benefit obligations RMB'000	Impairment provision on assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2006	10,007	5,495	1,377	16,879
Recognised in the income statements	2,005	5,490	(456)	7,039
At 31 December 2006	12,012	10,985	921	23,918
Recognised in the income statements	(749)	(2,270)	2,987	(32)
At 31 December 2007	11,263	8,715	3,908	23,886
Recognised in the income statements	1,937	830	1,346	4,113
At 31 December 2008	13,200	9,545	5,254	27,999
Recognised in the income statements	(3,156)	(1,565)	(5,254)	(9,975)
At 31 May 2009	10,044	7,980	-	18,024

14 Inventories

The Group

	As at 31 December			As at 31 May 2009
	2006 RMB'000	2007 RMB'000	2008 RMB'000	RMB'000
Raw materials	62,342	167,380	76,949	154,423
Work in progress	899	3,527	73	29,089
Finished goods and trading merchandise	2,006,926	2,493,405	3,098,842	3,452,459
Less: Provision for impairment	(26,806)	(29,938)	(21,044)	(22,959)
	2,043,361	2,634,374	3,154,820	3,613,012

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

The cost of inventories recognised as expense and included in cost of sales amounted to RMB21,700,069,000, RMB28,500,633,000, RMB35,076,249,000 and RMB16,573,321,000 for each of the years ended 31 December 2006, 2007, 2008 and the five months ended 31 May 2009, respectively.

Inventories are stated at the lower of cost and net realisable value. Net write down of inventories to their net realisable value amounted to approximately RMB4,164,000, RMB7,943,000, RMB4,486,000 and RMB4,590,000 for each of the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009 was included in general and administrative expenses (Note 28).

The Company

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trading merchandise	394,393	479,528	581,588	672,361
Less: Provision for impairment	(335)	(436)	(324)	(605)
	<u>394,058</u>	<u>479,092</u>	<u>581,264</u>	<u>671,756</u>

15 Trade receivables

The Group

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts receivable	4,710,216	5,785,943	7,435,437	8,871,828
Notes receivable	264,226	455,356	606,475	623,560
	4,974,442	6,241,299	8,041,912	9,495,388
Less: Provision for impairment	(102,922)	(130,823)	(130,138)	(147,448)
Trade receivables – net	<u>4,871,520</u>	<u>6,110,476</u>	<u>7,911,774</u>	<u>9,347,940</u>

The fair values of trade receivables approximate their carrying amounts.

Retail sales at the Group's medicine chain stores are usually made in cash or by debit or credit cards. For medicine distribution and medicine manufacture businesses, sales are made on credit terms ranging from 30 to 180 days. The ageing analysis of trade receivables (accounts receivable and notes receivable) is as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Below 3 months	4,104,821	5,317,998	6,806,815	8,289,024
3 to 6 months	588,272	668,493	886,811	1,021,499
6 months to 1 year	189,146	196,272	316,861	148,128
1 to 2 years	43,181	26,862	8,875	5,320
Over 2 years	49,022	31,674	22,550	31,417
Total	<u>4,974,442</u>	<u>6,241,299</u>	<u>8,041,912</u>	<u>9,495,388</u>

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

Certain trade receivables that are past due are not considered impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
3 to 6 months	550,950	590,071	799,660	923,032
6 months to 1 year	170,231	177,084	297,519	135,884
1 to 2 years	25,909	20,717	6,387	-
Over 2 years	19,609	4,606	1,393	-
Total	766,699	792,478	1,104,959	1,058,916

As of 31 December 2006, 2007, and 2008 and 31 May 2009, trade receivables of approximately RMB102,922,000, RMB130,823,000, RMB130,138,000 and RMB147,448,000, respectively, were impaired, and had been fully provided for. These receivables mainly relate to wholesalers in unexpected difficult economic situations. The ageing of these receivables is as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
3 to 6 months	37,322	78,422	87,151	98,467
6 months to 1 year	18,915	19,188	19,342	12,244
1 to 2 years	17,272	6,145	2,488	5,320
Over 2 years	29,413	27,068	21,157	31,417
	102,922	130,823	130,138	147,448

Movements of provision for impairment of trade receivables are as follows:

	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of year/period	104,606	102,922	130,823	130,823	130,138
Provision for impairment (Note 28)	24,980	22,351	10,883	11,252	17,721
Receivables written off as uncollectible	(26,664)	(1,178)	(11,568)	(282)	(411)
Others	-	6,728	-	-	-
At the end of year/period	102,922	130,823	130,138	141,793	147,448

The creation and release of provision for impairment of trade and other receivables have been included in general and administrative expenses. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

The trade receivables are denominated in RMB.

Notes receivable with carrying amount of nil, RMB122,519,000, RMB234,166,000 and RMB204,790,000 as at 31 December 2006, 2007, 2008 and 31 May 2009, respectively, were pledged as collaterals of the Group's bank borrowings (Note 20). Accounts receivable with carrying amount of nil, nil, RMB44,298,000 and RMB86,117,000 as at 31 December 2006, 2007, 2008 and 31 May 2009, respectively, were pledged as collaterals of the Group's bank borrowings (Note 20).

Accounts receivable with carrying amount of nil, RMB97,599,000, RMB390,839,000 and RMB755,175,000 during the years ended 31 December 2006, 2007, 2008 and the five months

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

ended 31 May 2009, respectively, were derecognized in the accounts receivable factoring programs without recourse. The collection of such accounts receivable on behalf of banks amounted to nil, nil, RMB14,190,000 and RMB215,625,000 as at 31 December 2006, 2007, 2008 and 31 May 2009, respectively, and were recorded in other payables (Note 24).

There is no concentration of credit risk with respect to trade receivable as the Group has a large number of customers.

The Company

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts receivable	909,003	823,467	1,259,860	1,884,908
Notes receivable	4,665	3,241	48,233	369,787
	913,668	826,708	1,308,093	2,254,695
Less: Provision for impairment	(16,629)	(12,046)	(12,145)	(14,536)
Trade receivables – net	897,039	814,662	1,295,948	2,240,159

The ageing analysis of trade receivables, before provision for impairment, at respective balance sheet dates was as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Below 3 months	809,655	730,875	1,162,874	2,065,283
3 to 6 months	67,093	81,369	90,614	146,780
6 months to 1 year	8,466	7,648	32,418	37,853
1 to 2 years	15,376	1,463	16,110	3,753
Over 2 years	13,078	5,353	6,077	1,026
	913,668	826,708	1,308,093	2,254,695

16 Prepayments and other receivables

The Group

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments				
- purchase of inventories	251,255	257,609	380,219	303,476
- construction	12,675	11,994	23,463	16,207
- operating expenses	9,142	9,632	20,181	15,365
Value-added tax recoverable	37,445	84,380	40,567	89,278
Deposits	31,341	37,481	44,353	38,404
Receivables arising from disposal of subsidiary	-	25,000	-	-
Staff advances	17,954	22,242	17,062	29,552
Receivables arising from disposal of land use rights	37,740	37,740	2,357	-
Amount due from related parties				
- other receivables	49,178	38,258	29,121	38,756
- prepayment	890	53	602	615
Other receivables	127,377	155,656	110,284	82,247
	574,997	680,045	668,209	613,900
Less: Provision for impairment	(55,765)	(74,541)	(51,302)	(41,600)
	519,232	605,504	616,907	572,300

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

The fair values of other receivables approximate their carrying amounts.

The other receivables are denominated in RMB.

Movements of provision for impairment of other receivables are as follows:

	Year ended 31 December			Five months ended 31 May	
	2006 RMB’000	2007 RMB’000	2008 RMB’000	2008 RMB’000 (Unaudited)	2009 RMB’000
At the beginning of year/period	34,327	55,765	74,541	74,541	51,302
Provision for impairment (Note 28)	23,089	20,876	(14,452)	(528)	(9,195)
Receivables written off as uncollectible	(1,651)	(2,100)	(8,787)	(860)	(507)
At the end of year/period	55,765	74,541	51,302	73,153	41,600

The Company

	As at 31 December			As at 31 May
	2006 RMB’000	2007 RMB’000	2008 RMB’000	2009 RMB’000
Amounts due from subsidiaries	638,295	963,316	919,504	623,346
Prepayments				
- purchase of inventories	46,932	138,012	143,371	100,250
- construction	-	300	-	-
Value-added tax recoverable	9,321	24,446	-	30,437
Receivables arising from disposal of land use rights	37,740	37,740	-	-
Other receivables	34,743	37,617	40,587	47,839
	767,031	1,201,431	1,103,462	811,872
Less: Provision for impairment	(26,320)	(34,253)	(24,538)	(16,779)
	740,711	1,167,178	1,078,924	795,093

17 Pledged bank deposits, cash and cash equivalents

The Group

	As at 31 December			As at 31 May
	2006 RMB’000	2007 RMB’000	2008 RMB’000	2009 RMB’000
Collateral for letters of credit	13,695	-	-	-
Collateral for bank acceptance of notes	110,970	203,221	277,435	223,855
Collateral for bank borrowings (Note 20)	-	446,102	8,400	18,000
Term deposits over 3 months	-	-	-	5,985
Total pledged bank deposits	124,665	649,323	285,835	247,840
Cash and cash equivalents				
- Cash at banks and on hand	1,838,797	1,955,596	1,712,119	2,602,116
Denominated in				
- RMB	1,962,674	2,602,360	1,994,268	2,846,937
- Others	788	2,559	3,686	3,019
	1,963,462	2,604,919	1,997,954	2,849,956

The maximum exposure to credit risk at the reporting dates approximates the carrying value of pledged bank deposits and cash and cash equivalents.

RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and the remittance of RMB out of the PRC are subject to the rules and regulations of foreign exchange controls promulgated by the PRC authorities.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

The effective interest rates and average maturity of cash at banks are as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
Effective interest rate (% per annum)	0.7	0.8	0.6	0.4

The Company

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Collateral for issuing letters of credit	13,695	-	-	-
Collateral for bank acceptance of notes	-	4,500	-	-
Collateral for bank borrowings (Note 20)	-	15,922	-	-
Total pledged bank deposits	13,695	20,422	-	-
Cash and cash equivalents				
- Cash at banks and on hand	838,610	359,002	301,008	719,842
Denominated in				
- RMB	852,305	379,424	301,008	719,842

18 Capital

	Registered and paid-in capital	Domestic shares of RMB1 each	Total
	RMB’000	RMB’000	RMB’000
At 1 January 2006 (i)	1,027,954	-	1,027,954
Capital injections from equity holders (Note 19(b))	609,083	-	609,083
At 1 January 2007 and 2008	1,637,037	-	1,637,037
Transformation by conversion of registered and paid-in capital to domestic shares (ii)	(1,637,037)	1,637,037	-
At 31 December 2008 and 31 May 2009	-	1,637,037	1,637,037

Notes -

- (i) The Company was incorporated in the PRC on 8 January 2003 as a limited liability company under the Company Law of the PRC. The registered and paid-in capital the Company upon incorporation was RMB1,027,954,000.
- (ii) On 6 October 2008, the Company was transformed into a joint stock limited liability company under the PRC Company Law by converting its registered share capital and reserves as of 30 September 2007 with the proportion of 1:0.8699 into 1,637,037,451 shares of RMB1 each. In this connection, the Company transferred its statutory reserves of RMB49,249,302 and retained earnings of RMB195,664,900 as at 6 October 2008 to “Capital premium” account, in order to satisfy the approved capital premium amount of RMB244,914,202.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

19 Reserves

Group

	Note	Capital premium RMB’000	Statutory reserves RMB’000	Capital reserves RMB’000	Available-for-sale financial assets change RMB’000	Retained earnings (Note (d)) RMB’000	Total RMB’000
Balance at 31 December 2005		-	22,388	299,458	5,780	122,964	450,590
Profit for the year		-	-	-	-	101,331	101,331
Appropriation to statutory reserves	(a)	-	16,506	-	-	(16,506)	-
Capital injections from equity holders	(b)	11,175	-	(310,633)	-	-	(299,458)
Dividends	35	-	-	-	-	(92,112)	(92,112)
Distribution of a subsidiary prior to the Reorganisation	(c)	-	-	-	-	(37,123)	(37,123)
Revaluation of available-for-sale financial assets							
- gross		-	-	-	(1,031)	-	(1,031)
- tax		-	-	-	394	-	394
As at 31 December 2006		11,175	38,894	(11,175)	5,143	78,554	122,591
Profit for the year		-	-	-	-	380,920	380,920
Appropriation to statutory reserves	(a)	-	10,355	-	-	(10,355)	-
Dividends	35	-	-	-	-	(463,959)	(463,959)
Revaluation of available-for-sale financial assets							
- gross		-	-	-	9,459	-	9,459
- tax		-	-	-	(2,289)	-	(2,289)
As at 31 December 2007		11,175	49,249	(11,175)	12,313	(14,840)	46,722
Profit for the period		-	-	-	-	585,673	585,673
Transform into a joint stock limited company	18(ii)	244,914	(49,249)	-	-	(195,665)	-
Revaluation of available-for-sale financial assets		-	-	-	-	-	-
- gross		-	-	-	(6,857)	-	(6,857)
- tax		-	-	-	1,655	-	1,655
Appropriation to statutory reserves	(a)	-	11,744	-	-	(11,744)	-
As at 31 December 2008		256,089	11,744	(11,175)	7,111	363,424	627,193
Profit for the period		-	-	-	-	421,502	421,502
Dividends	35	-	-	-	-	(105,699)	(105,699)
Effect of business combination of Guangxi Guoda Pharmacy Chainstore Co., Ltd. under common control		-	-	(500)	-	-	(500)
Revaluation of available-for-sale financial assets							
- gross		-	-	-	6,641	-	6,641
- tax		-	-	-	(1,693)	-	(1,693)
As at 31 May 2009		256,089	11,744	(11,675)	12,059	679,227	947,444

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

Company

	<u>Note</u>	<u>Capital premium</u> <u>RMB’000</u>	<u>Statutory reserves</u> <u>RMB’000</u>	<u>Retained Earnings</u> <u>(Note (d))</u> <u>RMB’000</u>	<u>Total</u> <u>RMB’000</u>
Balance at 31 December 2005		-	22,388	43,108	65,496
Profit for the year		-	-	164,572	164,572
Appropriation to statutory reserves	(a)	-	16,506	(16,506)	-
Dividends		-	-	(92,112)	(92,112)
As at 31 December 2006		-	38,894	99,062	137,956
Profit for the year		-	-	94,759	94,759
Appropriation to statutory reserves	(a)	-	10,355	(10,355)	-
Dividends		-	-	(463,959)	(463,959)
As at 31 December 2007		-	49,249	(280,493)	(231,244)
Profit for the year		-	-	563,490	563,490
Appropriation to statutory reserves	(a)	-	11,744	(11,744)	-
Transform into a joint stock limited company	18(b)	244,914	(49,249)	(195,665)	-
As at 31 December 2008		244,914	11,744	75,588	332,246
Profit for the period		-	-	343,978	343,978
Dividends		-	-	(105,699)	(105,699)
As at 31 May 2009		244,914	11,744	313,867	570,525

Apart from profit for the years/periods and fair value reserves arising from available-for-sales financial assets, if any, movements in owners’ equity during the Relevant Periods mainly comprised:

- (a) PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holders. Statutory reserves are created for specific purposes. In accordance with the Company Law, PRC companies are required to appropriate 10% of net profits to statutory surplus reserves. A company may discontinue the appropriation when the balance of its statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies or to increase capital of the companies. In addition, a company may make further contribution to discretionary surplus reserve using its post-tax profit in accordance with a resolution of the board of directors.
- (b) Capital injections from equity holders

In June 2006, CNPGC transferred 58.67% equity interests in National Medicines, a subsidiary of CNPGC, to the Company (the “Reorganisation”). At the same time, Fosun Grand Medicine and Fosun Pharma injected cash of RMB309,625,000 to the Company to reflect their additional share of net assets of the Group (the “Cash Injection”). As a result of the Reorganisation and the Cash Injection, the Company’s registered and paid-in capital increased by RMB609,083,000 and a capital premium of RMB11,175,000, representing the excess of the Cash Injection over the additional share of the Group’s net assets by Fosun Grand Medicine and Fosun Pharma, was recognised by the Company.

As the Reorganisation was accounted for using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5, “Merger Accounting for Common Control

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

Combinations” issued by the HKICPA, the Financial Information includes the financial position, results and cash flows of National Medicines as if the group structure resulting from the Reorganisation had been in existence since the beginning of the Relevant Periods. As a result, RMB310,633,000, representing the Company’s share in net assets of National Medicines immediately prior to the Reorganisation, was reflected as a deduction to capital reserves during the year ended 31 December 2006.

- (c) The distribution in the year ended 31 December 2006 represented dividends declared by National Medicines to CNPGC of RMB9,378,495, and the profit of National Medicines for the period from 1 January 2006 to 30 June 2006 of RMB27,744,574, which are attributable to CNPGC as stipulated in the equity transfer agreement entered into by the Company and CNPGC, before the Reorganisation.
- (d) Retained earnings as at 31 December 2006, 2007 and 2008 and 31 May 2009 include proposed final dividend of RMB165,769,000, nil, RMB105,699,000, and RMB279,469,000, respectively.

20 Borrowings

The Group

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Bank borrowings – secured	120,840	816,068	425,633	395,634
Bank borrowings – unsecured	1,761,231	863,248	1,208,537	2,129,305
Total bank borrowings	1,882,071	1,679,316	1,634,170	2,524,939
Loan from parent company – unsecured	-	640,000	-	-

The bank borrowings and loan from parent company were denominated in RMB.

The Group’s bank borrowings were repayable as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Within 1 year	1,704,351	1,521,596	1,504,170	2,464,939
Between 1 to 2 years	-	57,720	30,000	30,000
Between 2 to 5 years	177,720	100,000	100,000	30,000
	1,882,071	1,679,316	1,634,170	2,524,939

All of the Group’s bank borrowings are on floating rates and loans from parent company are on fixed rates. The weighted average effective interest rates at respective balance sheet dates were as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Bank borrowings	5.2%	5.7%	5.8%	4.9%
Loans from parent company	-	4.0%	-	-

Interest rates of bank borrowings are reset periodically according to the benchmark rates announced by the PBOC.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

The collaterals for the Group’s borrowings are as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Property, plant and equipment (Note 8)	155,075	213,601	147,600	65,637
Land use rights (Note 6)	42,181	41,366	40,550	-
Investment properties (Note 7)	-	29,979	-	-
Bank deposits (Note 17)	-	446,102	8,400	18,000
Notes receivable (Note 15)	-	122,519	234,166	204,790
Accounts receivable (Note 15)	-	-	44,298	86,117
	<u>197,256</u>	<u>853,567</u>	<u>475,014</u>	<u>374,544</u>

The fair values of the short-term borrowings approximate their carrying amounts.

The carrying amounts and fair value of the non-current borrowings are as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Carrying amount	177,720	157,720	130,000	60,000
Fair value	<u>135,918</u>	<u>128,730</u>	<u>122,856</u>	<u>56,926</u>

The Group has the following undrawn borrowing facilities:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Floating rate				
- expiring within one year	<u>1,747,664</u>	<u>2,967,688</u>	<u>3,103,391</u>	<u>6,602,080</u>

The facilities expiring within one year are annual facilities subject to review at various dates during the following year.

The Company

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Bank borrowings – secured	-	15,922	-	263,759
Bank borrowings – unsecured	1,142,000	367,400	605,000	940,000
Total bank borrowings	<u>1,142,000</u>	<u>383,322</u>	<u>605,000</u>	<u>1,203,759</u>
Loan from parent company – unsecured	<u>-</u>	<u>560,000</u>	<u>-</u>	<u>-</u>

At respective balance sheet dates, the Company’s bank borrowings were repayable as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Within one year	<u>1,142,000</u>	<u>383,322</u>	<u>605,000</u>	<u>1,203,759</u>

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

All of the Company's borrowings are on floating rates and loans from parent company are on fixed rates. The weighted average effective interest rates at respective balance sheet dates were as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings	5.6%	5.9%	5.1%	4.9%
Loans from parent company	-	4.0%	-	-

The security for the Company's borrowings is as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Pledged bank deposits (Note 17)	-	15,922	-	-
Notes receivable	-	-	-	263,759

21 Post-employment benefit obligations - Group

Certain subsidiaries provide post-employment pension and medical benefits to their retirees. The Group accounts for these benefits using the accounting basis similar to a defined benefit plan.

The amounts recognised in the balance sheet are analysed as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Present value of unfunded post-employment benefit obligations	239,560	256,152	307,193	304,889
Unrecognised past service cost	2,108	(5,932)	(4,496)	(4,940)
Liability in the balance sheet	241,668	250,220	302,697	299,949

Movements of the post-employment benefit obligations are as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of the year/period	245,615	241,668	250,220	302,697
Acquisition of a subsidiary (Note 38)	-	7,500	-	-
Total expenses, included in staff costs as shown below	15,234	23,846	80,585	8,027
Benefits paid	(19,181)	(22,794)	(28,108)	(10,775)
End of the year/period	241,668	250,220	302,697	299,949

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

The amounts recognised in the consolidated income statements are as follows:

	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current service cost	3,317	6,980	3,388	1,375	1,604
Interest cost	8,469	8,954	11,455	4,952	4,097
Actuarial losses/(gains)	2,334	(19,463)	56,305	16,344	(4,513)
Past service cost	1,114	27,375	12,602	356	6,839
Gain on curtailment	-	-	(3,165)	-	-
Total expenses, included in staff costs	15,234	23,846	80,585	23,027	8,027

The above obligations are determined by an independent actuarial firm using the projected unit credit method, on each balance sheet date. The principal actuarial assumptions used are as follows:

	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Discount rate	3.0 - 4.0%	4.5 - 4.8%	3.3%	4.0 - 4.3%	3.8%
Future pension increases	0 - 2%	0 - 2%	0 - 2%	0 - 2%	0 - 2%
Medical cost trend rates	2 - 6%	2 - 6%	2 - 6%	2 - 6%	2 - 6%

Mortality: Average life expectancy of residents in the PRC.

22 Other non-current liabilities

The Group

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Medical reserve funds				
- general (i)	222,713	222,433	226,009	226,259
- for 2008 Sichuan earthquake (i)	-	-	64,000	64,000
Office relocation funds (ii)	-	-	24,351	37,738
Others	18,471	24,872	15,505	18,174
	241,184	247,305	329,865	346,171

Notes -

- (i) During the Relevant Periods, certain medical reserves funds were received by CNPGC from the PRC government for it to purchase medical products (including medicines) required to respond to major disasters, epidemics and other emergencies. In accordance with a responsibility letter dated 4 January 2006 signed between CNPGC and the Company, CNPGC has re-allocated the funds in relation to medicines to the Group.

The Group will sell pharmaceutical products to specific customers at cost when there is any major disaster, epidemic and other emergency. Such transactions will be priced at cost and relevant trade receivables from specific customers will be offset with the balance of the fund upon approval from CNPGC and the relevant PRC government authorities. The funds used to offset trade receivables during the years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2009 amounted to approximately RMB59,172,000, RMB437,000,

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

RMB4,000 and nil, respectively. The Group is required to maintain inventories at a level of not less than 70% of the general reserve funds. The medical reserve funds are required to be utilised for the aforementioned use and for no other purposes.

In addition, in accordance with notices from Central Ministry of Finance, such balance is not repayable within one year.

- (ii) Certain of the Group's subsidiaries received funds from local governments as compensation for losses arising from office relocation upon the request from the local government. Upon completion of the office relocation, such funds, after offsetting against actual losses arising from office relocation, will be recognised as other income. As at 31 December 2008, the directors expect that such office relocation will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.

The Company

	As at 31 December			As at 31 May 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Medical reserve funds				
- general	175,319	174,658	174,654	174,654
- for 2008 Sichuan earthquake	-	-	47,000	47,000
Others	768	768	768	707
	<u>176,087</u>	<u>175,426</u>	<u>222,422</u>	<u>222,361</u>

23 Trade payables

The Group

	As at 31 December			As at 31 May 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	4,241,922	5,298,190	6,380,439	7,776,146
Notes payables	1,387,908	1,911,394	2,672,632	2,628,024
	<u>5,629,830</u>	<u>7,209,584</u>	<u>9,053,071</u>	<u>10,404,170</u>

Purchases are made on credit terms ranging from 45 to 180 days.

The ageing analysis of trade payables at respective balance sheet dates is as follows:

	As at 31 December			As at 31 May 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
Below 3 months	4,745,597	6,445,535	8,266,665	9,584,621
3 to 6 months	394,712	441,733	293,825	481,094
6 months to 1 year	272,802	147,993	254,107	122,164
1 to 2 years	56,558	46,263	76,589	60,721
Over 2 years	160,161	128,060	161,885	155,570
	<u>5,629,830</u>	<u>7,209,584</u>	<u>9,053,071</u>	<u>10,404,170</u>

The Group's trade payables are denominated in the following currencies:

	As at 31 December			As at 31 May 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	5,528,163	6,749,940	8,809,567	9,840,923
USD	101,667	459,644	243,504	563,247
	<u>5,629,830</u>	<u>7,209,584</u>	<u>9,053,071</u>	<u>10,404,170</u>

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

The Company

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	976,907	961,831	1,525,634	1,712,000
Notes payables	197,695	354,007	181,389	573,181
	<u>1,174,602</u>	<u>1,315,838</u>	<u>1,707,023</u>	<u>2,285,181</u>

The ageing analysis of trade payables at respective balance sheet dates was as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Below 3 months	1,082,329	1,167,030	1,661,998	2,247,666
3 to 6 months	71,710	142,494	20,969	26,781
6 months to 1 year	20,563	6,314	21,393	3,154
1 to 2 years	-	-	2,663	5,683
Over 2 years	-	-	-	1,897
	<u>1,174,602</u>	<u>1,315,838</u>	<u>1,707,023</u>	<u>2,285,181</u>

The Company's trade payables are denominated in RMB.

24

Accruals and other payables

The Group

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Accrual of operating expenses	186,871	228,242	212,194	226,826
Accounts receivables collection on behalf of banks for factoring programs	-	-	14,190	215,625
Salary and welfare payables	239,447	223,023	214,697	155,477
Advances from customers	122,199	126,588	126,489	117,943
Other deposits	36,869	40,452	40,449	28,637
Taxes payable other than income tax and value added tax	6,782	9,618	19,299	19,332
Amounts due to related parties				
-other payables	64,375	69,238	10,286	18,751
-advances	118	-	-	98
Payables arising from acquisition of subsidiaries	-	-	-	20,213
Other payables	215,826	299,709	222,928	225,121
	<u>872,487</u>	<u>996,870</u>	<u>860,532</u>	<u>1,028,023</u>

The Group's other payables are denominated in RMB.

The Company

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to subsidiaries	158,926	126,855	353,088	111,900
Amounts due to other related parties	43,139	48,676	-	17,263
Salary and welfare payables	31,124	43,133	42,261	24,238
Accrual of operating expenses	27,748	22,673	17,481	17,711
Accounts receivables collection on behalf of banks for factoring business	-	-	13,054	187,800
Taxes payable other than income tax and value added tax	400	13,861	2,719	1,843
Advances from customers	4,716	-	1,709	2,135
Other deposits	570	2,247	522	1,826
Other payables	8,816	24,690	62,796	5,212
	<u>275,439</u>	<u>282,135</u>	<u>493,630</u>	<u>369,928</u>

The Company's other payables are denominated in RMB.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

25 Revenue

	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Sales	23,671,776	31,037,877	38,110,586	14,979,294	18,006,679
Rental income	25,736	36,855	31,242	15,069	15,868
Franchise fees from medicine chain stores	11,587	10,930	15,255	5,725	3,852
Consulting income	6,217	10,071	13,126	2,796	13,313
Import and export agency income	7,717	11,012	15,204	3,147	8,057
Advertising fee income	13,093	2,688	-	-	-
Others	516	781	2,020	1,199	272
	<u>23,736,642</u>	<u>31,110,214</u>	<u>38,187,433</u>	<u>15,007,230</u>	<u>18,048,041</u>

26 Other income

	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Government grants (i)	16,736	23,855	69,919	16,159	19,650
Dividend income from available-for-sale financial assets (Note 36)	536	139	4	-	18
	<u>17,272</u>	<u>23,994</u>	<u>69,923</u>	<u>16,159</u>	<u>19,668</u>

Note –

- (i) Government grants mainly represented subsidy income received from various government organisations as incentives to certain Group companies.

27 Other gains — net

	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Loss on transfer for no consideration of certain interests in two listed subsidiaries (i)	(82,210)	-	-	-	-
Gain on disposal of certain interests in two listed subsidiaries (ii)	-	91,371	75,965	59,422	99,979
Gain on disposal of land use rights and property, plant and equipment	4,531	15,092	3,644	(17)	1,255
Gain on settlement of borrowings (iii)	33,318	-	-	-	-
Foreign exchange gain - net	2,544	20,757	26,139	20,917	85
Gain/(Loss) on disposal of subsidiaries (Note 36)	-	5,340	(11,118)	(2,187)	-
Others – net	(3,816)	(8,423)	(1,881)	1,259	2,646
	<u>(45,633)</u>	<u>124,137</u>	<u>92,749</u>	<u>79,394</u>	<u>103,965</u>

Notes -

- (i) Share reforms of Accord Pharma and National Medicines, two listed subsidiaries

Up to the share reform of Accord Pharma and National Medicines in 2006, the Group held non-tradable shares in these companies. In 2006, these companies undergone share reforms, with holders of non-tradable shares agreed to transfer certain of their interests in these companies to holders of tradable shares so that all issued shares of these companies became

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

tradable. In this connection, the Group transferred for no consideration 4.19% interest in Accord Pharma and 11.66% interest in National Medicines to holders of tradeable shares of these companies. Thereafter, the Group holds 39.14% equity interests in Accord Pharma and 47.60% equity interests in National Medicines, in the form of tradable shares.

(ii) Gain on disposal of interests in two listed subsidiaries, National Medicines and Accord Pharma

In 2007, the Group disposed 1.58% interest in National Medicines and the Group's interests decreased from 47.60% to 46.02%. In 2008, the Group disposed 0.99% interest in National Medicines and the Group's interests decreased from 46.02% to 45.03%. In 2009, the Group disposed 1.00% interest in National Medicines and the Group's interests decreased from 45.03% to 44.03%.

In 2009, the Group disposed 0.81% interest in Accord Pharma and the Group's interests decreased from 39.14% to 38.33%.

(iii) Gain on settlement of borrowings

Prior to 2006, two subsidiaries of the Group had bank borrowings of RMB117,940,000. These borrowings were overdue and were transferred by the bank to a state-owned assets management company. During the year ended 31 December 2006, the subsidiaries reached an agreement with the state-owned assets management company to settle the borrowings at a discount, resulting in a gain on settlement of RMB33,318,000.

28 Expenses by nature

	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Raw materials and trading merchandise consumed (Note 14)	21,695,526	28,517,908	35,106,795	13,751,485	16,554,794
Changes in inventories of finished goods and work in progress (Note 14)	4,543	(17,275)	(30,546)	13,361	18,527
Employee benefit expenses (Note 29)	562,664	653,053	891,849	337,655	327,356
Provision for impairment of trade receivables (Note 15)	24,980	22,351	10,883	11,252	17,721
Provision for impairment of other receivables (Note 16)	23,089	20,876	(14,452)	(528)	(9,195)
Provision for impairment of inventories	4,164	7,943	4,486	(3,821)	4,590
Provision for impairment of available-for-sale financial assets	-	-	-	-	7,055
Operating leases in respect of leasehold land and buildings	95,518	118,908	127,736	53,125	70,045
Depreciation of property, plant and equipment (Note 8)	84,175	92,343	118,617	50,975	53,034
Depreciation of investment properties (Note 7)	3,695	3,539	6,776	1,170	1,308
Amortisation of intangible assets (Note 9)	29,829	30,259	36,376	14,636	18,946
Amortisation of land use rights (Note 6)	9,017	8,789	10,950	3,037	3,709
Auditors' remuneration	5,247	15,448	20,251	2,411	1,646
Advisory and consulting fees	9,037	18,686	25,948	6,585	7,832
Transportation expenses	115,478	124,070	134,680	54,852	59,433
Travel expenses	57,513	72,707	85,561	28,866	28,966
Promotion and advertising expenses	190,764	231,764	214,188	71,139	75,832
Utilities	18,908	20,954	23,269	8,404	10,159
Others	339,516	402,539	311,851	109,353	113,359
Total cost of sales, distribution and selling expenses and general and administrative expenses	<u>23,273,663</u>	<u>30,344,862</u>	<u>37,085,218</u>	<u>14,513,957</u>	<u>17,365,117</u>

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

29 Employee benefit expenses

	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries, wages and bonuses	407,031	503,045	631,560	245,348	243,512
Contributions to pension plans (i)	43,222	47,503	68,482	20,925	25,988
Post-employment benefits (Note 21)	15,234	23,846	80,585	23,027	8,027
Housing benefits (ii)	13,863	17,538	27,156	10,178	10,231
Other benefits	83,314	61,121	84,066	38,177	39,598
	<u>562,664</u>	<u>653,053</u>	<u>891,849</u>	<u>337,655</u>	<u>327,356</u>

Notes -

- (i) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 7% to 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 20% to 23% of such relevant income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.
- (ii) Housing benefits represent the government-supervised housing funds (at rates ranging from 5% to 12% of the employees' basic salary) in Mainland China during the Relevant Periods.

30 Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2006 is set out below:

	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive director					
Ms. Fu Mingzhong	560	240	-	42	842
Non-executive directors					
Mr. She Lulin	-	-	-	-	-
Mr. Guo Guangchang	-	-	-	-	-
Mr. Wang Qunbin	-	-	-	-	-
Mr. Fan Banghan	-	-	-	-	-
Mr. Liu Hailiang	-	-	-	-	-
Mr. Chen Weigang	-	-	-	-	-
Ms. Zheng Hong	-	-	-	-	-
Independent non-executive directors					
Mr. Wang Fanghua	80	-	-	-	80
Mr. Tao Wuping	80	-	-	-	80
Mr. Xie Rong	80	-	-	-	80
Supervisor					
Mr. Chen Qiyu	-	-	-	-	-
Mr. Kong Zhenyu	-	-	-	-	-
	<u>800</u>	<u>240</u>	<u>-</u>	<u>42</u>	<u>1,082</u>

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

The remuneration of every Director for the year ended 31 December 2007 is set out below:

	Salary RMB'000	Discretionary bonuses RMB'000	Other benefits RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive director					
Ms. Fu Mingzhong	630	240	-	49	919
Non-executive directors					
Mr. She Lulin	-	-	-	-	-
Mr. Guo Guangchang	-	-	-	-	-
Mr. Wang Qunbin	-	-	-	-	-
Mr. Fan Banghan	-	-	-	-	-
Mr. Liu Hailiang	-	-	-	-	-
Mr. Chen Weigang	-	-	-	-	-
Mr. Deng Jindong	-	-	-	-	-
Independent non-executive directors					
Mr. Wang Fanghua	80	-	-	-	80
Mr. Tao Wuping	80	-	-	-	80
Mr. Xie Rong	80	-	-	-	80
Supervisor					
Mr. Chen Qiyu	-	-	-	-	-
Mr. Ou Yangjun	-	-	-	-	-
Mr. Yang Jun	-	-	-	-	-
	870	240	-	49	1,159

The remuneration of every Director for the year ended 31 December 2008 is set out below:

	Salary RMB'000	Discretionary bonuses RMB'000	Other benefits RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive director					
Ms. Fu Mingzhong	680	260	-	52	992
Mr. Wei Yulin	650	230	-	38	918
Non-executive directors					
Mr. She Lulin	-	-	-	-	-
Mr. Guo Guangchang	-	-	-	-	-
Mr. Wang Qunbin	-	-	-	-	-
Mr. Fan Banghan	-	-	-	-	-
Mr. Liu Hailiang	-	-	-	-	-
Mr. Lian Wanyong	-	-	-	-	-
Mr. Deng Jindong	-	-	-	-	-
Independent non-executive directors					
Mr. Wang Fanghua	187	-	-	-	187
Mr. Tao Wuping	187	-	-	-	187
Mr. Xie Rong	187	-	-	-	187
Supervisor					
Mr. Chen Qiyu	-	-	-	-	-
Ms. Zhang Jian	250	150	-	44	444
Mr. Xing Yonggang	-	-	-	-	-
	2,141	640	-	134	2,915

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

The remuneration of every Director for five months ended 31 May 2009 is set out below:

	Salary RMB'000	Discretionary bonuses RMB'000	Other benefits RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive director					
Ms. Fu Mingzhong	283	-	-	25	308
Mr. Wei Yulin	271	-	-	19	290
Non-executive directors					
Mr. She Lulin	-	-	-	-	-
Mr. Guo Guangchang	-	-	-	-	-
Mr. Wang Qunbin	-	-	-	-	-
Mr. Fan Banghan	-	-	-	-	-
Mr. Liu Hailiang	-	-	-	-	-
Mr. Lian Wanyong	-	-	-	-	-
Mr. Deng Jindong	-	-	-	-	-
Independent non-executive directors					
Mr. Wang Fanghua	47	-	-	-	47
Mr. Tao Wuping	47	-	-	-	47
Mr. Xie Rong	47	-	-	-	47
Supervisor					
Mr. Chen Qiyu	-	-	-	-	-
Ms. Zhang Jian	104	-	-	20	124
Mr. Xing Yonggang	-	-	-	-	-
	799	-	-	64	863

The remuneration of every Director for five months ended 31 May 2008 is set out below:

	Salary RMB'000 (Unaudited)	Discretionary bonuses RMB'000 (Unaudited)	Other benefits RMB'000 (Unaudited)	Employer's contribution to pension scheme RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Executive director					
Ms. Fu Mingzhong	283	-	-	21	304
Non-executive directors					
Mr. She Lulin	-	-	-	-	-
Mr. Guo Guangchang	-	-	-	-	-
Mr. Wang Qunbin	-	-	-	-	-
Mr. Fan Banghan	-	-	-	-	-
Mr. Liu Hailiang	-	-	-	-	-
Mr. Chen Weigang	-	-	-	-	-
Mr. Deng Jindong	-	-	-	-	-
Independent non-executive directors					
Mr. Wang Fanghua	47	-	-	-	47
Mr. Tao Wuping	47	-	-	-	47
Mr. Xie Rong	47	-	-	-	47
Supervisor					
Mr. Chen Qiyu	-	-	-	-	-
Mr. Ou Yangjun	-	-	-	-	-
Mr. Yang Jun	-	-	-	-	-
	424	-	-	21	445

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director (Year ended 31 December 2006 and 2007) or two directors (year ended 31 December 2008 and five months ended 31 May 2008 and 2009) whose emoluments are reflected in the analysis presented above.

The emoluments payable to the remaining four individuals (year ended 31 December 2006 and 2007 and five months ended 31 May 2008) or three individuals (year ended 31 December 2008 and five months ended 31 May 2009) are as follows:

	Year ended 31 December			Five months ended 31 May	
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000 (Unaudited)	2009 RMB'000
Salaries	1,740	2,240	1,680	971	700
Discretionary bonuses	800	685	570	-	-
Employer's contribution to pension scheme ...	132	155	147	69	71
Other benefits	-	-	-	-	-
	<u>2,672</u>	<u>3,080</u>	<u>2,397</u>	<u>1,040</u>	<u>771</u>
	Year ended 31 December			Five months ended 31 May	
	2006 Number	2007 Number	2008 Number	2008 Number (Unaudited)	2009 Number
In the band of:					
Nil – HK\$500,000 (Nil – RMB440,945)	-	-	-	4	3
HK\$500,001 – HK\$1,000,000 (RMB440,945 – RMB881,890)	4	4	3	-	-

- (c) During the Relevant Periods, no emoluments were paid by the Group to any of the directors, the supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office, and no arrangement under which a director or a supervisor or the highest paid individual waived or agreed to waive any of the emoluments.

31 Finance income and costs

	Year ended 31 December			Five months ended 31 May	
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000 (Unaudited)	2009 RMB'000
Interest expenses:					
- Borrowings	86,297	101,934	121,640	48,818	53,961
- Discount of notes receivable	10,919	39,423	108,074	40,611	20,277
- Discount of accounts receivable	-	664	14,125	3,466	9,544
Gross interest expenses	97,216	142,021	243,839	92,895	83,782
Bank charges	5,784	11,845	25,359	6,767	11,316
Less: capitalised interest expenses	(1,461)	(2,998)	(3,202)	(1,597)	(1,231)
Finance costs	<u>101,539</u>	<u>150,868</u>	<u>265,996</u>	<u>98,065</u>	<u>93,867</u>
Finance income:					
- Interest income on bank deposits	(11,695)	(17,759)	(24,312)	(7,280)	(8,998)
Net finance costs	<u>89,844</u>	<u>133,109</u>	<u>241,684</u>	<u>90,785</u>	<u>84,869</u>

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

32 Taxation

(a) Income tax expense

	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
PRC current income tax	179,952	286,432	270,959	121,470	194,026
Deferred income tax (Note 13)	1,567	(1,972)	(11,673)	(2,455)	(186)
	<u>181,519</u>	<u>284,460</u>	<u>259,286</u>	<u>119,015</u>	<u>193,840</u>

The taxation on the Group’s profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities, as follows:

	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before income tax	363,967	820,409	1,077,389	520,840	746,751
Less: Share of results of associates	(19,193)	(40,035)	(54,186)	(22,799)	(25,063)
	<u>344,774</u>	<u>780,374</u>	<u>1,023,203</u>	<u>498,041</u>	<u>721,688</u>
Tax calculated at weighted average domestic tax rate applicable	104,393	236,098	241,671	112,643	177,395
Unrealised intra-group profit	13,850	2,842	-	-	2,495
Expenses not deductible for tax purposes (i) . . .	52,427	9,076	11,663	3,880	8,901
Tax losses for which no deferred income tax asset was recognised, net	10,849	15,080	6,335	2,802	5,132
Change of income tax rate	-	21,364	(383)	(310)	(83)
Income tax expense	<u>181,519</u>	<u>284,460</u>	<u>259,286</u>	<u>119,015</u>	<u>193,840</u>
Weighted average applicable domestic tax rate (ii)	<u>30%</u>	<u>30%</u>	<u>24%</u>	<u>23%</u>	<u>25%</u>

- (i) Expenses not deductible for tax purposes during the year ended 31 December 2006 comprises mainly loss on transfer of shares for no consideration in the share reform of two listed subsidiaries (Note 27) and also entertainment expenses and salaries in excess of the allowable deduction limits. For the years ended 31 December 2007 and 2008, expenses not deductible for tax purposes comprises mainly entertainment expenses and salaries in excess of the allowable deduction limits.

- (ii) The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the Relevant Periods.

During the years ended 31 December 2006 and 2007, enterprises incorporated in the PRC are normally subject to enterprise income tax (“EIT”) at rate of 33% (30% national enterprise income tax and 3% local municipal income tax), while certain subsidiaries enjoyed preferential EIT at a rate of 15% under approval of the relevant tax authorities or they operated in designated areas with preferential EIT policies.

Effective from 1 January 2008, income tax rates for all PRC enterprises have been unified at 25%. For enterprises which were established before the publication of the new CIT Law on 16 March 2007 and were entitled to preferential treatments of reduced tax rates granted by relevant tax authorities, the new CIT rate will be gradually increased to 25% within 5 years.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

For enterprises that enjoy a reduced income tax rate of 15%, the tax rate was 18% for 2008, 20% for 2009 and will be 22% for 2010, 24% for 2011 and 25% for 2012. For enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

Details of the preferential EIT policies are listed as follows:

Shanghai Tongyu Information Technology Co., Ltd. and Shanghai Sinopharm Waigaoqiao Co., Ltd. are domestic enterprises established in Pudong New Area, Shanghai, PRC. In accordance with the “Circular of the State Administration of Taxation on the Applicable EIT Rate of Domestic Enterprise Established in Pudong New Area, Shanghai” (Guo Shui Fa [1992] No.114) and “Implementation on Tax Policies for Domestic Enterprises Established in Pudong New Area, Shanghai” (Hu Cai Pu [1992] No.2), they enjoyed a preferential EIT rate of 15% during the years ended 31 December 2006 and 2007. In accordance with the “Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies” released by State Council, their EIT rate was 18% for 2008 and 20% for 2009.

Sinopharm Logistics Tianjing Co., Ltd. enjoyed EIT exemption in the year ended 31 December 2007 in accordance with the “Circular of Several Preferential Policies on EIT” released by Ministry of Finance and State Administration of Taxation and “Notification on EIT Reduction and Exemption” (Jin Guo Shui Bao Shui Jian Mian [2007] No.85) approved by local tax authorities.

Guangxi Accord Pharmacy Chainstore Co., Ltd. enjoyed preferential EIT rate of 15% from year 2006 to 2010 in accordance with the “Circular of Preferential Policies on Taxation on Development of the Western Region” released by Ministry of Finance, State Administration of Taxation and General Administration of Customs, “Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies” released by State Council and approval notification (Gui Di Shui Han [2007] No.302) released by Guangxi local tax authorities.

Accord Pharma, Guangdong Accord Drugstore Co., Ltd., Shenzhen Zhijun Pharmaceutical Co., Ltd. Shenzhen Zhijun Pharmaceutical Trade Co., Ltd., Shenzhen Accord Pharmacy Chainstore Co., Ltd., Shenzhen Jianmin Pharmaceutical Co., Ltd., Shenzhen Accord Pharmaceutical Logistics Co., Ltd. and Shenzhen Accord Traditional & Herbal Medicine Co., Ltd. enjoyed a preferential EIT rate of 15% during the years ended 2006 and 2007 in accordance with the “Statute of Special Economic Zone in Guangdong Province” adopted by the National People’s Congress. In accordance with the “Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies”, their EIT rate was 18% for 2008 and will be 20% for 2009, except for Shenzhen Zhijun Pharmaceutical Co., Ltd. Shenzhen Zhijun Pharmaceutical Co., Ltd. was awarded a certificate as a national high-tech enterprise. In accordance with the Corporate Income Tax Law of the People’s Republic of China, it was entitled to a preferential EIT rate of 15% for three years starting from 2008.

China National Pharmaceutical Logistics Corp., Ltd. is a foreign investment production enterprise established in the national Economy and Technology Development Zone. According to the Income Tax Law for Foreign Investment Enterprises and Foreign Enterprises, it was entitled to a preferential EIT rate of 15% during the years ended 31 December 2006 and 2007. In accordance with the “Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies”, its EIT rate was 18% for 2008 and will be 20% for 2009.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

Sinopharm Holding Nanning Co., Ltd. enjoyed full EIT exemption in 2006 and 60% EIT exemption in 2007 and 2008 in accordance with the “Circular of State Council on Several Policies of Development of the Western Region”, “Circular of Guangxi Zhuang Autonomous Region on the Implementation of the Development of the Western Region Policy by the State Council” and “Circular of Several Preferential Policies on EIT” released by Ministry of Finance and State Administration of Taxation.

Sinopharm Holding Hubei Co., Ltd. was awarded the “Certificate of High-tech Enterprise” by the Governing Committee of the Technology Development Zone in Donghu Wuhan on 1 July 2005 and was certified to be a high-tech enterprise. The EIT rate was 15% between 2006 and 2007.

Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd. was awarded a certificate as a national high-tech enterprise. In accordance with the Corporate Income Tax Law of the People’s Republic of China, it was entitled to a preferential EIT rate of 15% in 2009.

(b) Business tax (“BT”) and related taxes

Certain of the Group’s revenues (including service fee income) are subject to BT at rates ranging from 3% to 5% of the amount of revenue. In addition, the Group is subject to city construction tax (“CCT”) and educational surcharge (“ES”) based on 1% to 7% and 1% to 3% of the amount of BT payable.

(c) Value-added tax (“VAT”) and related taxes

Certain of the Group’s revenues (including sales revenue) are subject to output VAT generally calculated at 0%, 13% or 17% of the selling prices. Input credit relating to input VAT paid on purchases can be used to offset the output VAT. The Group is also subject to CCT and ES based on 1% to 7% and 1% to 3% of the net VAT payable.

33 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company for each of years ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009 have been dealt with in the financial statements of the Company to the extent of RMB164,572,000, RMB94,759,000, RMB563,490,000, RMB74,060,000 and RMB343,978,000, respectively.

34 Earnings per share

Basic earnings per share are based on the profit attributable to equity holders of the Company for the years/periods and on the weighted average number of ordinary shares in issued during the years/periods. The 1,637,037,451 shares issued on 6 October 2008 upon transformation of the Company into a joint stock limited company are considered as outstanding for all prior years/periods presented.

	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008 (Unaudited)	2009
Profit attributable to equity holders of the Company (RMB’000)	101,187	380,674	585,693	297,027	421,502
Weighted average number of ordinary shares in issue (’000)	1,637,037	1,637,037	1,637,037	1,637,037	1,637,037
Basic earnings per share (RMB per share)	<u>0.06</u>	<u>0.23</u>	<u>0.36</u>	<u>0.18</u>	<u>0.26</u>

No diluted earnings per share is presented as there was no dilutive potential shares existed during the years/periods.

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

35 Dividends

	Year ended 31 December			Five months ended 31 May	
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000 (Unaudited)	2009 RMB'000
Interim dividend declared	-	298,190	-	-	-
Proposed final dividend	165,769	-	105,699	-	279,469
	<u>165,769</u>	<u>298,190</u>	<u>105,699</u>	<u>-</u>	<u>279,469</u>

Dividends paid during the year ended 31 December 2006, 2007 and 2008 and the five months ended 31 May 2008 and 2009 were RMB101,490,000, nil, RMB127,744,574, nil and RMB105,699,000, respectively. Dividend paid during the year ended 31 December 2006 comprised final dividends in respect of the year ended 31 December 2005 of RMB92,112,000 and dividend declared by National Medicines to CNPGC of RMB9,378,495 (Note 19(c)).

Final dividends proposed for the respective years/periods were not reflected as dividend payable at the respective balance sheet dates nor were reflected as an appropriation of retained earnings.

36 Notes to consolidated cash flow statement

	Year ended 31 December			Five months ended 31 May	
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000 (Unaudited)	2009 RMB'000
Profit before income tax	363,967	820,409	1,077,389	520,840	746,751
Adjustments for:					
- Share of profit from associates (Note 11)	(19,193)	(40,035)	(54,186)	(22,799)	(25,063)
- Asset impairment	52,233	51,170	917	6,904	20,171
- Depreciation	87,870	95,882	125,393	52,145	54,342
- Amortisation	38,846	39,048	47,326	17,673	22,655
- Gain on disposal of land use rights and property, plant and equipment (Note 27)	(4,531)	(15,092)	(3,644)	17	(1,255)
- Loss on transfer for no consideration of certain interests in two subsidiaries (Note 27)	82,210	-	-	-	-
- Gain on disposal of interests in a listed subsidiary (Note 27)	-	(91,371)	(75,965)	(59,422)	(99,979)
- Dividend income on available-for-sale financial assets (Note 26)	(536)	(139)	(4)	-	(18)
- Finance income	(11,695)	(17,759)	(24,312)	(7,280)	(8,998)
- Finance cost	95,755	139,023	240,637	91,298	82,551
- Loss/(gain) on disposal of subsidiaries (Note 27)	-	(5,340)	11,118	2,187	-
	<u>684,926</u>	<u>975,796</u>	<u>1,344,669</u>	<u>601,563</u>	<u>791,157</u>
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)					
- Inventories	(111,601)	(585,961)	(453,392)	(215,428)	(377,662)
- Trade receivables	(1,043,692)	(1,280,441)	(1,747,262)	(1,768,574)	(1,251,244)
- Prepayments and other receivables	(33,988)	(64,034)	(51,964)	6,123	74,682
- Trade payables	1,155,277	1,594,050	1,917,788	814,998	1,138,694
- Accruals and other payables	136,605	32,419	(54,599)	239,640	71,510
Cash generated from operations	<u>787,527</u>	<u>671,829</u>	<u>955,240</u>	<u>(321,678)</u>	<u>447,137</u>

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

In the cash flow statements, proceeds from disposals of land use rights and property, plant and equipment comprise:

	Year ended 31 December			Five months ended 31 May	
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000 (Unaudited)	2009 RMB'000
Net book amount	37,067	84,669	31,819	13,324	12,172
Gain on disposal	4,531	15,092	3,644	(17)	1,255
Proceeds from disposal in current year	41,598	99,761	35,463	13,307	13,427
Receipt of proceeds from disposal of land use rights and property, plant and equipment in prior years	5,170	4,209	7,738	-	633
Proceeds from disposal	46,768	103,970	43,201	13,307	14,060

The principal non-cash transactions are the issue of shares as consideration for the acquisition of National Medicines described in Note 18, and dilution of interests in the two listed subsidiaries described in Note 27.

Disposal of subsidiaries:

On 28 January 2007, the Group disposed 100% equity interests in Shanxi Guoda Pharmacy Chainstore Co., Ltd. to an independent third party at a consideration of RMB4,018,000, resulting in a gain on disposal of approximately RMB2,794,000. On 30 November 2007, the Group disposed 25% equity interests, out of its original 60% equity interests in Sinopharm Holding Hubei Xinlong Co., Ltd. to an independent third party at a consideration of RMB25,000,000. Loss of the disposal amounted to approximately RMB2,150,000. The remaining 35% equity interests in this company was reclassified as investments in associates (Note 11). On 29 December 2007, the Group disposed 100% equity interests in Tianjin Sinopharm Bohai Pharmaceutical Co., Ltd. to an independent third party at a consideration of RMB4,298,000, resulting in a gain on disposal of approximately RMB4,696,000.

On 30 January 2008, the Group disposed 36% equity interests out of its original 51% equity interests, in Sichuan Industrial Institute of Antibiotic Co., Ltd. to China National Pharmaceutical Industry Corporation, China National Pharmaceutical Foreign Trade Corporation, China National Group Corporation of Traditional & Herbal Medicine and Sichuan Industrial Institute of Antibiotics at a total consideration of RMB19,667,000. Loss on disposal amounted to approximately RMB2,187,000. The remaining 15% equity interest in this company was reclassified as available-for-sale financial assets.

On 30 June 2008, the Group disposed 53% equity interests, out of its original 100% equity interests, in Sinopharm Holding Shenzhen TCM Co., Ltd. to CNPGC at a consideration of RMB25,690,000, resulting in a loss on disposal of approximately RMB8,104,000. The remaining 47% equity interests in this company was reclassified as investments in associates (Note 11).

On 30 June 2008, the Group disposed 72.91% equity interests in Yangzhou Pharmaceutical Group Guangning Co., Ltd. to an independent third party at a consideration of RMB1,978,000, resulting in a loss on disposal of approximately RMB827,000.

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

	Year ended 31 December	
	2007	2008
	RMB'000	RMB'000
Disposal consideration	33,316	47,335
Disposal consideration, settled	8,316	47,335
Less: Cash and cash equivalents in the disposed subsidiaries	(57,396)	(41,167)
Net cash (outflow)/inflow on disposal	(49,080)	6,168
Net assets of the disposed subsidiaries		
Current assets	391,807	100,270
Non-current assets	32,079	69,969
Current liabilities	(314,462)	(38,539)
Non-current liabilities	-	(2,913)
	109,424	128,787
Disposal consideration	33,316	47,335
Less: Share of net assets of the disposed subsidiaries	(27,976)	(58,453)
Gain/(Loss) on disposal	5,340	(11,118)

37 Commitments

(a) Capital commitments

Capital expenditures at balance sheet date are as follows:

The Group

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment:				
- contracted but not provided for	58,286	88,689	47,355	28,332
- authorised but not contracted for	219,617	334,219	138,441	121,771
	277,903	422,908	185,796	150,103

(b) Operating lease commitments

(i) The Group is the lessee:

The Group had future minimum lease payments under non-cancellable operating leases of land and buildings as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	21,874	36,880	50,588	63,985
Later than 1 year and not later than 5 years	26,956	82,299	87,839	108,936
	48,830	119,179	138,427	172,921

Certain of the operating leases contain renewal options which allow the Group to renew the existing leases upon expiry at the then market rental for specified periods.

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

(ii) The Group is the lessor:

The Group leases out certain office premises, plant and equipment under non-cancellable operating lease agreements. The further aggregate minimum rental receivable under these leases is as follows:

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	29,633	28,716	14,723	25,308
Later than 1 year and not later than 5 years	-	38,538	30,225	35,751
Later than 5 years	-	29,534	23,123	22,321
	<u>29,633</u>	<u>96,788</u>	<u>68,071</u>	<u>83,380</u>

38 Business combinations

(a) Business combination under common control

In June 2006, CNPGC transferred 58.67% equity interests in National Medicines, a subsidiary of CNPGC, to the Company (Note 19(b)).

In May 2009, the Group acquired 100% equity interests in Guangxi Guoda Pharmacy Chainstore Co., Ltd. from a subsidiary of CNPGC.

The following is a reconciliation of the effect arising from the common control combination in respect of the acquisition of National Medicines and Guangxi Guoda Pharmacy Chainstore Co., Ltd, on the consolidated balance sheets.

The consolidated balance sheet as at 31 December 2006:

	The Group, excluding National Medicines and Guangxi Guoda Pharmacy Chainstore Co., Ltd.	National Medicines	Guangxi Guoda Pharmacy Chainstore Co., Ltd.	Adjustments Note	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Investment in National Medicines	249,866	-	-	(249,866)	-
Other assets/(liabilities-) – net	<u>1,989,495</u>	<u>601,856</u>	<u>(904)</u>	<u>(186)</u>	<u>2,590,261</u>
Net assets	<u>2,239,361</u>	<u>601,856</u>	<u>(904)</u>	<u>(250,052)</u>	<u>2,590,261</u>
Paid-in capital	1,637,037	133,000	3,000	(136,000)	1,637,037
Capital premium	11,175	243,138	-	(243,138)	11,175
Statutory reserves	38,894	-	-	-	38,894
Available-for-sale financial assets change	-	5,143	-	-	5,143
Capital reserves	-	-	-	(11,175)	(11,175)
Retained earnings	56,081	190,756	(3,904)	(164,379)	78,554
Minority interests	<u>496,174</u>	<u>29,819</u>	<u>-</u>	<u>304,640</u>	<u>830,633</u>
	<u>2,239,361</u>	<u>601,856</u>	<u>(904)</u>	<u>(250,052)</u>	<u>2,590,261</u>

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

The consolidated balance sheet as at 31 December 2007:

	The Group, excluding National Medicines and Guangxi Guoda Pharmacy Chainstore Co., Ltd.	National Medicines	Guangxi Guoda Pharmacy Chainstore Co., Ltd.	Adjustments Note	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Investment in National					
Medicines	243,261	-	-	(243,261)	-
Other assets/(liabilities) – net . .	1,904,648	715,067	(658)	(709)	2,618,348
Net assets	<u>2,147,909</u>	<u>715,067</u>	<u>(658)</u>	<u>(243,970)</u>	<u>2,618,348</u>
Paid-in capital	1,637,037	133,000	3,000	(136,000)	1,637,037
Capital premium	11,175	243,138	-	(243,138)	11,175
Statutory reserves	49,249	-	-	-	49,249
Available-for-sale financial					
assets change	-	12,313	-	-	12,313
Capital reserves	-	-	-	(11,175)	(11,175)
Retained earnings	(80,657)	288,610	(3,658)	(219,135)	(14,840)
Minority interests	531,105	38,006	-	365,478	934,589
	<u>2,147,909</u>	<u>715,067</u>	<u>(658)</u>	<u>(243,970)</u>	<u>2,618,348</u>

The consolidated balance sheet as at 31 December 2008:

	The Group, excluding National Medicines and Guangxi Guoda Pharmacy Chainstore Co., Ltd.	National Medicines	Guangxi Guoda Pharmacy Chainstore Co., Ltd.	Adjustments Note	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Investment in National					
Medicines	230,771	-	-	(230,771)	-
Other assets/(liabilities) – net . .	2,571,517	840,499	(678)	(756)	3,410,582
Net assets	<u>2,802,288</u>	<u>840,499</u>	<u>(678)</u>	<u>(231,527)</u>	<u>3,410,582</u>
Paid-in capital	1,637,037	239,400	3,000	(242,400)	1,637,037
Capital premium	256,089	147,866	-	(147,866)	256,089
Statutory reserves	11,744	-	-	-	11,744
Available-for-sale financial					
assets change	-	7,111	-	-	7,111
Capital reserves	-	-	-	(11,175)	(11,175)
Retained earnings	224,136	421,587	(3,678)	(278,621)	363,424
Minority interests	673,282	24,535	-	448,535	1,146,352
	<u>2,802,288</u>	<u>840,499</u>	<u>(678)</u>	<u>(231,527)</u>	<u>3,410,582</u>

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

The consolidated balance sheet as at 31 May 2009:

	The Group, excluding National Medicines and Guangxi Guoda Pharmacy Chainstore Co., Ltd.	National Medicines	Guangxi Guoda Pharmacy Chainstore Co., Ltd.	Adjustments Note	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Investment in National Medicines	226,510	-	-	(226,510)	-
Other assets/(liabilities) – net ..	2,960,600	919,092	(1,207)	(892)	3,877,593
Net assets	<u>3,187,110</u>	<u>919,092</u>	<u>(1,207)</u>	<u>(227,402)</u>	<u>3,877,593</u>
Paid-in capital	1,637,037	239,400	3,000	(242,400)	1,637,037
Capital premium	255,588	147,866	-	(147,365)	256,089
Statutory reserves	11,744	-	-	-	11,744
Available-for-sale financial assets change	-	12,059	-	-	12,059
Capital reserves	-	-	-	(11,675)	(11,675)
Retained earnings	514,927	495,050	(4,207)	(326,543)	679,227
Minority interests	767,814	24,717	-	500,581	1,293,112
	<u>3,187,110</u>	<u>919,092</u>	<u>(1,207)</u>	<u>(227,402)</u>	<u>3,877,593</u>

No significant accounting adjustments were made to the net assets and net profit or loss of any entities or businesses as a result of the common combination to achieve consistency of accounting policies.

(b) Business combinations not under common control

Other than the acquisition of equity interests in National Medicines from CNPGC, which was accounted for under merger accounting, the Group also acquired equity interests in certain subsidiaries from third parties. Details of the major acquisitions are as follows:

(i) Year ended 31 December 2006

In January 2006, the Group acquired 80.11% equity interests in Jiangsu Dadesheng Pharmacy Chainstore Co., Ltd. from third parties. Details of net assets acquired and goodwill arising from the acquisition are as follows:

	RMB'000
Acquisition consideration – Cash	22,857
Fair value of the net assets acquired	<u>(14,570)</u>
Goodwill – Pharmaceutical retail	<u>8,287</u>

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

The details of the assets and liabilities acquired and cash flow relating to this acquisition are as follows:

	Fair values at acquisition RMB’000	Acquiree’s carrying amounts at acquisition RMB’000
Cash and cash equivalents	4,267	4,267
Property, plant and equipment	4,348	4,348
Investments in associates	1,158	1,158
Deferred income tax assets	53	-
Other non-current assets	3,938	3,938
Inventories	15,738	15,738
Trade and other receivables	15,159	15,159
Other non-current liabilities	(4,328)	(4,328)
Trade and other payables	(12,146)	(12,146)
Borrowings	(10,000)	(10,000)
Net assets	18,187	18,134
Minority interests (19.89%)	(3,617)	
Net assets acquired	14,570	
Purchase consideration settled in cash	22,857	
Cash and cash equivalents in subsidiary acquired	(4,267)	
Cash outflow on acquisition	18,590	

The revenue, net profit and cash flow of Jiangsu Dadesheng Pharmacy Chainstore Co., Ltd. from the acquisition date to 31 December 2006 is insignificant to the Group.

(ii) Year ended 31 December 2007

In January 2007, a third party conferred its 25.90% voting rights in Sinopharm Holding Jiangsu Co. Ltd. (“Sinopharm Jiangsu”), a then 38.94% owned associates, to the Group (the “Transfer”). After the Transfer, although the Group’s equity interests in Sinopharm Jiangsu still remained at 38.94%, the Group’s voting rights in Sinopharm Jiangsu increased from 38.94% to 64.84%. As control in Sinopharm Jiangsu has been passed to the Group pursuant to the Transfer, the results and financial position of Sinopharm Jiangsu were consolidated into the Group’s financial statements with effect from January 2007, and the Group’s interest in Sinopharm Jiangsu has been reclassified from investment in associates to investments in subsidiaries (Note 11).

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

Details of the assets and liabilities of Sinopharm Jiangsu at the date of the Transfer, and cash flow relating to the Transfer are as follows:

	Fair values at date of the Transfer	Acquiree’s carrying amounts at date of the Transfer
	RMB’000	RMB’000
Cash and cash equivalents	54,913	54,913
Property, plant and equipment	47,158	47,158
Investment properties	5,942	5,942
Intangible assets	24,083	-
Investment in associates	5,149	5,149
Deferred income tax assets	4,012	4,012
Inventories	82,951	82,951
Trade and other receivables	223,278	223,278
Other non-current assets	845	845
Trade and other payables	(310,946)	(310,946)
Deferred income tax liabilities	(7,091)	-
Post-employment benefit obligations	(7,500)	(7,500)
Borrowings	(86,860)	(86,860)
Net assets	35,934	18,942
Minority interests (61.06%)	(21,941)	
Net assets of Sinopharm Jiangsu attributable to the Group at the date of the Transfer, reclassified from investments in associates to investments in subsidiaries (Note 11) ...	13,993	

Cash inflow on the Transfer represents cash and cash equivalents of Sinopharm Jiangsu being consolidated at the date of the Transfer amount to RMB54,913,000.

The revenue, net profit and cash flow of Sinopharm Holding Jiangsu Co. Ltd. from the date of the Transfer to 31 December 2007 are as follows:

	RMB’000
Revenue	1,113,868
Net profit	3,481
Cash inflows from operating activities	1,039
Net cash inflow	1,039

(iii) Year ended 31 December 2008

In May 2008, the Group acquired 20% equity interests in Sinopharm Holding Henan Co., Ltd. (“Sinopharm Henan”) from a third party and subsequently injected additional capital to Sinopharm Henan. After completion of the acquisition and capital injection, the Group owns 51% equity interests in Sinopharm Henan.

In May 2008, the Group acquired 51% equity interests in Shenyang Tianyitang Pharmacy Chainstore Co., Ltd. from third parties. In June 2008, the Group acquired 51% equity interests in Zhejiang Intmedic Drug Store Co., Ltd. from a third party.

The effect of the above acquisitions is summarized as follow:

	RMB’000
Acquisition consideration - Cash	55,870
Fair value of the acquired net assets	(51,137)
Goodwill – Pharmaceutical retail	4,733

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

The details of the assets and liabilities acquired and cash flow relating to these acquisitions are summarized as follows:

	Fair values at acquisition date	Acquirees' carrying amounts at acquisition date
	RMB'000	RMB'000
Cash and cash equivalents	30,947	30,947
Property, plant and equipment	4,916	4,916
Intangible assets	32,203	19
Deferred income tax assets	15	15
Inventories	36,594	36,594
Other non-current assets	913	913
Trade and other receivables	101,766	101,766
Trade and other payables	(94,842)	(94,842)
Deferred income tax liabilities	(8,046)	-
Post-employment benefit obligations	(4,197)	(4,197)
Net assets	100,269	76,131
Minority interests	(49,132)	
Net assets acquired	51,137	
Purchase consideration settled in cash	55,870	
Cash and cash equivalents in subsidiaries acquired	(30,947)	
Cash outflow on acquisition	24,923	

The revenue, net profit and cash flow of Sinopharm Henan, Shenyang Tianyitang Pharmacy Chainstore Co., Ltd. and Zhejiang Intmedic Drug Store Co., Ltd. from the acquisition date to 31 December 2008 are summarized as follows:

	From acquisition date to 31 December 2008
	RMB'000
Revenue	340,339
Net profit	1,548
Cash inflows from operating activities:	23,054
Net cash inflow	23,054

In addition, in December 2008, the Group acquired the 25.90% equity interests in Sinopharm Jiangsu, a then subsidiary, from a third party at a consideration of RMB10,745,000.

(iv) Period ended 31 May 2009

In January 2009, the Group acquired 100% equity interests in Dongguan Accord Pharmaceutical Co., Ltd. (東莞一致醫藥有限公司) from an independent third party for a consideration of RMB2,742,000.

In February 2009, the Group acquired 80% equity interests in Hebei Pharmaceutical Aijia Medicine Co., Ltd. (河北醫藥愛家藥業有限公司) from an independent third party for a consideration of RMB5,040,000.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

In March 2009, the Group acquired 75% equity interests in Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd. (蘇州致君萬慶藥業有限公司) from an independent third party for a consideration of RMB103,500,000.

In April 2009, the Group acquired 67% equity interests in Sinopharm Holding Anhui Co., Ltd. (“Sinopharm Anhui”) from an independent third party for a consideration of RMB36,600,000.

The effect of the above acquisitions is summarized as follow:

	RMB’000
Acquisition consideration - Cash	147,882
Fair value of the acquired net assets	(103,519)
Goodwill – Pharmaceutical distribution and other business operations	44,363

The goodwill is attributable to the acquired human resources and economies of scale expected from combining the operations of the Group and Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd..

The details of the assets and liabilities acquired and cash flow relating to these acquisitions are summarized as follows:

	Fair values at acquisition date	Acquirees’ carrying amounts at acquisition date
	RMB’000	RMB’000
Cash and cash equivalents	35,596	35,596
Property, plant and equipment	72,868	72,868
Intangible assets	63,807	4,068
Land use rights	15,707	3,519
Deferred income tax assets	175	175
Inventories	80,530	80,530
Other non-current assets	299	299
Trade and other receivables	197,255	197,255
Trade and other payables	(270,148)	(270,148)
Deferred income tax liabilities	(14,192)	-
Borrowings	(40,000)	(40,000)
Net assets	141,897	84,162
Minority interests	(38,378)	
Net assets acquired	103,519	
Purchase consideration settled in cash	127,669	
Cash and cash equivalents in subsidiaries acquired	(35,596)	
Cash outflow on acquisition	92,073	

The revenue, net profit and cash flow of Dongguan Accord Pharmaceutical Co., Ltd., Hebei Pharmaceutical Aijia Medicine Co., Ltd., Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd. and Sinopharm Anhui from the respective acquisition dates to 31 May 2009 are summarized as follows:

	From acquisition date to 31 May 2009
	RMB’000
Revenue	128,889
Net profit	256
Cash outflows from operating activities:	4,405
Net cash outflow	26,405

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

39 Significant related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The Group is under the control of the PRC Government. In accordance with HKAS 24 “Related Party Disclosures” issued by the HK/CPA, other state-owned enterprises and their subsidiaries, which are not controlled by CNPGC, but directly or indirectly controlled by the PRC Government, are regarded as related parties (“other state-owned enterprises”). For the purpose of related party transactions disclosure, the Group has procedures in place to assist the identification of the immediate ownership structure of its customers, suppliers and business partners as to determine whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, management believes that meaningful information relating to related party transactions has been adequately disclosed.

The Company’s directors and the Group’s management consider the following entities are related parties of the Group.

<u>Name of related party</u>	<u>Nature of relationship</u>
CNPGC	The ultimate holding company of the Company
Fosun Grand Medicine	Shareholder of the Company
Fosun Pharma	Shareholder of the Company
Beijing Zhongguan Pharmaceutical Co., Ltd. (北京中冠藥業有限責任公司)	Controlled by CNPGC
China National Pharmaceutical Foreign Trade Corporation (中國醫藥對外貿易公司)	Controlled by CNPGC
China National Pharmaceutical Industry Corporation (中國醫藥工業有限公司)	Controlled by CNPGC
China National Pharmaceutical Industry Co., Ltd. (國藥集團工業有限公司)	Controlled by CNPGC
China National Pharmaceutical Group Beijing Medical Equipment Co., Ltd. (國藥集團北京醫療器械有限公司)	Controlled by CNPGC
China National Group Corporation of Traditional & Herbal Medicine (中國藥材集團公司)	Controlled by CNPGC
China National Group Corporation of Traditional & Herbal Medicine Chengde Co., Ltd. (中國藥材集團公司承德藥材有限責任公司)	Controlled by CNPGC
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd. (廣東南方醫藥對外貿易有限公司)	Controlled by CNPGC
Guangdong Oriental New & Special Drugs Corporation (廣東東方新特藥公司)	Controlled by CNPGC
Guangdong Renbo Medical Equipment Co., Ltd. (廣東仁博醫療器材有限公司)	Controlled by CNPGC
Guangxi Nanning Medicines Wholesales Station (廣西壯族自治區南寧醫藥批發站)	Controlled by CNPGC
Guangdong Tianliang Pharmaceutical Co., Ltd. (廣東天量醫藥有限公司)	Controlled by CNPGC

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

<u>Name of related party</u>	<u>Nature of relationship</u>
Guangxi Wuzhou Huawu Traditional & Herbal pharmaceutical Co., Ltd. (廣西梧州華梧藥材有限公司)	Controlled by CNPGC
Hehua Pharmaceutical Co., Ltd. (華禾藥業股份有限公司)	Controlled by CNPGC
Hebei Traditional & Herbal Medicine Co., Ltd. (河北省醫藥藥材公司)	Controlled by CNPGC
Sichuan Industrial Institute of Antibiotic Co., Ltd. (四川抗菌素工業研究所有限公司)	Controlled by CNPGC
Yunnan Traditional & Herbal Medicine Co., Ltd. (雲南藥材有限公司)	Controlled by CNPGC
Zk Medical Equipment Corporation Ltd. (北京國藥中康醫療器械有限公司)	Controlled by CNPGC
Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Centre (北京華邈中藥工程技術開發中心)	Controlled by CNPGC
Heilongjiang Traditional & Herbal Corporation (黑龍江省藥材公司)	Controlled by CNPGC
China National Medical Equipment Industry Corporation (中國醫療器械工業公司)	Controlled by CNPGC
Xinjiang Province New & Special National Pharmaceutical Co., Ltd. (新疆新特藥民族藥業有限責任公司)	Controlled by CNPGC
Hubei Yibao Meheco International Trade Co., Ltd. (湖北怡保國際醫藥有限公司)	Controlled by CNPGC
Shanghai Traditional & Herbal Co., Ltd. (上海國藥藥材有限公司)	Controlled by CNPGC
Xinjiang Province New & Special West Pharmaceutical Co., Ltd. (新疆新特西部藥業有限責任公司)	Controlled by CNPGC
Reed Sinopharm Exhibitions Co., Ltd. (國藥勵展展覽有限責任公司)	Controlled by CNPGC
Sinopharm Wuhan Pharmaceutical Industry Design Institute (中國醫藥集團武漢醫藥設計院)	Controlled by CNPGC
China National Pharmaceutical Group Shanghai Medical Equipment Co., Ltd. (國藥集團上海醫療器械有限公司)	Associate and controlled by CNPGC
National Medicines & Health Technology Co., Ltd. (國藥健與康保健有限公司)	Associate
Sinopharm Prospect Dentech (Beijing) Co., Ltd. (北京國藥前景口腔技術有限公司)	Associate
Sichuan Industrial Institute of Antibiotic (四川抗菌素研究所)	Associate
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd. (國藥集團上海立康醫藥股份有限公司)	Associate
Qinghai Pharmaceutical Co., Ltd. (青海制藥廠有限公司)	Subsidiary of associate
Shenzhen Main Luck Pharmaceutical Co., Ltd. (深圳萬樂藥業有限公司)	Associate
Shanghai Donghong Pharmaceutical Co., Ltd. (上海東虹醫藥有限公司)	Associate

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

<u>Name of related party</u>	<u>Nature of relationship</u>
Sinopharm Holding Hubei Xinlong Co., Ltd. (國藥控股湖北新龍有限公司)	Associate
Yichang Humanwell Pharmaceutical Co., Ltd. (宜昌人福藥業有限責任公司)	Associate
Shanghai Beiyi Guoda Traditional & Herbal pharmaceutical Co. Ltd (上海北翼國大醫藥藥材有限公司)	Associate
Dongshi Pharmaceutical Information Co., Ltd. (東氏醫藥資訊有限公司)	Associate

In addition to the related party information disclosed in Note 36, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the years/ periods and balances arising from related party transaction.

(a) Significant related party transactions

(i) Significant transactions with related parties except for other state-owned enterprises

During the Relevant Period, the Group had the following significant transactions with related parties, which will continue [●], except interest expenses derived from borrowings from CNPGC.

	<u>Year ended</u> <u>31 December</u>			<u>Five months ended</u> <u>31 May</u>	
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
				(Unaudited)	
Sales of goods					
Shanghai Donghong Pharmaceutical Co., Ltd.	137,057	156,239	172,360	73,216	75,773
Xinjiang Province New & Special National Pharmaceutical Co., Ltd.	-	-	-	-	43,837
Shanghai Beiyi Guoda Traditional & Herbal pharmaceutical Co. Ltd.	41,220	45,753	45,287	17,785	18,244
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.	32,942	60,530	43,461	20,059	16,451
Sinopharm Holding Hubei Xinlong Co., Ltd.	-	5,928	32,631	10,432	12,720
Hubei Yibao Meheco International Trade Co., Ltd.	-	-	-	-	12,288
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd.	17,826	6,626	42,610	4,928	3,502
Guangdong Oriental New & Special Drugs Corporation	12,799	2,375	3,380	1,115	1,429
China National Group Corporation of Traditional & Herbal Medicine	2,777	3,092	2,850	1,106	1,403
China National Pharmaceutical Foreign Trade Corporation	7,192	6,729	33,269	670	475
China National Pharmaceutical Industry Corporation	5,502	9,824	18,701	4,490	316
China National Pharmaceutical Industry Co., Ltd. ..	8,280	1,100	-	-	173
Guangdong Tianliang Pharmaceutical Co., Ltd.	3,891	1,558	50	50	-
Guangdong Renbo Medical Equipment Co., Ltd. ...	1,175	19	6	-	-

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Provide logistic service					
China National Pharmaceutical Foreign Trade Corporation	-	1,488	2,020	686	846
China National Pharmaceutical Industry Corporation	1,096	2,257	2,382	907	792
	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Purchase of goods					
Yichang Humanwell Pharmaceutical Co., Ltd.	153,949	236,194	303,473	138,331	173,451
China National Pharmaceutical Foreign Trade Corporation	115,824	165,587	192,065	34,011	52,275
Guangdong Oriental New & Special Drugs Corporation	19,957	25,876	24,590	12,866	25,354
Shenzhen Main Luck Pharmaceutical Co., Ltd.	4,974	6,921	22,361	4,369	11,821
Shanghai Donghong Pharmaceutical Co., Ltd.	14,392	15,664	18,477	7,085	10,364
China National Pharmaceutical Industry Co., Ltd.	100,497	-	2,327	1,246	9,672
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.	17,349	29,631	40,598	16,495	9,427
Qinghai Pharmaceutical Co., Ltd.	14,213	22,377	26,218	8,811	5,717
China National Group Corporation of Traditional & Herbal Medicine	6,344	6,685	20,091	6,450	2,290
China National Pharmaceutical Industry Corporation	18,569	23,031	25,800	5,967	2,049
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd.	30,687	42,976	34,705	16,924	1,751
Shanghai Traditional & Herbal Co., Ltd.	-	-	-	-	964
Guangxi Wuzhou Huawu Traditional & Herbal pharmaceutical Co. Ltd	2,255	2,784	209	-	-
Sinopharm Holding Hubei Xinlong Co., Ltd.	-	-	-	401	-
	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Operating leases					
Sichuan Industrial Institute of Antibiotic Co., Ltd.	-	-	14	6	6
	Year ended 31 December			Five months ended 31 May	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Interest expenses					
CNPGC	10,849	24,264	23,706	3,403	16,325

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

(ii) Significant transactions with other state-owned enterprises

	Year ended 31 December			Five months ended 31 May	
	2006 RMB’000	2007 RMB’000	2008 RMB’000	2008 RMB’000 (Unaudited)	2009 RMB’000
Sales of goods	15,230,449	19,953,356	24,368,312	9,436,086	11,006,322
Purchase of goods	1,653,375	3,713,630	3,455,369	1,720,374	1,904,763
Purchase of fixed assets	49,924	82,839	32,150	7,013	79,830
Interest expenses on bank borrowings	68,933	54,918	71,094	28,531	22,706
Interest income from bank deposits	5,888	8,813	13,512	4,046	4,703

Sales of goods to other state-owned enterprises included sales of medical products to specific customers during major disasters, epidemics and other emergencies, which amounted to nil, RMB507,500, RMB54,970,000, RMB51,615,400 and RMB7,200 for the years ended 31 December 2006, 2007 and 2008 and five months ended 31 May 2008 and 31 May 2009, respectively. Such transactions were priced at cost and relevant trade receivables will be offset with medical reserve funds upon approval from CNPGC and the relevant PRC government authorities (Note 22).

(iii) Key management compensation

	Year ended 31 December			Five months ended 31 May	
	2006 RMB’000	2007 RMB’000	2008 RMB’000	2008 RMB’000 (Unaudited)	2009 RMB’000
Salaries and other short-term employee benefits	4,138	5,432	5,915	2,096	2,380
Termination benefits	-	-	-	-	-
Post-employment benefits	-	-	-	-	-
Other long-term benefits	-	-	-	-	-
	4,138	5,432	5,915	2,096	2,380

Except for the sales of medical products to specific customers under major disaster, epidemic and other emergency which are priced at cost (ii above), the above related party transactions were carried out on terms mutually agreed between the parties. In the opinion of the Company’s directors and the Group’s management, these transactions are in the ordinary course of business of the Group.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

(b) Balances with related parties

(i) Significant balances with related parties except for other state-owned enterprises

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Trade receivables due from				
Shanghai Donghong Pharmaceutical Co., Ltd.	18,476	13,913	25,400	28,238
Xinjiang Province New & Special National Pharmaceutical Co., Ltd.	-	-	-	12,493
Shanghai Beiyi Guoda Traditional & Herbal pharmaceutical Co. Ltd.	-	9,962	10,272	8,616
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.	10,847	2,486	962	5,182
Hubei Yibao Meheco International Trade Co., Ltd.	-	-	-	3,347
Sinopharm Holding Hubei Xinlong Co., Ltd.	-	-	2,503	2,846
Xinjiang Province New & Special West Pharmaceutical Co., Ltd.	-	-	-	887
China National Pharmaceutical Industry Co., Ltd.	777	1,100	233	766
Sinopharm Holding Ningxia Co., Ltd.	-	-	-	603
China National Group Corporation of Traditional & Herbal Medicine	-	536	373	579
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd.	1,097	2	13,868	578
China National Pharmaceutical Foreign Trade Corporation	521	734	9,183	425
Guangdong Oriental New & Special Drugs Corporation	180	377	695	419
China National Pharmaceutical Group Beijing Medical Equipment Co., Ltd.	-	-	-	142
Sichuan Industrial Institute of Antibiotic Co., Ltd.	-	-	23	114
Guangxi Wuzhou Huawu Traditional & Herbal pharmaceutical Co., Ltd.	-	5	16	41
Hebei Traditional & Herbal Medicine Co., Ltd.	-	3	19	15
China National Pharmaceutical Group Shanghai Medical Equipment Co., Ltd.	-	-	-	8
Sinopharm Prospect Dentech (Beijing) Co., Ltd.	-	-	5	5
Sinopharm Holding Jiangsu Co., Ltd.	3,144	-	-	-
Zk Medical Equipment Corporation Ltd.	-	56	84	-
China National Pharmaceutical Industry Corporation	-	769	893	-
Guangdong Tianliang Pharmaceutical Co., Ltd.	-	-	9	-
	35,042	29,943	64,538	65,304

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Other receivables due from				
Guangxi Nanning Medicines Wholesales Station	47,428	24,940	21,444	20,082
CNPGC	701	6,153	500	16,617
Zk Medical Equipment Corporation Ltd.	-	2,034	2,034	2,034
China National Group Corporation of Traditional & Herbal Medicine	-	-	-	11
Shenzhen Main Luck Pharmaceutical Co., Ltd.	-	-	-	6
Shanghai Donghong Pharmaceutical Co., Ltd.	-	60	7	6
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.	-	5,000	5,000	-
Shanghai Beiyi Guoda Traditional & Herbal pharmaceutical Co. Ltd.	-	27	136	-
Guangdong Renbo Medical Equipment Co., Ltd.	-	44	-	-
China National Pharmaceutical Group Shanghai Medical Equipment Co., Ltd.	1,000	-	-	-
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd.	49	-	-	-
	49,178	38,258	29,121	38,756

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

Other receivables are all non-trade receivables and will be settled prior to [●].

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Prepayments due from				
China National Pharmaceutical Foreign Trade Corporation	-	-	-	252
Sinopharm Wuhan Pharmaceutical Industry Design Institute	-	-	-	160
Reed Sinopharm Exhibitions Co., Ltd.	-	-	-	130
China National Pharmaceutical Industry Co., Ltd.	-	1	500	73
Sinopharm Holding Hubei Xinlong Co., Ltd.	-	-	99	-
Guangdong Oriental New & Special Drugs Corporation ...	-	-	3	-
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd.	890	52	-	-
	<u>890</u>	<u>53</u>	<u>602</u>	<u>615</u>

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Trade payables due to				
Yichang Humanwell Pharmaceutical Co., Ltd.	16,959	102,984	221,429	236,328
China National Pharmaceutical Foreign Trade Corporation	20,174	14,878	29,205	19,080
Guangdong Oriental New & Special Drugs Corporation ...	1,919	3,146	2,448	12,800
CNPGC	518	2,834	5,900	10,544
Qinghai Pharmaceutical Co., Ltd.	8,421	12,574	11,653	9,898
Shenzhen Main Luck Pharmaceutical Co., Ltd.	-	6,372	4,557	7,308
China National Pharmaceutical Industry Corporation	17,456	7,457	10,133	5,124
Shanghai Donghong Pharmaceutical Co., Ltd.	1,605	104	929	2,275
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.	2,511	1,056	2,256	682
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd.	7,857	4,333	2,091	642
Hebei Traditional & Herbal Medicine Co., Ltd.	115	-	2,367	34
Sinopharm Holding Hubei Xinlong Co., Ltd.	-	-	322	-
Guangdong Tianliang Pharmaceutical Co., Ltd.	8	8	16	-
China National Pharmaceutical Industry Co., Ltd.	582	58	66	-
China National Pharmaceutical Group Beijing Medical Equipment Co., Ltd.	303	9	77	-
Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Centre	-	-	10	-
Heilongjiang Traditional & Herbal Corporation	-	-	1	-
China National Pharmaceutical Group Shanghai Medical Equipment Co., Ltd.	69	89	-	-
Sinopharm Prospect Dentech (Beijing) Co., Ltd.	8	25	-	-
Guangxi Wuzhou Huawu Traditional & Herbal pharmaceutical Co., Ltd.	-	11	-	-
Guangdong Renbo Medical Equipment Co., Ltd.	10	10	-	-
Sichuan Industrial Institute of Antibiotics	-	5	-	-
Yunnan Traditional & Herbal Medicine Co., Ltd.	1,744	-	-	-
National Medicines & Health Technology Co., Ltd.	94	-	-	-
Guangxi Nanning Medicines Wholesales Station	3	-	-	-
	<u>80,356</u>	<u>155,953</u>	<u>293,460</u>	<u>304,715</u>

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Other payables due to				
Sinopharm Holding Ningxia Co., Ltd.	-	-	-	15,319
CNPGC	58,005	49,569	3,312	2,832
Zk Medical Equipment Corporation Ltd.	-	-	-	570
Sichuan Industrial Institute of Antibiotic	6,359	1,093	6,503	30
Shanghai Beiyi Guoda Traditional & Herbal pharmaceutical Co. Ltd	-	-	463	-
Dongshi Pharmaceutical Information Co., Ltd.	-	-	8	-
China National Pharmaceutical Foreign Trade Corporation	-	7,649	-	-
China National Pharmaceutical Industry Corporation	-	7,649	-	-
China National Group Corporation of Traditional & Herbal Medicine	-	3,278	-	-
Guangdong Oriental New & Special Drugs Corporation ...	11	-	-	-
	<u>64,375</u>	<u>69,238</u>	<u>10,286</u>	<u>18,751</u>

Other payables are all non-trade payables and will be settled prior to [●].

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Advances due to				
Sinopharm Prospect Dentech (Beijing) Co., Ltd.	-	-	-	85
China National Medical Equipment Industry Corporation	-	-	-	13
Zk Medical Equipment Corporation Ltd.	118	-	-	-
	<u>118</u>	<u>-</u>	<u>-</u>	<u>98</u>

Advances are all trade payables and will continue after [●].

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Loan from parent company				
CNPGC	-	640,000	-	-

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Dividends payable				
CNPGC	-	236,620	185,620	185,620
Fosun Grand Medicine	-	185,583	145,583	145,583
Fosun Pharma	-	41,756	32,756	32,756
	<u>-</u>	<u>463,959</u>	<u>363,959</u>	<u>363,959</u>

Dividends payable will be settled prior to [●].

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

(ii) Balances with other state owned enterprises

	As at 31 December			As at 31 May
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other receivables	3,695,499	4,748,244	5,785,822	5,587,158
Trade and other payables	518,237	770,670	1,094,324	790,934
Restricted cash	82,453	236,732	74,618	62,706
Cash and cash equivalents	775,478	1,357,996	1,025,077	1,472,163
Borrowings	1,334,000	897,350	951,721	1,272,554

The receivables from related parties were unsecured, non-interest bearing and repayable on demand.

The payables to related parties were unsecured and non-interest bearing, except for borrowings.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

40 Principal subsidiaries and associates

As at 31 May 2009, the Company has direct and indirect interests in the following subsidiaries:

Principle subsidiaries:

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group	Effective interests held by the Group	Principal activities and place of operations	Auditors	Note
		RMB’000	Direct %	Indirect %			
National Medicines (國藥集團藥業股份有限公司)	PRC, 21 December 1999	478,800	44.03	-	Distribution of pharmaceutical products and laboratory supplies in the PRC	2006, 2007 and 2008: (iv) (b)	(ii), (v)
Sinopharm Logistics Co., Ltd. (國藥集團醫藥物流有限公司)	PRC, 18 December 2002	300,000	100	-	Provision of pharmaceutical logistics services in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	
Accord Pharma (深圳一致藥業股份有限公司)	PRC, 18 June 2001	288,149	38.33	-	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006, 2007 and 2008: (iv) (a)	(i), (v)
Sinopharm Holding GuoDa Drug Store Co., Ltd. (國藥控股國大藥房有限公司)	PRC, 23 March 2004	200,000	99	-	Distribution of pharmaceutical and healthcare products in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	
Sinopharm Holding Tianjin Co., Ltd. (國藥控股天津有限公司)	PRC, 1 December 2004	150,000	90	10	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group	Effective interests held by the Group	Principal activities and place of operations	Auditors	Note
		RMB’000	Direct %	Indirect %			
Sinopharm Holding Shenyang Co., Ltd. (國藥控股瀋陽有限公司)	PRC, 27 November 2003	140,000	90	10	Distribution of pharmaceutical products, laboratory supplies and chemical reagents; provision of pharmaceutical logistics services in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	
China National Pharmaceutical Logistics Co., Ltd. (國藥物流有限責任公司)	PRC, 8 November 2002	90,620	-	51	Provision of pharmaceutical logistics services in the PRC	2006, 2007 and 2008: (iv) (b)	
Sinopharm Holding Shanghai Co., Ltd. (國藥集團醫藥控股 上海有限公司)	PRC, 1 December 2003	80,000	90	10	Distribution of pharmaceutical products and chemical reagents in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	
Sinopharm Holding Beijing Co., Ltd. (國藥控股北京有限公司)	PRC, 28 October 2003	80,000	96	-	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	
Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd. (蘇州致君萬慶藥業有限公司)	PRC, 10 March 2003	80,000	-	75	Distribution of pharmaceutical products in the PRC	2006 and 2007: (iv) (s) 2008: (iv) (a)	
Shenzhen Zhijun Pharmaceutical Co., Ltd. (深圳致君制藥有限公司)	PRC, 22 December 1984	69,000	-	100	Medicine manufacture, research and inspection of pharmaceutical products in the PRC	2006, 2007 and 2008: (iv) (a)	

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

Company name	Country and date of incorporation	Issued and paid up capital/registered capital	Effective interests held by the Group	Effective interests held by the Group	Principal activities and place of operations	Auditors	Note
		RMB’000	Direct %	Indirect %			
China National Pharmaceutical Group Guorui Medicine Co., Ltd (國藥集團國瑞藥業有限公司)	PRC, 31 March 2000	60,000	-	98	Medicine manufacture and trading in the PRC	2006, 2007 and 2008: (iv) (b)	
Sinopharm Holding Henan Co., Ltd. (國藥控股河南股份有限公司)	PRC, 11 December 2006	57,765	51	-	Distribution of pharmaceutical products and chemical reagents in the PRC	2006 and 2007: (v) (iv) (d) 2008: (iv) (k)	
China National Pharmaceutical Group Chemical Reagent Co., Ltd. (國藥集團化學試劑有限公司)	PRC, 24 October 2003	50,000	90	10	Distribution of chemical reagents in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	
Sinopharm Holding Guangzhou Co., Ltd. (國藥控股廣州有限公司)	PRC, 1 September 2003	50,000	-	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006, 2007 and 2008: (iv) (a)	
Guangdong Huixin Investment Co., Ltd. (廣東惠信投資有限公司)	PRC, 6 May 1985	50,000	-	100	Medicine trading; property rental in the PRC	2006, 2007 and 2008: (iv) (a)	
Guangdong Accord Drugstore Co., Ltd. (廣東一致藥店有限公司)	PRC, 1 July 2004	50,000	-	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006, 2007 and 2008: (iv) (a)	
Sinopharm Holding Hubi Co., Ltd. (國藥控股湖北有限公司)	PRC, 1 December 2003	50,000	70	-	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006 and 2007: (v) (iv) (c) 2008: (iv) (k)	

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group	Effective interests held by the Group	Principal activities and place of operations	Auditors	Note
		RMB’000	Direct %	Indirect %			
Shanghai Sinopharm Waigaoqiao Co., Ltd. (上海國藥外高橋醫藥有限公司)	PRC, 30 January 2002	50,000	90	10	Distribution of pharmaceutical and healthcare products in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	
China National Pharmaceutical Group Shanghai Corporation (中國醫藥集團上海公司)	PRC, 24 July 1988	40,237	100	-	Distribution of pharmaceutical products and chemical reagents in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	
Sinopharm Holding Beijing Huahong Co., Ltd. (國藥控股北京華鴻有限公司)	PRC, 18 November 2003	40,000	60	-	Distribution of pharmaceutical and healthcare products in the PRC	2006: (iv) (i) 2007: (iv) (c) 2008: (iv) (k)	
Sinopharm Holding Logistics Tianjing Co., Ltd. (國藥控股天津物流有限公司)	PRC, 29 September 2005	40,000	-	100	Provision of pharmaceutical logistics services in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	
Beijing Sinopharm Tianyuan Real Estate & Property Management Co., Ltd. (北京國藥天元物業管理有限公司)	PRC, 28 December 1981	36,130	100	-	Property rental, distribution of laboratory supplies and chemical reagents in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	
China National Pharmaceutical (Group) Tianjin Corporation (中國醫藥(集團)天津公司)	PRC, 1 December 1952	32,540	-	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	
Shanghai GuoDa Pharmacy Chain store Co., Ltd. (上海國大藥房連鎖有限公司)	PRC, 18 May 2001	30,000	-	65	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

<u>Company name</u>	<u>Country and date of incorporation</u>	<u>Issued and paid up capital/registered capital</u>	<u>Effective interests held by the Group</u>	<u>Effective interests held by the Group</u>	<u>Principal activities and place of operations</u>	<u>Auditors</u>	<u>Note</u>
		<u>RMB’000</u>	<u>Direct %</u>	<u>Indirect %</u>			
Sinopharm Holding Zhejiang Co., Ltd. (國藥控股浙江有限公司)	PRC, 9 October 1995	30,000	86	-	Distribution of pharmaceutical products and laboratory supplies in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	
Sinopharm Logistics Hunan Co., Ltd. (國藥控股湖南物流有限公司)	PRC, 15 December 2008	30,000	100	-	Provision of pharmaceutical logistics services in the PRC	2006 and 2007: Not applicable 2008: (iv) (k)	
Sinopharm Holding Anhui Co., Ltd. (國藥控股安徽有限公司)	PRC, 5 January 2007	30,000	67	-	Distribution of pharmaceutical products, in the PRC	2006, 2007 and 2008: Not applicable	
Sinopharm Holding Nanning Co., Ltd. (國藥控股南寧有限公司)	PRC, 15 March 2004	29,000	60	40	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006 and 2007: (iv) (a) 2008: (iv) (k)	
Sinopharm Holding Jiangsu Co., Ltd. (國藥控股江蘇有限公司)	PRC, 17 January 1991	20,745	65	-	Distribution of pharmaceutical and healthcare products in the PRC	2006: (iv) (c) 2007: (iv) (b) 2008: (iv) (k)	(v)
Sinopharm Holding Liuzhou Co., Ltd. (國藥控股柳州有限公司)	PRC, 1 December 2003	20,531	-	51	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006, 2007 and 2008: (iv) (a)	
Sinopharm Holding Guangdong Xinlong Co., Ltd. (國藥控股廣東新龍有限公司)	PRC, 1 December 2004	20,000	-	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006, 2007 and 2008: (iv) (a)	

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

Company name	Country and date of incorporation	Issued and paid up capital/registered capital	Effective interests held by the Group	Effective interests held by the Group	Principal activities and place of operations	Auditors	Note
		RMB’000	Direct %	Indirect %			
Sinopharm Holding Hunan Co., Ltd. (國藥控股湖南有限公司)	PRC, 21 June 2001	20,000	80	-	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006 and 2007: (iv) (i) 2008: (iv) (k)	
Sinopharm Holding Shanxi Co., Ltd. (國藥控股山西有限公司)	PRC, 17 January 2004	20,000	60	-	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	
China National Pharmaceutical Group Southwest Medicine Co., Ltd. (國藥集團西南醫藥有限公司)	PRC, 19 November 1997	20,000	67	3	Distribution of pharmaceutical and healthcare products in the PRC	2006: (iv) (e) 2007: (iv) (b) 2008: (iv) (k)	(v)
Shanxi Pharmaceutical Corporation. (陝西省醫藥公司)	PRC, 29 March 1994	18,630	-	100	Distribution of pharmaceutical and healthcare products in the PRC	2006: (iv) (e) 2007 and 2008: (iv) (b)	
Shanghai Ourchem Chemical Reagent Co., Ltd. (上海沃愷化學試劑有限公司)	PRC, 11 August 1988	18,850	100	-	Property rental, distribution of laboratory supplies and chemical reagents in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	
Zhejiang Intmedicine Drugstore Co., Ltd. (浙江英特藥房有限公司)	PRC, 13 March 2000	15,000	-	51	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC	2006 and 2007: (iv) (j) 2008: (iv) (k)	(v)
Sinopharm Holding Suzhou Co., Ltd. (國藥控股蘇州有限公司)	PRC, 3 January 1993	15,000	70	-	Distribution of pharmaceutical products and laboratory supplies in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

<u>Company name</u>	<u>Country and date of incorporation</u>	<u>Issued and paid up capital/registered capital</u> RMB’000	<u>Effective interests held by the Group</u> Direct %	<u>Effective interests held by the Group</u> Indirect %	<u>Principal activities and place of operations</u>	<u>Auditors</u>	<u>Note</u>
Sinopharm Logistics Shanxi Co., Ltd. (國藥控股山西物流 有限公司)	PRC, 13 December 2008	15,000	100	-	Provision of pharmaceutical logistics services in the PRC	2006, 2007 and 2008: Not applicable	
Jiangsu Dadesheng Pharmacy Chain Store Co., Ltd. (江蘇大德生藥房連鎖 有限公司)	PRC, 23 August 2001	13,980	-	100	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC	2006: (iv) (f) 2007: (iv) (b) 2008: (iv) (k)	
Sinopharm Holding Beijing Kangchen Bio-medicine Co., Ltd. (國藥控股北京康辰 生物醫藥有限公司)	PRC, 19 January 2005	12,000	51	-	Distribution of pharmaceutical products and laboratory supplies in the PRC	2006: (iv) (i) 2007: (iv) (c) 2008: (iv) (k)	
Shenzhen Accord Pharmacy Chain Store Co., Ltd. (深圳市一致醫藥連鎖有限公司)	PRC, 3 July 1985	10,800	-	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006, 2007 and 2008: (iv) (a)	
Liaoning Guoda Pharmacy Chain Store Co., Ltd. (遼寧國大藥房連鎖有限公司)	PRC, 12 May 1998	10,460	-	100	Distribution of pharmaceutical and healthcare products in the PRC	2006: (iv) (b) 2007: (iv) (c) 2008: (iv) (k)	
GuoDa Ningxia Pharmacy Chain Store Co., Ltd. (寧夏國大藥房連鎖有限公司)	PRC, 17 November 2008	10,000	-	100	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC	2006 and 2007: Not applicable 2008: (iv) (k)	
China National Pharmaceutical Group Northwest Medicine Co., Ltd. (國藥集團西北醫藥有限公司)	PRC, 30 May 2001	10,000	60	-	Distribution of pharmaceutical and healthcare products, logistics services in the PRC	2006: (iv) (c) 2007: (iv) (b) 2008: (iv) (b)	

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

<u>Company name</u>	<u>Country and date of incorporation</u>	<u>Issued and paid up capital/registered capital</u> RMB’000	<u>Effective interests held by the Group</u> Direct %	<u>Effective interests held by the Group</u> Indirect %	<u>Principal activities and place of operations</u>	<u>Auditors</u>	<u>Note</u>
Beijing Guoda Pharmacy Chain Store Co., Ltd. (北京國大藥房連鎖有限公司)	PRC, 1 August 2001	10,000	-	100	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC	2006 and 2007: (iv) (b) 2008: (iv) (k)	
Guoda Shenyang Tianyitang Pharmacy Chain Store Co., Ltd. (瀋陽國大天益堂藥房連鎖有限公司)	PRC, 2 August 2002	10,000	-	51	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC	2006: (iv) (b)(v) 2007: (iv) (c) 2008: (iv) (k)	
Hebei Pharmaceutical Aijia Medicine Co., Ltd. (河北醫藥愛家藥業有限公司)	PRC, 5 January 1997	10,000	80	-	Distribution of pharmaceutical products in the PRC	2006, 2007 and 2008: Not applicable	
Tianjin Orient Bookcom Pharmaceutical Trade Co., Ltd. (天津東方博康醫藥貿易有限公司)	PRC, 6 January 1994	10,000	-	51	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006: (iv) (e) 2007: (iv) (c) 2008: (iv) (k)	
China National Pharmaceutical Tianjin Purchasing & Supplying Station Development Zone Branch (中國醫藥天津採購供應站開發區藥品公司)	PRC, 1 July 1993	9,000	-	100	Distribution of pharmaceutical products and laboratory supplies in the PRC	2006: (iv) (e) 2007: (iv) (c) 2008: Not applicable	
Shenzhen Accord Traditional & Herbal Medicine Co., Ltd. (深圳市一致藥材有限公司)	PRC, 1 December 2001	6,000	-	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006, 2007 and 2008: (iv) (a)	

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

<u>Company name</u>	<u>Country and date of incorporation</u>	<u>Issued and paid up capital/ registered capital</u> RMB’000	<u>Effective interests held by the Group</u> Direct %	<u>Effective interests held by the Group</u> Indirect %	<u>Principal activities and place of operations</u>	<u>Auditors</u>	<u>Note</u>
Tianjin Guoda Pharmacy Chain Store Co., Ltd. (天津國大藥房連鎖有限公司)	PRC, 18 September 2001	5,000	-	100	Medicine chain store; distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	
Guangxi Accord Medicine Co., Ltd. (廣西一致醫藥有限公司)	PRC, 17 January 2004	5,000	-	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006 and 2007: (iv) (p) 2008: (iv) (a)	
Shenzhen Jianmin Pharmaceutical Co., Ltd. (深圳市健民醫藥有限公司)	PRC, 8 January 2001	5,000	-	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006, 2007 and 2008: (iv) (p)	
China National Pharmaceutical Group Shenyang Chemical Reagent Co., Ltd. (國藥集團化學試劑瀋陽有限公司)	PRC, 7 September 1998	5,000	-	51	Distribution of chemical reagents in the PRC	2006: (iv) (b) 2007: (iv) (c) 2008: (iv) (k)	
China National Pharmaceutical Group Beijing Chemical Reagent Co., Ltd. (國藥集團化學試劑北京有限公司)	PRC, 30 December 1953	4,570	-	100	Distribution of chemical reagents and healthcare products in the PRC	2006: (iv) (e) 2007: (iv) (c) 2008: (iv) (k)	
China National Pharmaceutical Group Shanghai Chemical Reagent Co., Ltd. (國藥集團化學試劑上海有限公司)	PRC, 12 June 2006	4,500	-	100	Distribution of laboratory supplies and chemical reagents in the PRC	2006: Not applicable 2007: (iv) (c) 2008: (iv) (k)	

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

Company name	Country and date of incorporation	Issued and paid up capital/registered capital	Effective interests held by the Group	Effective interests held by the Group	Principal activities and place of operations	Auditors	Note
		RMB’000	Direct %	Indirect %			
Taicang Hushi Chemical Reagent Co., Ltd. (太倉滬試試劑有限公司)	PRC, 24 June 2002	4,000	-	60	Chemical reagents manufacture and trading in the PRC	2006: (iv) (a) 2007: (iv) (c) 2008: (iv) (k)	
Guangdong Yuexing Pharmaceutical Co., Ltd. (廣東粵興醫藥有限公司)	PRC, 1 December 1993	3,000	-	100	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC	2006, 2007 and 2008: (iv) (a)	
Guangxi Guoda Pharmacy Chainstore Co., Ltd. (廣西國大藥房連鎖有限公司)	PRC, 14 August 2001	3,000	-	100	Medicine chain store; distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC	2006, 2007 and 2008: (iv) (c)	
Dongguan Accord Pharmaceutical Co., Ltd. (東莞一致醫藥有限公司)	PRC, 12 September 2001	2,800	-	100	Distribution of pharmaceutical products in the PRC	2006 and 2007: (iv) (t) 2008: (iv) (u)	
Shaanxi Yiyue Hotel (陝西怡悅賓館)	PRC, 14 December 1994	2,000	-	100	Hotel management in the PRC	2006: (iv) (e) 2007 and 2008: (iv) (b)	
Guangxi Accord Chinese Herbal Slice Co., Ltd. (廣西一致中藥飲片有限公司)	PRC, 12 June 2007	2,000	-	100	Medicine manufacture and trading in the PRC	2006 and 2007: Not applicable 2008: (iv) (a)	
Guangzhou Accord Pharmacy Chain Store Co., Ltd. (廣州一致藥店連鎖有限公司)	PRC, 1 September 2001	2,000	-	100	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC	2006, 2007 and 2008: (iv) (a)	

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group	Effective interests held by the Group	Principal activities and place of operations	Auditors	Note
		RMB’000	Direct %	Indirect %			
Sinopharm Holding Foshan Co., Ltd. (國藥控股佛山有限公司)	PRC, 15 January 1986	2,000	-	100	Medicine chain store; distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC	2006, 2007 and 2008: (iv) (a)	
Shenzhen Zhijun Pharmaceutical Trade Co., Ltd. (深圳致君醫藥貿易有限公司)	PRC, 1 March 1985	1,890	-	100	Distribution of pharmaceutical, healthcare products and laboratory supplies in the PRC	2006, 2007 and 2008: (iv) (a)	
Yangzhou Weikang Pharmaceutical Co., Ltd. (揚州衛康醫藥有限公司)	PRC, 29 December 1992	1,420	-	85	Distribution of pharmaceutical products in the PRC	2006: (iv) (h) 2007: (iv) (b) 2008: (iv) (k)	
Shanghai Tongyu Information Technology Co., Ltd. (上海統禦信息科技有限公司)	PRC, 27 December 2005	1,000	95	5	Information technology development and medicine consulting in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	
China National Pharmaceutical Group Suzhou Chemical Reagent Co., Ltd. (國藥集團化學試劑蘇州有限公司)	PRC, 25 August 2004	1,000	-	100	Distribution of chemical reagents in the PRC	2006: (iv) (a) 2007: (iv) (c) 2008: (iv) (k)	
China National Pharmaceutical Group Chengdu Chemical Reagent Co., Ltd. (國藥集團化學試劑成都有限公司)	PRC, 15 November 2004	1,000	-	60	Distribution of laboratory supplies in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	(v)
Sinopharm Holding Tianjin Enterprise Development Co., Ltd. (天津國藥企業發展有限公司)	PRC, 28 July 2004	1,000	-	100	Consulting and technology services in the PRC	2006: (iv) (e) 2007: (iv) (c) 2008: (iv) (k)	

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group	Effective interests held by the Group	Principal activities and place of operations	Auditors	Note
		RMB’000	Direct %	Indirect %			
Shenzhen Accord Pharmaceutical Logistics Co., Ltd. (深圳一致藥業物流有限公司)	PRC, 1 September 2005	1,000	-	100	Provision of pharmaceutical logistics services in the PRC	2006, 2007 and 2008: (iv) (a)	
Shanghai Guoda Shanghong Qibao Drugstore Co., Ltd. (上海國大上虹七寶藥房有限公司)	PRC, 9 April 2004	1,000	-	51	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC	2006: (iv) (e) 2007: (iv) (c) 2008: (iv) (k)	
Shaanxi Dongshi Business Enterprise Development Co., Ltd. (陝西東氏企業發展有限公司)	PRC, 19 May 2004	600	-	90	Property rental etc. in the PRC	2006: (iv) (e) 2007: (iv) (b) 2008: (iv) (b)	
China National Pharmaceutical Group Shaanxi Co., Ltd. (國藥集團陝西醫藥有限公司)	PRC, 15 August 2000	600	-	100	Distribution of pharmaceutical products and chemical reagents in the PRC	2006: (iv) (e) 2007 and 2008: (iv) (b)	
China National Pharmaceutical Group Shaanxi New & Special Medicine Co., Ltd. (國藥集團陝西新特藥品有限公司)	PRC, 15 August 2000	600	-	100	Distribution of pharmaceutical products and chemical reagents in the PRC	2006: (iv) (e) 2007 and 2008: (iv) (b)	
Sinopharm Chemical Reagent Shaanxi Co., Ltd. (陝西化玻器械有限公司)	PRC, 15 August 2000	600	-	100	Distribution of chemical reagents, etc. in the PRC	2006: (iv) (e) 2007 and 2008: Not applicable	
Guangdong Hengchang Logistics Co., Ltd. (廣東恒暢物流有限公司)	PRC, 14 August 1993	540	-	100	Provision of pharmaceutical logistics services in the PRC	2006, 2007 and 2008: (iv) (a)	
Shanghai Guoda Dongsheng Drugstore Co., Ltd. (上海國大東盛大藥房有限公司)	PRC, 1 July 2003	500	-	50	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC	2006: (iv) (e) 2007: (iv) (c) 2008: (iv) (k)	

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group	Effective interests held by the Group	Principal activities and place of operations	Auditors	Note
		RMB'000	Direct %	Indirect %			
Shanghai Shengzhan Computer Science & Technology Co., Ltd. (上海聖展計算機科技有限公司)	PRC, 23 June 2005	500	-	100	Information technology services in the PRC	2006: (iv) (e) 2007: (iv) (c) 2008: Not applicable	
Guangxi Accord Pharmacy Chain Store Co., Ltd. (廣西一致藥店連鎖有限公司)	PRC, 1 December 2001	500	-	100	Medicine chain store; distribution of pharmaceutical, healthcare products and chemical reagents; property rental in the PRC	2006, 2007 and 2008: (iv) (a)	
Zhejiang Intlmedicine DrugStore Dongshan Co., Ltd. (浙江英特藥房東山藥店有限公司)	PRC, 1 December 2000	500	-	51	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC	2006 and 2007: (iv) (j) 2008: (iv) (k)	
Beijing China Reagent & Fine Chemicals Consulting Co., Ltd (北京國化精試諮詢有限公司)	PRC, 27 December 2001	100	-	100	Information technology consultation, computer and software development in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (k)	

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

As at 31 December 2008, the Company has direct and indirect interests in the following associates:

Principal associates:

<u>Company name</u>	<u>Country and date of incorporation</u>	<u>Issued and paid up capital/ registered capital</u> RMB'000	<u>Effective interests held by the Group</u> %	<u>Principal activities</u>	<u>Auditors</u>
Qinghai Pharmaceutical Group Co., Ltd. (青海製藥(集團)有限公司)	PRC, 17 January 2000	132,266	47	Distribution of pharmaceutical products and laboratory supplies in the PRC	2006, 2007 and 2008: (iv) (l)
Yichang Humanwell Pharmaceutical Co., Ltd.	PRC, 1 August 2001	60,000	20	Medicine manufacture and trading in the PRC	2006, 2007 and 2008: (iv) (m)
Sinopharm Holding Hubei Xinlong Co., Ltd.	PRC, 19 March 2001	36,000	35	Distribution of pharmaceutical, healthcare products, laboratory supplies and chemical reagents	2006 and 2007: (iv) (c) 2008: (iv) (q)
Shenzhen Main Luck Pharmaceutical Co., Ltd.	PRC, 4 July 1990	USD5 million	35	Research and inspection of pharmaceutical products in the PRC	2006, 2007 and 2008: (iv) (n)
Shanghai Beiyi Guoda Traditional & Herbal pharmaceutical Co. Ltd	PRC, 26 July 1994	12,000	26	Distribution of pharmaceutical products and chemical reagents in the PRC	2006: (iv) (e) 2007: (iv) (o) 2008: (iv) (o)
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.	PRC, 27 July 1994	10,000	30	Distribution of pharmaceutical products in the PRC	2006 and 2007: (iv) (c) 2008: (iv) (r)
National Medicines & Health Technology Co., Ltd.	PRC, 4 August 2004	7,500	35	Distribution of healthcare products in the PRC	2006 and 2007: (iv) (b) 2008: Not applicable
Shanghai Donghong Pharmaceutical Co., Ltd.	PRC, 2000	6,000	35	Distribution of pharmaceutical and healthcare products in the PRC	2006, 2007 and 2008: (iv) (a)

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

<u>Company name</u>	<u>Country and date of incorporation</u>	<u>Issued and paid up capital/registered capital</u> RMB'000	<u>Effective interests held by the Group</u> %	<u>Principal activities</u>	<u>Auditors</u>
China National Pharmaceutical Group Shanghai Medical Equipment Co., Ltd.	PRC, November 1997	5,000	20	Distribution of healthcare equipment and medical supplies in the PRC	2006 and 2007: (iv) (i) 2008: (iv) (c)
Sinopharm Prospect Dentech (Beijing) Co., Ltd.	PRC, 04 August 2004	2,000	39	Oral healthcare products manufacture and trading in the PRC	2006, 2007 and 2008: (iv) (b)
Dongshi Pharmaceutical Information Co., Ltd.	PRC, 1999	1,000	46	Corporate management services in the PRC	Not applicable

Notes:

- (i) The Company's directors and the Group's management are of the view that the Group has the power to govern the financial and operating policies of Accord Pharma although it held less than 50% of its equity interests since December 2004, after considering the facts that (1) the Company has been the single largest shareholder of Accord Pharma; (2) the shareholding in Accord Pharma has been dispersed and the other top ten shareholders held less than 4% and 18% equity interests individually or in aggregate; (3) the participation of the other shareholders at the shareholders' meetings has been relatively low and passive; and (4) the majority of the executive directors of Accord Pharma were representatives of the Company.
- (ii) The Company's directors and the Group's management are of the view that the Group has the power to govern the financial and operating policies of National Medicines during the Relevant Periods although its equity interests in this company was decreased to below 50% following the completion of the share reform in August 2006 (Note 27), after considering the facts that (1) the Company has been the single largest shareholder of National Medicines; (2) the shareholding in National Medicines has been dispersed and the other top ten shareholders held less than 4% and 19% equity interests individually or in aggregate; (3) the participation of the other shareholders at the shareholders' meetings has been relatively low and passives; and (4) the majority of the executive directors of National Medicines were representatives of the Company.
- (iii) No audited financial statements were prepared for this company as it is not subject to any audit requirements.
- (iv) The statutory audits of these companies' financial statements for the years ended 31 December 2006, 2007 and 2008 were performed by certified public accountants in the PRC as follows:

- (a) Shulun Pan Certified Public Accountants Co., Ltd. (立信會計師事務所有限公司);
(b) Zhongrui Yuehua Certified Public Accountants Co., Ltd. (中瑞岳華會計師事務所有限公司);

APPENDIX I — ACCOUNTANT’S REPORT OF OUR COMPANY

- (c) Shinewing Certified Public Accountants Co., Ltd. (信永中和會計師事務所);
(d) Henan Guangda Certified Public Accountants Co., Ltd. (河南光大會計師事務所);
(e) Beijing TianZhengHua, CPA (天正華會計師事務所);
(f) Jiangsu Ruihong Certified Public Accountants Co., Ltd. (江蘇瑞紅會計師事務所);
(g) Vocation International CPA Co., Ltd. (天職國際會計師事務所);
(h) Yangzhou Hengxin Certified Public Accountants Co., Ltd. (揚州恒信會計師事務所);
(i) Beijing Tianhua Zhongxing Certified Public Accountants Co., Ltd. (北京天華中興會計師事務所);
(j) Zhejiang Pan-China Certified Public Accountants Co., Ltd. (浙江天健會計師事務所);
(k) PricewaterhouseCoopers Zhong Tian CPAs Limited Company (普華永道中天會計師事務所有限公司);
(l) Shenzhen Dahua Tiancheng Certified Public Accountants Co., Ltd. (深圳大華天誠會計師事務所);
(m) Hubei Daxin Certified Public Accountants Co., Ltd. (湖北大信會計師事務所有限公司);
(n) Shenzhen Pengcheng Certified Public Accountants Co., Ltd. (深圳市鵬城會計師事務所有限公司);
(o) Shanghai An Dahua Xin Certified Public Accountants Co., Ltd. (上海安大華鑫會計師事務所);
(p) Nanning Joint Accounting Firm in Birch (南寧樺林聯合會計師事務所);
(q) Prachanda Accountants in Wuhan Services Co., Ltd. (武漢中昌達會計師事務所有限公司);
(r) NexiaHDDY Certified Public Accountants (Shanghai) Co., Ltd. (上海宏大東亞會計師事務所有限公司);
(s) Kunshan Gongxin CPA Co., Ltd. (昆山公信會計師事務所有限公司);
(t) Dongguan City Ryan C. P. A Partnership (東莞市里安會計師事務所有限公司);
(u) Guanzhou Da Gong CPA Co., Ltd. (廣州市大公會計師事務所有限公司);
- (v) Except for Accord Pharma and National Medicines which are joint stock limited liability companies, the other subsidiaries of the Group during the Relevant Periods were limited liability entities. The Group’s interests in the above subsidiaries throughout the Relevant Periods or since the dates of establishment of the companies, where appropriate, are as stated in the table above, except for the following movements in equity interests in subsidiaries:

Company name	Effective interests held by the Group as at 31 December			Effective interests held by the Group as at 31 May
	2006	2007	2008	2009
	%	%	%	%
Accord Pharma (Note 27)	39.14	39.14	39.14	38.33
National Medicines (Note 27)	47.60	46.02	45.03	44.03
Sinopharm Holding Nanning Co., Ltd.	60	100	100	100
Sinopharm Holding Jiangsu Co., Ltd. (Note 38)	39	39	65	65
Sinopharm Holding Henan Co., Ltd. (Note 38)	-	-	51	51
Zhejiang Intmedic Drug Store Co., Ltd. (Note 38)	-	-	51	51
Shenyang Tianyitang Pharmacy Chainstore Co., Ltd. (Note 38)	-	-	51	51
China National Pharmaceutical Group Southwest Medicine Co., Ltd.	100	100	70	70
China National Pharmaceutical Group Chengdu Chemical Reagent Co., Ltd.	100	100	60	60
Sinopharm Holding Beijing Co., Ltd.	100	100	100	96
Sinopharm Holding Hubei Co., Ltd.	78	64	70	70

- (vi) The English names of certain subsidiaries, associates and auditors represented the best effort by management of the Company in translating their Chinese names as they do not have official English names.

41 Subsequent events

(a) Special Dividend

On 22 December 2008, the shareholders’ meeting of the Company resolved to distribute its retained earnings to Sinopharm Investment and CNPGC, after making the required deductions for the statutory common reserve fund, as of [●] (the “Special Dividend”).

APPENDIX I — ACCOUNTANT'S REPORT OF OUR COMPANY

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 May 2009. Same as disclosed elsewhere in the report, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 May 2009.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

APPENDIX III — PROFIT FORECAST

Our forecast consolidated profit attributable to equity holders of our Company for the year ending 31 December 2009 is set out in the section headed “Financial Information — Profit Forecast” in this document.

(A) BASES AND ASSUMPTIONS

Our directors have prepared the forecast of the consolidated profit attributable to our equity holders for the year ending 31 December 2009, based on the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the five months ended 31 May 2009 and a forecast of the consolidated results of the Group for the remaining seven months ending 31 December 2009. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by our Group as summarised in the Accountant’s Report of our Company as set out in Appendix I of this document.

The profit forecast has been prepared on the following principal assumptions:

- The Group will be able to continue in business and will not be materially interrupted by any unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including the occurrence of natural disasters or catastrophes.
- There will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in the respective countries or industry in which the Group operates.
- There will be no significant changes in the bases and rates of income tax, value-added tax and business tax or material changes in exchange rates.
- There will be no material changes in inflation or interest rate from those currently prevailing in the PRC where our customers and suppliers operate.
- The Group’s operations, results, and financial position will not be adversely affected by the occurrence of any of the events described in the risk factors as mentioned in this document.

**APPENDIX IVA — UNAUDITED INTERIM FINANCIAL INFORMATION OF
NATIONAL MEDICINES**

In accordance with relevant rules and regulations applicable to enterprises whose shares are listed on a stock exchange in the People’s Republic of China (“PRC”), China National Medicines Corporation Ltd. (“National Medicines”), a 44.01% owned subsidiary of the Group whose shares are listed on the Shanghai Stock Exchange of the PRC, has published its interim financial statements for the six months ended 30 June 2009.

The following is the text of the unaudited interim financial information of National Medicines (“unaudited interim financial information”), which comprises the balance sheet as at 31 December 2008 and 30 June 2009; income statements for the six months ended 30 June 2008 and 2009; cash flow statements for the six months ended 30 June 2008 and 2009 and explanatory notes to the unaudited interim financial statements of National Medicines and its subsidiaries (collectively referred to as “National Medicines Group”). The Chinese version for interim financial statements of National Medicines prepared in accordance with the Accounting Standard for Business Enterprises No. 32 — Interim Financial Reporting issued by the Ministry of Finance of the PRC on 15 February 2006 was published on the internet web site of the Shanghai Stock Exchange of the PRC (www.sse.com.cn) on 27 August 2009. The unaudited interim financial information also includes a reconciliation of the net profit attributable to equity holders of National Medicines for the six months ended 30 June 2009 and the owners’ equity attributable to the equity holders of National Medicines as at 30 June 2009 as reported in the interim financial statements, to amounts to be reported under the accounting policies of the Group, which comply with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants for the purpose of inclusion in this document.

APPENDIX IVA — UNAUDITED INTERIM FINANCIAL INFORMATION OF NATIONAL MEDICINES

A. UNAUDITED INTERIM FINANCIAL STATEMENTS

(a) Balance sheets (prepared in accordance with PRC GAAP)

	Consolidated As at		Company As at	
	30 June 2009	31 December 2008	30 June 2009	31 December 2008
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Current assets				
Cash at bank and on hand	377,187	274,473	348,286	243,855
Notes receivable	12,841	16,677	7,312	14,141
Accounts receivable	861,679	719,788	856,359	712,216
Advances to suppliers	109,090	121,588	106,402	119,373
Dividends receivable	12,992	-	12,992	-
Other receivables	2,213	6,734	1,911	6,120
Inventories	357,611	411,545	339,138	395,824
Other current assets	55	340	67,000	84,000
Total current assets	1,733,668	1,551,145	1,739,400	1,575,529
Non-current assets				
Available-for-sale financial assets	37,663	21,137	37,665	21,137
Long-term equity investments	151,143	157,624	286,418	292,898
Investment properties	5,000	5,069	5,000	5,069
Fixed assets	200,430	205,208	8,326	9,637
Construction in progress	829	-	-	-
Intangible assets	10,912	11,908	-	-
Deferred tax assets	20,734	20,456	14,586	14,065
Other non-current assets	25,561	24,326	25,559	24,328
Total non-current assets	452,272	445,728	377,554	367,134
TOTAL ASSETS	2,185,940	1,996,873	2,116,954	1,942,663
LIABILITIES AND OWNERS' EQUITY				
Current liabilities				
Short-term borrowings	4,861	4,693	4,861	4,693
Notes payable	444,001	309,063	444,001	309,063
Accounts payable	570,871	628,497	558,741	618,974
Advances from customers	38,067	79,963	36,638	73,175
Employee benefits payable	25,275	20,892	3,051	7,261
Taxes payable	24,767	5,246	21,043	2,230
Dividends payable	15,835	-	15,835	-
Other payables	47,331	42,888	41,571	32,501
Total current liabilities	1,171,008	1,091,242	1,125,741	1,047,897
Non-current liabilities				
Deferred tax liabilities	8,541	4,409	8,541	4,409
Other non-current liabilities	32,975	32,975	32,975	32,975
Total non-current liabilities	41,516	37,384	41,516	37,384
Total liabilities	1,212,524	1,128,626	1,167,257	1,085,281
Owners' equity				
Paid-in capital	478,800	239,400	478,800	239,400
Capital surplus	49,780	157,084	49,665	156,970
Surplus reserve	82,070	82,070	82,070	82,070
Undistributed profits	323,151	352,711	339,162	378,942
Total equity attributable to equity holders of National Medicines	933,801	831,265	949,697	857,382
Minority interest	39,615	36,982	-	-
Total owners' equity	973,416	868,247	949,697	857,382
TOTAL LIABILITIES AND OWNER'S EQUITY	2,185,940	1,996,873	2,116,954	1,942,663

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

**APPENDIX IVA — UNAUDITED INTERIM FINANCIAL INFORMATION OF
NATIONAL MEDICINES**

(b) Unaudited income statement
(prepared in accordance with PRC GAAP)

	Consolidated		Company	
	Six months ended 30 June 2009	Six months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
	RMB'000	RMB'000	RMB'000	RMB'000
Revenues	2,480,191	2,149,417	2,393,913	2,070,625
Less: Cost of sales	(2,245,504)	(1,943,246)	(2,183,225)	(1,883,560)
Tax and surcharges	(6,846)	(3,187)	(4,905)	(1,417)
Selling and distribution expenses	(30,233)	(29,985)	(42,911)	(40,642)
General and administrative expenses	(43,090)	(44,663)	(25,886)	(28,541)
Finance expenses – net	(6,381)	(12,704)	(6,297)	(12,635)
Asset impairment (losses)/reversal	(7,728)	1,884	(7,944)	2,100
Add: Investment income	16,515	10,110	18,604	13,212
Operating profit	156,924	127,626	141,349	119,142
Add: Non-operating income	8,484	14,437	8,351	14,427
Less: Non-operating expenses	(413)	(84)	(212)	(13)
Total profit	<u>164,995</u>	<u>141,979</u>	<u>149,488</u>	<u>133,556</u>
Less: Income tax expenses	(36,312)	(32,910)	(33,660)	(31,256)
Net profit	<u>128,683</u>	<u>109,069</u>	<u>115,828</u>	<u>102,300</u>
Attributable to equity holders of National Medicines	126,050	107,272		
Minority interest	2,633	1,797		
Earnings per share for profit attributable to the equity holders of National Medicines during the year/period				
- Basic earnings per share	<u>0.263</u>	<u>0.224</u>		
- Diluted earnings per share	<u>0.263</u>	<u>0.224</u>		

APPENDIX IVA — UNAUDITED INTERIM FINANCIAL INFORMATION OF NATIONAL MEDICINES

(c) **Unaudited cash flow statements**
(prepared in accordance with PRC GAAP)

	Consolidated		Company	
	Six months ended 30 June 2009	Six months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
	RMB'000	RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Cash received from sales of goods or rendering of services	2,668,863	2,386,561	2,602,765	2,324,233
Refund of taxes and levies	12,570	12,849	12,570	12,849
Cash received relating to other operating activities	8,701	37,722	6,595	37,082
Sub-total of cash inflows	2,690,134	2,437,132	2,621,930	2,374,164
Cash paid for goods and services	(2,408,547)	(2,248,701)	(2,386,318)	(2,218,073)
Cash paid to and on behalf of employees	(46,460)	(45,134)	(28,280)	(29,444)
Payments of taxes and levies	(91,728)	(44,607)	(80,956)	(37,583)
Cash paid relating to other operating activities	(33,129)	(33,859)	(39,066)	(38,506)
Sub-total of cash outflows	(2,579,864)	(2,372,301)	(2,534,619)	(2,323,606)
Net cash flows from operating activities	110,270	64,831	87,310	50,558
Cash flows from investing activities				
Cash received from disposal of investments	1,297	-	18,297	-
Cash received from returns on investments	10,003	15,759	12,092	18,862
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	860	1	445	1
Sub-total of cash inflows	12,160	15,760	30,834	18,863
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(6,306)	(2,704)	(303)	2,563
Sub-total of cash outflows	(6,306)	(2,704)	(303)	2,563
Net cash flows from investing activities	5,854	13,056	30,531	21,426
Cash flows from financing activities				
Cash received from borrowings	-	184,000	-	184,000
Cash received relating to other financing activities	4,862	-	4,862	-
Sub-total of cash inflows	4,862	184,000	4,862	184,000
Cash repayments of amounts borrowed	-	(293,000)	-	(293,000)
Cash payments for interest expenses and distribution of dividends or profits	(18,272)	(56,497)	(18,272)	(56,497)
Sub-total of cash outflows	(18,272)	(349,497)	(18,272)	(349,497)
Net cash flows from financing activities	(13,410)	(165,497)	(13,410)	(165,497)
Effect of foreign exchange rate changes on cash and cash equivalents	-	-	-	-
Net increase / (decrease) in cash and cash equivalents	102,714	(87,610)	104,431	(93,513)
Add: Cash and cash equivalents at beginning of period	274,473	327,738	243,855	314,935
Cash and cash equivalent at end of period	377,187	240,128	348,286	221,421

**APPENDIX IVA — UNAUDITED INTERIM FINANCIAL INFORMATION OF
NATIONAL MEDICINES**

(d) Notes to the unaudited interim financial information
(prepared in accordance with PRC GAAP)

1. Background and principal activities

National Medicines is a joint stock limited company incorporated in Shanghai, the People’s Republic of China (the “PRC”) on 27 November 2002 and its A shares have been listed on the Shanghai Stock Exchange of the PRC. As at the date of the interim financial report of National Medicines Group for the six months ended 30 June 2009, Sinopharm Group Co. Ltd. (“the Company”) held 44.01% equity interests in National Medicines.

National Medicines and its subsidiaries (together “National Medicines”) are mainly engaged in: (1) distribution of medicines and pharmaceutical products to wholesale customers including hospitals and other distributors, and (2) manufacture and sale of certain antibiotic and herbal medicines, healthcare products and laboratory supplies.

According with the Resolution of Shareholders’ meeting in 2007, National Medicines converted part of capital surplus of National Medicines as at 31 December 2007, amounting to RMB106,400,000 at par value RMB1.00 to the then shareholders of National Medicines on the basis of 8 shares for every 10 existing shares owned by such shareholders. After the conversion, the total paid-in capital is RMB239,400,000.

According with the Resolution of Shareholders’ meeting on 15 May 2009, National Medicines converted part of capital surplus of National Medicines as at 31 December 2008, amounting to RMB119,970,000 at par value RMB1.00 to the then shareholders of National Medicines on the basis of 5 shares for every 10 existing shares owned by such shareholders. National Medicines also distributed part of distributable profits of National Medicines as at 31 December 2008, amounting to RMB119,700,000 as bonus shares at par value RMB1.00 to the then shareholders of National Medicines on the basis of 5 bonus shares for every 10 existing shares owned by such shareholders. After the conversion and distribution, the total paid-in capital is RMB 478,800,000.

2. Basis of preparation and principal accounting policies

(a) Basis of preparation

The unaudited interim financial information of National Medicines Group has been prepared by the Directors of the Company for inclusion [●], and for no other purposes.

The Company has prepared the unaudited interim financial information of National Medicines Group in accordance with Accounting Standard for Business Enterprises No. 32 — “Interim Financial Reporting” issued by the Ministry of Finance of the PRC.

(b) Principal accounting policies

The principal accounting policies of National Medicines Group used to prepare the interim financial statements are consistent with those disclosed in the annual report of National

**APPENDIX IVA — UNAUDITED INTERIM FINANCIAL INFORMATION OF
NATIONAL MEDICINES**

Medicines for the year ended 31 December 2008, which comply with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC on 15 February 2006, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (the “PRC GAAP” or “CAS”) and was published on the internet web site of the Shanghai Stock Exchange of the PRC on 18 April 2009.

(c) Statutory PRC auditors

The consolidated financial statements of National Medicines Group for the year ended 31 December 2008 were audited by Zhongrui Yuehua Certified Public Accountants Co., Ltd..

3. Segment information

Management of National Medicines Group has determined the operating segments based on the reports reviewed by the operating committee (comprising the general manager and the general manager office) that are used to make strategic decisions. The operating committee considers the business from a business type perspective. The reportable operating segments derive their revenue primarily from the following three business types in the PRC:

- (1) Pharmaceutical distribution — distribution of medicine and pharmaceutical products to wholesale customers, including hospitals and distributors;
- (2) Pharmaceutical manufacturing — production and sale of pharmaceutical; and
- (3) Other business operations.

Inter-segment revenue are conducted at prices and terms mutually agreed amongst those business segments.

	<u>Six months ended 30 June 2009</u>		<u>Six months ended 30 June 2008</u>	
	<u>Revenue from main operations</u>	<u>Cost of main operations</u>	<u>Revenue from main operations</u>	<u>Cost of main operations</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Pharmaceutical distribution	2,393,132	2,183,033	2,069,744	1,883,452
Pharmaceutical manufacturing	68,376	39,302	54,417	34,763
Other business operations	37,127	23,170	40,951	25,482
Subtotal	2,498,635	2,245,505	2,165,112	1,943,697
Less: Elimination	(18,444)	-	(15,695)	(451)
Total	<u>2,480,191</u>	<u>2,245,505</u>	<u>2,149,417</u>	<u>1,943,246</u>

4. Dividends

According with a resolution of shareholders’ meeting of National Medicines Group held on 15 May 2009, National Medicines distributed part of distributable profits as at 31 December 2008, amounting to RMB119,700,000, as bonus shares at par value RMB1.00 to the then shareholders of National Medicines on the basis of 5 bonus shares for every 10 existing shares owned by such shareholders. Part of the remaining distributable profits as at 31 December 2008, amounting to RMB35,910,000, was distributed in the form of cash dividend at RMB1.5 per 10 shares.

APPENDIX IVA — UNAUDITED INTERIM FINANCIAL INFORMATION OF NATIONAL MEDICINES

5. Related party and related party transaction

I). Related party

A). Definition of related party

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

B). Parent company of National Medicines

<u>Name of parent Company</u>	<u>Registered address</u>	<u>Principal business</u>	<u>Paid-in Capital</u>	<u>Proportion of Shareholding</u>	<u>Proportion of Voting Rights</u>
Sinopharm Group Co. Ltd.	6F, No. 221, Fuzhou Rd., Huangpu District, Shanghai	holdings, pharmaceutical enterprise management engagement and asset restructuring, wholesale of Chinese patent drugs, chemical medicine, etc, domestic trading (except specialized permission)	1,637 Million	44.01%	44.01%

China National Pharmaceutical Group Corporation (“CNPGC”) is the ultimate parent company of National Medicines.

C). The directors of National Medicines and the management of National Medicines Group consider the following entities are related parties of National Medicines Group:

<u>Name of related party</u>	<u>Nature of relationship</u>
CNPGC	Ultimate parent company
The Company	Parent Company
Subsidiaries of the Company	
Beijing Guoda Pharmacy Chain Store Co., Ltd. (北京國大藥房連鎖有限公司)	Controlled by same parent company
Yangzhou Weikang Pharmaceutical Co., Ltd. (揚州衛康醫藥有限公司)	Controlled by same parent company
China National Pharmaceutical Group Chemical Reagent Co., Ltd. (國藥集團化學試劑有限公司)	Controlled by same parent company
China National Pharmaceutical Group Northwest Medicine Co., Ltd. (國藥集團西北醫藥有限公司)	Controlled by same parent company
Sinopharm Holding Beijing Huahong Co., Ltd. (國藥控股北京華鴻有限公司)	Controlled by same parent company
Sinopharm Holding Beijing Kangchen Bio-medicine Co., Ltd. (國藥控股北京康辰生物醫藥有限公司)	Controlled by same parent company
Sinopharm Holding Beijing Co., Ltd. (國藥控股北京有限公司)	Controlled by same parent company
Sinopharm Holding Guangzhou Co., Ltd. (國藥控股廣州有限公司)	Controlled by same parent company
Sinopharm Holding GuoDa Drug Store Co., Ltd. (國藥控股國大藥房有限公司)	Controlled by same parent company
Sinopharm Holding Hubei Co., Ltd. (國藥控股湖北有限公司)	Controlled by same parent company

**APPENDIX IVA — UNAUDITED INTERIM FINANCIAL INFORMATION OF
NATIONAL MEDICINES**

Name of related party	Nature of relationship
Sinopharm Holding Jiangsu Co., Ltd. (國藥控股江蘇有限公司)	Controlled by same parent company
Sinopharm Holding Shanxi Co., Ltd. (國藥控股山西有限公司)	Controlled by same parent company
Sinopharm Holding Liuzhou Co., Ltd. (國藥控股柳州有限公司)	Controlled by same parent company
Sinopharm Holding Nanning Co., Ltd. (國藥控股南寧有限公司)	Controlled by same parent company
Sinopharm Holding Shenyang Co., Ltd. (國藥控股瀋陽有限公司)	Controlled by same parent company
Sinopharm Holding Tianjin Co., Ltd. (國藥控股天津有限公司)	Controlled by same parent company
Sinopharm Holding Zhejiang Co., Ltd. (國藥控股浙江有限公司)	Controlled by same parent company
Beijing Sinopharm Tianyuan Real Estate & Property Management Co., Ltd. (北京國藥天元物業管理有限公司)	Controlled by same parent company
Shanghai Sinopharm Waigaoqiao Co., Ltd. (上海國藥外高橋醫藥有限公司)	Controlled by same parent company
Shenzhen Accord Pharmaceutical Co., Ltd. (“Accord Pharma”) (深圳一致藥業股份有限公司)	Controlled by same parent company
China National Pharmaceutical Group Shanghai Corporation (中國醫藥集團上海公司)	Controlled by same parent company
China National Pharmaceutical Tianjin Purchasing& Supplying Station Development Zone Branch (中國醫藥天津採購供應站開發區藥品公司)	Controlled by same parent company
Sinopharm Holding Hunan Co., Ltd. (國藥控股湖南有限公司)	Controlled by same parent company
China National Pharmaceutical Group Southwest Medicine Co., Ltd. (國藥集團西南醫藥有限公司)	Controlled by same parent company
Sinopharm Logistics Co., Ltd. (國藥集團醫藥物流有限公司)	Controlled by same parent company
Other related parties	
China National Group Corporation of Traditional & Herbal Medicine (中國藥材集團公司)	Controlled by the same ultimate parent company
China National Pharmaceutical Industry Co., Ltd. (國藥集團工業有限公司)	Controlled by the same ultimate parent company
China National Pharmaceutical Group Beijing Medical Equipment Co., Ltd. (國藥集團北京醫療器械有限公司)	Controlled by the same ultimate parent company
Hebei Traditional & Herbal Medicine Co., Ltd. (河北省醫藥藥材公司)	Controlled by the same ultimate parent company
Hubei Yibao Meheco International Trade Co., Ltd. (湖北怡保國際醫藥有限公司)	Controlled by the same ultimate parent company
China National Group Corporation of Traditional & Herbal Medicine Chengde Co., Ltd. (中國藥材集團公司承德藥材有限責任公司)	Controlled by the same ultimate parent company
China National Pharmaceutical Foreign Trade Corporation (中國醫藥對外貿易公司)	Controlled by the same ultimate parent company

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

APPENDIX IVA — UNAUDITED INTERIM FINANCIAL INFORMATION OF NATIONAL MEDICINES

Name of related party	Nature of relationship
China National Pharmaceutical Industry Corporation (中國醫藥工業有限公司)	Controlled by the same ultimate parent company
Guangdong Tianliang Pharmaceutical Co., Ltd. (廣東天量醫藥有限公司)	Controlled by the same ultimate parent company
Sichuan Industrial Institute of Antibiotic Co., Ltd. (四川抗菌素工業研究所有限公司)	Controlled by the same ultimate parent company
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd. (廣東南方醫藥對外貿易有限公司)	Controlled by same parent company
Guangdong Oriental New&Special Drugs Corporation (廣東東方新特藥公司)	Controlled by the same ultimate parent company
Sinopharm Prospect Dentech (Beijing) Co., Ltd. (北京國藥前景口腔技術有限公司)	Associate
National Medicines & Health Technology Co., Ltd. (國藥健與康保健有限公司)	Associate
Yichang Humanwell Pharmaceutical Co., Ltd. (宜昌人福藥業有限責任公司)	Associate
Qinghai Pharmaceutical Co., Ltd. (青海制藥廠有限公司)	Subsidiary of Associate

II). Significant related party transactions

Purchase of goods

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
The Company	109,187	414
Subsidiaries of the Company	27,186	138,923
Other related parties	205,240	200,942
	<u>341,613</u>	<u>340,279</u>

Sales of goods

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
The Company	40,994	31,938
Subsidiaries of the Company	189,795	183,951
Other related parties	26,905	24,655
	<u>257,694</u>	<u>240,544</u>

Provide services

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Subsidiaries of the Company	11,382	16,917
Other related parties	2,407	2,092
	<u>13,789</u>	<u>19,009</u>

**APPENDIX IVA — UNAUDITED INTERIM FINANCIAL INFORMATION OF
NATIONAL MEDICINES**

III). Significant balances with related parties

Accounts receivables

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
The Company	12,952	7,468
Subsidiaries of the Company	51,966	40,008
Other related parties	1,665	798
	<u>66,583</u>	<u>48,274</u>

Notes Receivable

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Subsidiaries of the Company	711	692

Prepayment

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Other related parties	-	491

Accounts Payable

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
The Company	21,056	3,071
Subsidiaries of the Company	1,830	20,110
Other related parties	87,761	99,487
	<u>110,647</u>	<u>122,668</u>

Notes Payable

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
The Company	86,316	-
Subsidiaries of the Company	30,090	101,051
Other related parties	187,146	135,255
	<u>303,552</u>	<u>236,306</u>

Advances from customers

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Subsidiaries of the Company	18	18
Other related parties	241	204
	<u>259</u>	<u>222</u>

APPENDIX IVA — UNAUDITED INTERIM FINANCIAL INFORMATION OF NATIONAL MEDICINES

Other Payable

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
CNPGC	17,150	17,150
The Company	840	-
Subsidiaries of the Company	750	1,099
Other related parties	-	300
	18,740	18,549

Other Non-current Liabilities

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
CNPGC (Medical Reserve)	32,975	32,975

6. Reconciliation of net profit and owners' equity attributable to equity holders of National Medicines for the six months ended 30 June 2009 and as at 30 June 2009 as reported in the unaudited interim financial statements and as reported under the accounting policies of the Group, which comply with HKFRS

	Notes	Net profit for the six months ended 30 June 2009 RMB'000 (unaudited)	Owners' equity as at 30 June 2009 RMB'000 (unaudited)
Attributable to equity holders of National Medicines as reported in the Interim Financial Statements in compliance with PRC GAAP		126,050	933,801
Adjustment on Post-employment benefit plans	(i)	1,266	(33,727)
Recognition of deferred taxation	(ii)	(316)	8,432
Attributable to equity holders of National Medicines as reported under the accounting policies of the Group in compliance with HKFRS ...		127,000	908,506

- (i). Post-employee benefit plans were reported in accordance with local conditions and practices in the unaudited interim financial statements prepared under PRC GAAP. Under HKFRS, all plans have been studied and defined benefit plans have been recalculated in accordance with HKAS 19 Employee Benefit by authorized actuaries.
- (ii). The adjustment on deferred tax arises from the adjustment on post-employment benefit plans as above-mentioned. Under HKFRS, deferred taxation is required to be provided in full using liability method.

**APPENDIX IVB — UNAUDITED INTERIM FINANCIAL INFORMATION OF
ACCORD PHARMA**

In accordance with relevant rules and regulations applicable to enterprises whose shares are listed on a stock exchange in the People’s Republic of China (“PRC”), Shenzhen Accord Pharmaceutical Co., Ltd. (“Accord Pharma”), a 38.33% owned subsidiary of the Group whose shares are listed on the Shenzhen Stock Exchange of the PRC, has published its interim financial statements for the six months ended 30 June 2009.

The following is the text of the unaudited interim financial information of Accord Pharma (“unaudited interim financial information”), which comprises the balance sheet as at 31 December 2008 and 30 June 2009; income statements for the six months ended 30 June 2008 and 2009; cash flow statements for the six months ended 30 June 2008 and 2009, and the explanatory notes to the unaudited interim financial statements of Accord Pharma and its subsidiaries (collectively referred to as “Accord Pharma Group”). The Chinese version for interim financial statements of Accord Pharma prepared in accordance with the Accounting Standard for Business Enterprises No. 32 — Interim Financial Reporting issued by the Ministry of Finance of the PRC on 15 February 2006 was published on the internet web site of the Shenzhen Stock Exchange of the PRC (www.szse.cn) on 28 August 2009. The unaudited interim financial information also includes a reconciliation of the net profit attributable to equity holders of Accord Pharma for the six months ended 30 June 2009 and the owners’ equity attributable to the equity holders of Accord Pharma as at 30 June 2009 as reported in the interim financial statements, to amounts to be reported under the accounting policies of the Group, which comply with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants for the purpose of inclusion in this document.

APPENDIX IVB — UNAUDITED INTERIM FINANCIAL INFORMATION OF ACCORD PHARMA

A. UNAUDITED INTERIM FINANCIAL STATEMENTS

(a) Balance sheets (prepared in accordance with PRC GAAP)

	Consolidated As at		Company As at	
	30 June 2009	31 December 2008	30 June 2009	31 December 2008
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Current assets				
Cash at bank and on hand	498,716	381,663	83,066	62,370
Notes receivable	222,735	213,830	1,434	255
Accounts receivable	2,215,551	1,871,254	293,554	243,301
Advances to suppliers	39,674	43,143	5,311	4,920
Other receivables	44,600	54,701	389,863	242,415
Inventories	724,389	752,146	89,477	94,250
Total current assets	3,745,665	3,316,737	862,705	647,511
Non-current assets				
Long-term equity investments	78,139	69,579	643,373	323,757
Investment properties	26,470	22,848	2,065	2,140
Fixed assets	431,015	376,882	35,407	36,732
Construction in progress	24,916	18,766	254	254
Intangible assets	104,094	57,607	30,108	30,623
Development costs	235	-	-	-
Goodwill	39,668	-	-	-
Long-term prepaid expenses	7,745	17,061	114	276
Deferred tax assets	7,676	10,717	-	-
Other non-current assets	36,551	33,040	-	-
Total non-current assets	756,509	606,500	711,321	393,782
TOTAL ASSETS	4,502,174	3,923,237	1,574,026	1,041,293
LIABILITIES AND OWNERS' EQUITY				
Current liabilities				
Short-term borrowings	612,016	393,660	179,688	80,172
Notes payable	918,567	838,538	241,913	129,298
Accounts payable	1,591,876	1,432,874	291,960	268,336
Advances from customers	23,884	18,772	6,616	4,626
Employee benefits payable	50,433	86,765	11,779	14,678
Taxes payable	36,998	15,121	1,264	(964)
Interest payable	296	742	-	40
Dividends payable	2,000	6,646	-	-
Other payables	355,766	308,422	275,764	119,210
Current portion of non-current liabilities	-	57,720	-	-
Total current liabilities	3,591,836	3,159,260	1,008,984	615,396
Non-current liabilities				
Long-term borrowings	60,000	30,000	-	-
Long-term payables	49	51	-	-
Special payable	800	800	800	800
Deferred tax liabilities	18,557	12,174	-	-
Other non-current liabilities	41,562	41,562	-	-
Total non-current liabilities	120,968	84,587	800	800
Total liabilities	3,712,804	3,243,847	1,009,784	616,196
Owners' equity				
Paid-in capital	288,149	288,149	288,149	288,149
Capital surplus	5,030	34,556	2,509	2,509
Surplus reserve	9,303	9,761	-	12,781
Undistributed profits	433,566	325,541	273,584	121,658
Total equity attributable to equity holders of Accord Pharma	736,048	658,007	564,242	425,097
Minority interest	53,322	21,383	-	-
Total owners' equity	789,370	679,390	564,242	425,097
TOTAL LIABILITIES AND OWNER'S EQUITY	4,502,174	3,923,237	1,574,026	1,041,293

**APPENDIX IVB — UNAUDITED INTERIM FINANCIAL INFORMATION OF
ACCORD PHARMA**

(b) Unaudited income statement
(prepared in accordance with PRC GAAP)

	Consolidated		Company	
	Six months ended 30 June 2009	Six months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
	RMB'000	RMB'000	RMB'000	RMB'000
Revenues	5,038,480	4,083,732	757,467	653,421
Less: Cost of sales	(4,603,509)	(3,721,514)	(718,827)	(618,494)
Tax and surcharges	(5,987)	(4,445)	(435)	(210)
Selling and distribution expenses	(179,496)	(136,628)	(22,429)	(18,949)
General and administrative expenses	(110,439)	(108,900)	(19,228)	(19,888)
Finance expenses – net	(20,968)	(28,198)	(616)	(795)
Asset impairment (losses)/reversal	(5,442)	4,063	(773)	613
Add: Investment income	22,756	6,631	195,835	65,121
Operating profit	135,395	94,741	190,994	60,819
Add: Non-operating income	2,262	10,164	25	2,944
Less: Non-operating expenses	(247)	(699)	(17)	(13)
Total profit	137,410	104,206	191,002	63,750
Less: Income tax expenses	(34,023)	(19,962)	-	-
Net profit	103,387	84,244	191,002	63,750
Attributable to equity holders of Accord				
Pharma	98,784	78,894		
Minority interest	4,603	5,350		
Earnings per share for profit attributable to the equity holders of Accord Pharma during the year/period				
- Basic earnings per share	0.343	0.274		
- Diluted earnings per share	0.343	0.274		

**APPENDIX IVB — UNAUDITED INTERIM FINANCIAL INFORMATION OF
ACCORD PHARMA**

(c) Unaudited cash flow statements
(prepared in accordance with PRC GAAP)

	Consolidated		Company	
	Six months ended 30 June 2009 RMB'000	Six months ended 30 June 2008 RMB'000	Six months ended 30 June 2009 RMB'000	Six months ended 30 June 2008 RMB'000
Cash flows from operating activities				
Cash received from sales of goods or rendering of services	5,057,723	4,051,697	851,317	692,142
Refund of taxes and levies	319	740	-	-
Cash received relating to other operating activities	80,939	56,084	9,309	11,259
Sub-total of cash inflows	5,138,981	4,108,521	860,626	703,401
Cash paid for goods and services	(4,500,362)	(3,578,785)	(721,176)	(620,749)
Cash paid to and on behalf of employees	(176,986)	(161,477)	(18,350)	(23,072)
Payments of taxes and levies	(94,690)	(83,841)	(11,009)	(6,372)
Cash paid relating to other operating activities	(215,873)	(178,587)	(23,750)	(26,312)
Sub-total of cash outflows	(4,987,911)	(4,002,690)	(774,285)	(676,505)
Net cash flows from operating activities	151,070	105,831	86,341	26,896
Cash flows from investing activities				
Cash received from returns on investments ...	-	4,531	77,532	75,738
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	5,370	9,895	5,173	4
Net cash received from disposal of subsidiaries and other business units	59,958	-	65,613	-
Sub-total of cash inflows	65,328	14,426	148,318	75,742
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(39,008)	(37,960)	(1,957)	(395)
Net cash paid to acquire subsidiaries and other business units	(105,630)	-	(171,582)	-
Cash paid relating to other investing activities	(2,067)	-	(17,877)	-
Sub-total of cash outflows	(146,705)	(37,960)	(191,416)	(395)
Net cash flows from investing activities	(81,377)	(23,536)	(43,098)	75,347

**APPENDIX IVB — UNAUDITED INTERIM FINANCIAL INFORMATION OF
ACCORD PHARMA**

(c) Unaudited cash flow statements (continued)
(prepared in accordance with PRC GAAP)

	Consolidated		Company	
	Six months ended 30 June 2009 RMB'000	Six months ended 30 June 2008 RMB'000	Six months ended 30 June 2009 RMB'000	Six months ended 30 June 2008 RMB'000
Cash flows from financing activities				
Cash received from borrowings	334,450	210,000	140,000	80,000
Cash received relating to other financing activities	219,141	6,808	503,690	118,100
Sub-total of cash inflows	553,591	216,808	643,690	198,100
Cash repayments of amounts borrowed	(344,382)	(180,022)	(70,000)	(50,000)
Cash payments for interest expenses and distribution of dividends or profits	(62,586)	(20,470)	(30,950)	(1,278)
Cash payments relating to other financial activities	(99,264)	(1,012)	(565,287)	(199,945)
Sub-total of cash outflows	(506,232)	(201,504)	(666,237)	(251,223)
Net cash flows from financing activities	47,359	15,304	(22,547)	(53,123)
Effect of foreign exchange rate changes on cash and cash equivalents	-	-	-	-
Net increase / (decrease) in cash and cash equivalents	117,052	97,599	20,696	49,120
Add: Cash and cash equivalents at beginning of period	381,663	279,938	62,370	54,842
Cash and cash equivalent at end of period	498,716	377,537	83,066	103,962

**APPENDIX IVB — UNAUDITED INTERIM FINANCIAL INFORMATION OF
ACCORD PHARMA**

1. Background and principal activities

Accord Pharma is a joint stock limited company incorporated in Shenzhen, the People’s Republic of China (the “PRC”) on 1 February 1993 and its A shares and B shares have been listed on the Shenzhen Stock Exchange of the PRC. As at the date of the interim financial report of Accord Pharma Group for the six months ended 30 June 2009, Sinopharm Group Co. Ltd. (“the Company”) held 38.33% equity interests in Accord Pharma.

Accord Pharma and its subsidiaries (together “Accord Pharma”) are mainly engaged in: (1) distribution of medicines and pharmaceutical products to wholesale customers including hospitals and other distributors, (2) operation of pharmaceutical chain stores, and (3) manufacture and sale of certain antibiotic and herbal medicines, healthcare products and laboratory supplies, and property rental operations.

2. Basis of preparation and principal accounting policies

(a) Basis of preparation

The unaudited interim financial information of Accord Pharma Group has been prepared by the Directors of the Company for inclusion [●], and for no other purposes.

The Company has prepared the unaudited interim financial information of Accord Pharma Group in accordance with Accounting Standard for Business Enterprises No. 32 — “Interim Financial Reporting” issued by the Ministry of Finance of the PRC.

(b) Principal accounting policies

The principal accounting policies of Accord Pharma Group used to prepare the interim financial statements are consistent with those disclosed in the annual report of Accord Pharma for the year ended 31 December 2008, which comply with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance in the PRC on 15 February 2006, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (the “PRC GAAP” or “CAS”) and was published on the internet web site of the Shanghai Stock Exchange of the PRC on 20 March 2009.

(c) Statutory PRC auditors

The consolidated financial statements of Accord Pharma Group for the year ended 31 December 2008 were audited by Shulun Pan Certified Public Accountants Co., Ltd..

**APPENDIX IVB — UNAUDITED INTERIM FINANCIAL INFORMATION OF
ACCORD PHARMA**

3. Segment information

Management has determined the operating segments based on the reports reviewed by the operating committee (comprising the general manager and the general manager office) that are used to make strategic decisions. The operating committee considers the business from a business type perspective. The reportable operating segments derive their revenue primarily from the following three business types in the PRC:

- (1) Pharmaceutical distribution — distribution of medicine and pharmaceutical products to wholesale customers, including hospitals and distributors;
- (2) Pharmaceutical manufacturing — production and sale of pharmaceutical;
- (3) Retail pharmacy operations — operation of medicine chain stores; and
- (4) Other business operations.

Inter-segment revenue are conducted at prices and terms mutually agreed amongst those business segments.

	Six months ended 30 June 2009		Six months ended 30 June 2008	
	Revenue	Cost	Revenue	Cost
	RMB'000	RMB'000	RMB'000	RMB'000
Pharmaceutical distribution	4,829,413	4,611,984	3,775,374	3,574,610
Retail pharmacy operations	249,195	204,431	226,194	178,017
Pharmaceutical manufacturing	565,811	421,226	384,068	285,682
Other business operations	73,907	43,731	32,609	11,221
Subtotal	5,718,326	5,281,372	4,418,245	4,049,530
Less: Elimination	(679,845)	(677,863)	(334,513)	(328,016)
Total	<u>5,038,481</u>	<u>4,603,509</u>	<u>4,083,732</u>	<u>3,721,514</u>

4. Business combination and the consolidated financial statements

A). Business combination involving enterprises under common control

On 25 May 2009, Accord Pharma acquired 60% and 40% of the equity interests in Sinopharm Holding Nanning Co., Ltd. from the Company and Sinopharm Holding Shanghai Co., Ltd., respectively. The combination date of this transaction is 30 June 2009 on which Accord Pharma effectively obtains the right to control Sinopharm Holding Nanning Co., Ltd. This transaction is classified as a business combination involving enterprises under common control because Sinopharm Holding Nanning Co., Ltd. and Accord Pharma are both ultimately controlled by the Company prior and subsequent to the combination and the control is not temporary.

**APPENDIX IVB — UNAUDITED INTERIM FINANCIAL INFORMATION OF
ACCORD PHARMA**

The consideration of the business combination and carrying amount of net assets acquired is as follows:

	RMB'000
Cost of combination	
Cash Paid	30,432
Carrying amount of the liabilities incurred or assumed	3,605
Total cost of combination	34,037
Less: Carrying amount of the net assets acquired	(32,503)
Amount of retained earnings adjusted	<u>(1,534)</u>

The carrying amount of assets, liabilities of Sinopharm Holding Nanning Co., Ltd. at the date of the combination, and the cash flows related to the combination are as follows:

	<u>Carrying amount</u>	
	<u>Date of combination</u>	<u>31 December 2008</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Total Assets	299,475	252,748
Less: Total Liabilities	(266,972)	(222,728)
Net assets	32,503	30,020
Less: Minority Interests	-	-
Net assets acquired	<u>32,503</u>	<u>30,020</u>

Revenue, net profit and cash flows of Sinopharm Holding Nanning Co., Ltd. for the period from 1 January 2009 to the date of combination are as follows:

	<u>For the period from 1 January 2009 to date of combination</u>
	<u>RMB'000</u>
Revenue	292,638
Net Profit	2,483
Cash flows from operating activities	8,551
Net cash flows	13,959

B). Business combinations involving enterprises not under common control

- 1). In January 2009, Accord Pharma acquired 100% equity interests in Dongguan Accord Pharmaceutical Co., Ltd. from an independent third party for a consideration of RMB 2,742,000. The acquisition date of this transaction is 31 January 2009, on which date Accord Pharma effectively obtained the right to control Dongguan Accord Pharmaceutical Co., Ltd.
- 2). In March 2009, Accord Pharma acquired 75% equity interests in Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd. from an independent third party for a consideration of RMB 103,500,000. The acquisition date of this transaction is 31 March 2009, on which date Accord Pharma effectively obtained the right to control Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd.

APPENDIX IVB — UNAUDITED INTERIM FINANCIAL INFORMATION OF ACCORD PHARMA

Details of net assets acquired and goodwill recognised are as follows:

	RMB'000
Cost of combination – cash paid	106,242
Less: Fair value of the identifiable net assets acquired	(66,574)
Goodwill	<u>39,668</u>

The assets, liabilities of Dongguan Accord Pharmaceutical Co., Ltd. and Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd. at the acquisition date, and the cash flows relating to the acquisition are as follows:

	<u>Fair Value</u>	<u>Carrying Amount</u>
	<u>Date of acquisition</u>	<u>Date of acquisition</u>
	<u>RMB'000</u>	<u>31 December 2008</u>
Total assets	286,300	241,018
Less: Total liabilities	(198,504)	(190,974)
Net assets	87,796	<u>50,044</u>
Less: Minority interests	(21,222)	<u>44,332</u>
Net assets acquired	<u>66,574</u>	
Purchase consideration settled in cash	106,242	
Cash and cash equivalents in subsidiaries acquired	(25,238)	
Cash outflow on acquisition	<u>81,004</u>	

The revenue, net profit and cash flows of Dongguan Accord Pharmaceutical Co., Ltd. and Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd. for the period from the acquisition date to 30 June 2009 are as follows:

	RMB'000
Revenue	79,146
Net Profit	27
Net cash flow from operating	9,448
Net cash flows	(6,503)

5. Disposal of Subsidiaries

As at 30 June 2009, Accord Pharma disposed of its entire equity interest in Guangxi Accord Drugstore Chains Co., Ltd., Guangdong Accord Drugstore Co., Ltd. and its subsidiaries to the Company. The related information at the date of the disposal is as follows:

Disposal consideration	75,574
Cash and cash equivalents received from the disposal	75,574
Less: Cash and cash equivalents held by the disposed subsidiaries	(15,616)
Net cash received from the disposal	<u>59,958</u>

Net assets of the disposed subsidiaries as at the disposal date and 31 December 2008 are as follows:

	<u>Date of disposal</u>	<u>31 December 2008</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Net assets	21,606	21,517

**APPENDIX IVB — UNAUDITED INTERIM FINANCIAL INFORMATION OF
ACCORD PHARMA**

The net profits of the disposed subsidiaries for the period from 1 January 2009 to the disposal date are as follows:

	RMB'000
Net profit	156

6. Dividends

According with the resolutions of shareholders’ meeting of Accord Pharma held on 13 April 2009, Accord Pharma distributed part of distributable profits as at 31 December 2008, amounting to RMB 28,814,940, in the form of cash dividend at RMB 1.0 per 10 shares.

7. Related party and related party transactions

I). Related party

A). Definition of related party

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

B). Parent company of Accord Pharma

<u>Name of parent Company</u>	<u>Registered address</u>	<u>Principal business</u>	<u>Paid-in Capital</u>	<u>Proportion of Shareholding</u>	<u>Proportion of Voting Rights</u>
Sinopharm Group Co. Ltd.	6F, No. 221, Fuzhou Rd., Huangpu District, Shanghai	holdings, pharmaceutical enterprise management engagement and asset restructuring, wholesale of Chinese patent drugs, chemical medicine, etc, domestic trading (except specialized permission)	1,637 Million	38.33%	38.33%

China National Pharmaceutical Group Corporation (“CNPGC”) is the ultimate parent company of Accord Pharma.

C). The directors of Accord Pharma and the management of Accord Pharma Group consider the following entities are related parties of Accord Pharm Group:

<u>Name of related party</u>	<u>Nature of relationship</u>
CNPGC	Ultimate parent company
The Company	Parent Company
Subsidiaries of Sinopharm Group Co. Ltd. (“the Company”)	
Sinopharm Holding Shenyang Co., Ltd. (國藥控股瀋陽有限公司)	Controlled by same parent company
Sinopharm Holding Suzhou Co., Ltd. (國藥控股蘇州有限公司)	Controlled by same parent company
China National Pharmaceutical Group Chemical Reagent Co., Ltd. (國藥集團化學試劑有限公司)	Controlled by same parent company
China National Pharmaceutical Group Suzhou Chemical Reagent Co., Ltd. (國藥集團化學試劑蘇州有限公司)	Controlled by same parent company

**APPENDIX IVB — UNAUDITED INTERIM FINANCIAL INFORMATION OF
ACCORD PHARMA**

Name of related party	Nature of relationship
China National Pharmaceutical Group Northwest Medicine Co., Ltd. (國藥集團西北醫藥有限公司)	Controlled by same parent company
China National Pharmaceutical Group Southwest Medicine Co., Ltd. (國藥集團西南醫藥有限公司)	Controlled by same parent company
China National Medicines Corporation Ltd. (國藥集團藥業股份有限公司)	Controlled by same parent company
Sinopharm Logistics Co., Ltd. (國藥集團醫藥物流有限公司)	Controlled by same parent company
Sinopharm Holding Henan Co., Ltd. (國藥控股河南股份有限公司)	Controlled by same parent company
Sinopharm Holding Beijing Huahong Co., Ltd. (國藥控股北京華鴻有限公司)	Controlled by same parent company
Sinopharm Holding Beijing Co., Ltd. (國藥控股北京有限公司)	Controlled by same parent company
Sinopharm Holding GuoDa Drug Store Co., Ltd. (國藥控股國大藥房有限公司)	Controlled by same parent company
Sinopharm Holding Hubei Co., Ltd. (國藥控股湖北有限公司)	Controlled by same parent company
Sinopharm Holding Hunan Co., Ltd. (國藥控股湖南有限公司)	Controlled by same parent company
Sinopharm Holding Jiangsu Co., Ltd. (國藥控股江蘇有限公司)	Controlled by same parent company
Sinopharm Holding Shanxi Co., Ltd. (國藥控股山西有限公司)	Controlled by same parent company
Sinopharm Holding Shanghai Co., Ltd. (國藥控股上海有限公司)	Controlled by same parent company
Sinopharm Holding Shenyang Co., Ltd. (國藥控股瀋陽有限公司)	Controlled by same parent company
Sinopharm Holding Suzhou Co., Ltd. (國藥控股蘇州有限公司)	Controlled by same parent company
Sinopharm Holding Tianjin Co., Ltd. (國藥控股天津有限公司)	Controlled by same parent company
Sinopharm Holding Zhejiang Co., Ltd. (國藥控股浙江有限公司)	Controlled by same parent company
Shanghai Sinopharm Waigaoqiao Co., Ltd. (上海國藥外高橋醫藥有限公司)	Controlled by same parent company
Tianjin Orient Bookcom Pharmaceutical Trade Co., Ltd. (天津東方博康醫藥貿易有限公司)	Controlled by same parent company
China National Pharmaceutical Group Shanghai Corporation (中國醫藥集團上海公司)	Controlled by same parent company
GuoDa Ningxia Pharmacy Chain Store Co., Ltd. (寧夏國大藥房連鎖有限公司)	Controlled by same parent company
Guangdong Accord Drugstore Co., Ltd. (廣東一致藥店有限公司)	Controlled by same parent company
Shenzhen Accord Pharmacy Chain Store Co., Ltd. (深圳市一致醫藥連鎖有限公司)	Controlled by same parent company

**APPENDIX IVB — UNAUDITED INTERIM FINANCIAL INFORMATION OF
ACCORD PHARMA**

Name of related party	Nature of relationship
Guangzhou Accord Pharmacy Chain Store Co., Ltd. (廣州一致藥店連鎖有限公司)	Controlled by same parent company
Guangxi Accord Pharmacy Chain Store Co., Ltd. (廣西一致藥店連鎖有限公司)	Controlled by same parent company
Guangxi Guoda Pharmacy Chainstore Co., Ltd. (廣西國大藥房連鎖有限公司)	Controlled by the same ultimate parent company
Other related parties	
Guangdong Oriental New&Special Drugs Corporation (廣東東方新特藥公司)	Controlled by the same ultimate parent company
Guangdong Renbo Medical Equipment Co., Ltd. (廣東仁博醫療器材有限公司)	Controlled by the same ultimate parent company
Guangdong Tianliang Pharmaceutical Co., Ltd. (廣東天量醫藥有限公司)	Controlled by the same ultimate parent company
Guangxi Wuzhou Huawu Traditional & Herbal pharmaceutical Co., Ltd. (廣西梧州華梧藥材有限公司)	Controlled by the same ultimate parent company
China National Pharmaceutical Group Union Medical Equipment Co., Ltd. (國藥集團聯合醫療器械有限公司)	Controlled by the same ultimate parent company
China National Pharmaceutical Group Beijing Medical Equipment Co., Ltd. (國藥集團北京醫療器械有限公司)	Controlled by the same ultimate parent company
China National Pharmaceutical Group Shanghai Medical Equipment Co., Ltd. (國藥集團上海醫療器械有限公司)	Controlled by the same ultimate parent company
China National Pharmaceutical Industry Co., Ltd. (國藥集團工業有限公司)	Controlled by the same ultimate parent company
China National Pharmaceutical Industry Corporation (中國醫藥工業有限公司)	Controlled by the same ultimate parent company
Guangxi Nanning Medicines Wholesales Station (廣西壯族自治區南寧醫藥批發站)	Controlled by the same ultimate parent company
China National Pharmaceutical Foreign Trade Corporation (中國醫藥對外貿易公司)	Controlled by the same ultimate parent company
Reed Sinopharm Exhibitions Co., Ltd. (國藥勵展展覽有限責任公司)	Controlled by the same ultimate parent company
Hebei Traditional & Herbal Medicine Co., Ltd. (河北省醫藥藥材公司)	Controlled by the same ultimate parent company
Hubei Yibao Meheco International Trade Co., Ltd. (湖北怡保國際醫藥有限公司)	Controlled by the same ultimate parent company
Sichuan Industrial Institute of Antibiotic Co., Ltd. (四川抗菌素工業研究所有限公司)	Controlled by the same ultimate parent company
China National Group Corporation of Traditional & Herbal Medicine (中國藥材集團公司)	Controlled by the same ultimate parent company
China National Pharmaceutical Foreign Trade Corporation (中國醫藥對外貿易公司)	Controlled by the same ultimate parent company
Shenzhen Main Luck Pharmaceutical Co., Ltd. (深圳萬樂藥業有限公司)	Associate

**APPENDIX IVB — UNAUDITED INTERIM FINANCIAL INFORMATION OF
ACCORD PHARMA**

II). Significant related party transactions

Purchase of goods

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
The Company	265,826	309
Subsidiaries of the Company	225,920	498,372
Other related parties	105,915	90,239
	<u>597,661</u>	<u>588,920</u>

Sales of goods

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
The Company	5,810	2,046
Subsidiaries of the Company	309,655	249,789
Other related parties	54,937	55,111
	<u>370,402</u>	<u>306,946</u>

III). Significant balances with related parties

Accounts receivables

	As at 30 June 2009	As at 31 December 2008
	RMB'000	RMB'000
Subsidiaries of the Company	147,718	112,630
Other related parties	5,311	4,814
	<u>153,029</u>	<u>117,444</u>

Prepayment

	As at 30 June 2009	As at 31 December 2008
	RMB'000	RMB'000
Subsidiaries of the Company	5,861	-
Other related parties	160	-
	<u>6,021</u>	<u>-</u>

Accounts Payable

	As at 30 June 2009	As at 31 December 2008
	RMB'000	RMB'000
The Company	90,035	18,505
Subsidiaries of the Company	16,157	117,004
Other related parties	18,995	14,490
	<u>125,187</u>	<u>149,999</u>

**APPENDIX IVB — UNAUDITED INTERIM FINANCIAL INFORMATION OF
ACCORD PHARMA**

Other Payable

	As at 30 June 2009	As at 31 December 2008
	RMB'000	RMB'000
The Company	168,644	60,000
Subsidiaries of the Company	4,164	18,053
Other related parties	1,609	2,877
	<u>174,417</u>	<u>80,930</u>

8. Reconciliation of net profit and owners' equity attributable to equity holders of Accord Pharma for the six months ended 30 June 2009 and as at 30 June 2009 as reported in the unaudited interim financial statements and as reported under the accounting policies of the Group, which comply with HKFRS

	Notes	Net profit for the six months ended 30 June 2009	Owners' equity as at 30 June 2009
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
Attributable to equity holders of Accord Pharma as reported in the Interim Financial Statements in compliance with PRC GAAP ..		98,784	737,192
Adjustment on Post-employment benefit plans	(i)	2,588	(55,924)
Recognition of deferred taxation	(ii)	<u>(647)</u>	<u>13,816</u>
Attributable to equity holders of Accord Pharma as reported under the accounting policies of the Group in compliance with HKFRS		<u>101,372</u>	<u>681,268</u>

- (i). Post-employee benefit plans were reported in accordance with local conditions and practices in the unaudited interim financial statements prepared under PRC GAAP. Under HKFRS, all plans have been studied and defined benefit plans have been recalculated in accordance with HKAS 19 Employee Benefit by authorized actuaries.
- (ii). The adjustment on deferred tax arises from the adjustment on post-employment benefit plans as above-mentioned. Under HKFRS, deferred taxation is required to be provided in full using the liability method.

APPENDIX V — PROPERTY VALUATION

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 30 June 2009 of the property interests of the Group. As described in the section headed “Appendix X — Documents Delivered to the Registrar of Companies and Available for Inspection” in this document, a copy of the full valuation report will be made available for public inspection.



Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

* 2009

The Board of Directors
Sinopharm Group Co. Ltd.
No. 221 Fuzhou Road
Shanghai 200002
The PRC

Dear Sirs,

In accordance with your instructions to value the properties in which Sinopharm Group Co. Ltd. (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 30 June 2009 (the “date of valuation”).

We have categorized the property interests into four groups, namely Group I — Property interests held and occupied by the Group in the PRC; Group II — Property interest held for investment by the Group in the PRC; Group III — Property interests held for future development by the Group in the PRC; and Group IV — Property interests rented and occupied by the Group in the PRC, according to the natures of the properties. The 20 sub-groups of properties in Group I, Group II and Group III are classified according to the names of the Company and its directly controlled subsidiaries while the properties in Group IV are leased properties. The property interests of each sub-group are held by the Company, or a directly controlled subsidiary and its subsidiaries located in various provinces, autonomous regions or directly administered municipalities in the PRC.

Our valuation of the property interests represents the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

Where possible, we have valued the property interests in Groups I and III by the direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Due to the nature of the buildings and structures of certain portions of the properties in Group I and the particular locations in which they are situated, there are unlikely to be relevant market comparable

APPENDIX V — PROPERTY VALUATION

sales readily available. The property interests have therefore been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

In valuing the property interest in property no. 10 of Group I which is currently under construction, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction cost and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the cost and fees to be expended to complete the development.

We have valued the property interest in Group II by the income approach by taking into account the net rental income of the property derived from the existing lease and achievable in the existing market with due allowance for the reversionary income potential of the lease, which has then been capitalized to determine the market value at an appropriate capitalisation rate. Where appropriate, reference has also been made to comparable sale transactions as available in the relevant market.

We have attributed no commercial value to the property interests in Group IV, which are rented by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

As at the date of valuation, the Group held 35 parcels of land with an aggregate site area of approximately 777,450.97 sq.m. in the PRC. Among them, 21 parcels of land with an aggregate site area of approximately 589,139.36 sq.m. are granted land with State-owned Land Use Rights Certificates (“LURCs”); 9 parcels of land with an aggregate site area of approximately 66,593.44 sq.m. are allocated land with LURCs; the remaining 5 parcels of land with an aggregate site area of approximately 121,718.17 sq.m. have not obtained any proper title certificates.

As at the date of valuation, the Group held 310 buildings or units with an aggregate gross floor area of approximately 425,099.82 sq.m. in the PRC. Among them, 254 buildings or units with an aggregate gross floor area of approximately 376,794.03 sq.m. have obtained Building Ownership Certificates (“BOCs”) or Real Estate Title Certificates (“RETCs”), and 56 buildings or units with an aggregate gross floor area of approximately 48,305.79 sq.m. have not obtained any BOCs or RETCs.

As at the date of valuation, the Group also leased 611 properties in the PRC. Among them, 603 properties with an aggregate gross floor area of approximately 183,409.7 sq.m. were leased from various independent third parties and 8 properties with an aggregate gross floor area of approximately 7,289.5 sq.m. were leased from 3 connected parties of the Company.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale.

APPENDIX V — PROPERTY VALUATION

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoing of an onerous nature, which could affect their values.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, Real Estate Title Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company’s PRC legal advisers – Chen & Co. Law Firm, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out an investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

All monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 26 years’ experience in the valuation of properties in the PRC and 29 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

APPENDIX V — PROPERTY VALUATION

SUMMARY OF VALUES

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 30 June 2009 RMB	Capital value attributable to the Group as at 30 June 2009 RMB
1.	3 properties held by the Company in Liaoning Province and Guangdong Province The PRC	No commercial value	No commercial value
2.	Various properties held by China National Pharmaceutical Group Shanghai Corporation in Shanghai The PRC	8,117,000	8,117,000
3.	4 properties held by Shanghai Ourchem Chemical Reagent Co., Ltd. in Shanghai The PRC	No commercial value	No commercial value
4.	Various properties held by Beijing Sinopharm Tianyuan Real Estate & Property Management Co., Ltd. and its subsidiary in Beijing The PRC	No commercial value	No commercial value
5.	Various properties held by Sinopharm Holding Tianjin Co., Ltd. and its subsidiary in Tianjin The PRC	19,133,000	19,133,000
6.	Various properties held by Sinopharm Holding Shenyang Co., Ltd. and its subsidiary in Liaoning Province The PRC	116,004,000	115,908,000
7.	A parcel of leased land and 5 buildings erected thereon held by the subsidiary of China National Pharmaceutical Group Northwest Medicine Co., Ltd. in Shaanxi Province The PRC	No commercial value	No commercial value
8.	Various properties held by the subsidiaries of Sinopharm Holding GuoDa Drug Store Co., Ltd. in Tianjin, Beijing, Jiangsu Province and Zhejiang Province The PRC	36,236,000	32,118,000
9.	A unit held by Sinopharm Holding Suzhou Co., Ltd. in Jiangsu Province The PRC	4,487,000	3,141,000

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

APPENDIX V — PROPERTY VALUATION

No.	Property	Capital value in existing state as at 30 June 2009 <i>RMB</i>	Capital value attributable to the Group as at 30 June 2009 <i>RMB</i>
10.	Various properties held by Sinopharm Logistics Co., Ltd. and its subsidiary in Guangdong Province, Tianjin and Shanghai The PRC	335,746,000	335,746,000
11.	Various properties held by Shenzhen Accord Pharmaceutical Co., Ltd. and its subsidiaries in Guangxi Province, Guangdong Province, Jiangsu Province and Shanghai The PRC	357,742,000	121,336,000
12.	4 units held by Sinopharm Holding Zhejiang Co., Ltd. in Zhejiang Province The PRC	8,374,000	7,207,000
13.	Various properties held by China National Medicines Co., Ltd. and its subsidiaries in Anhui Province and Beijing The PRC	169,456,000	51,760,000
14.	A residential unit held by China National Pharmaceutical Group Southwest Medicine Co., Ltd. in Chongqing The PRC	219,000	148,000
15.	Various properties held by Sinopharm Holding Jiangsu Co., Ltd. in Jiangsu Province The PRC	101,741,000	65,968,000
16.	Various properties held by the subsidiaries of China National Pharmaceutical Chemical Reagent Co., Ltd. in Jiangsu Province and Shanghai The PRC	911, 000	547,000
Sub-total:		1,158,166,000	761,129,000

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Information Pack.

APPENDIX V — PROPERTY VALUATION

Group II — Property interest held for investment by the Group in the PRC

No.	Property	Capital value in existing state as at 30 June 2009 RMB	Capital value attributable to the Group as at 30 June 2009 RMB
17.	A unit held by Sinopharm Holding Hubei Co., Ltd. in Hubei Province The PRC	1,251,000	876,000
Sub-total:		1,251,000	876,000

Group III — Property interests held for future development by the Group in the PRC

No.	Property	Capital value in existing state as at 30 June 2009 RMB	Capital value attributable to the Group as at 30 June 2009 RMB
18.	A parcel of land held by Sinopharm Logistics Co., Ltd. in Shanghai The PRC	No commercial value	No commercial value
19.	3 parcels of land held by Shenzhen Accord Pharmaceutical Co., Ltd. and its subsidiaries in Guangdong Province The PRC	52,100,000	19,970,000
20.	A parcel of land held by Sinopharm Holding Shenyang Co., Ltd. in Liaoning Province The PRC	28,667,000	28,667,000
Sub-total:		80,767,000	48,637,000

Group IV — Property interests rented and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 30 June 2009 RMB	Capital value attributable to the Group as at 30 June 2009 RMB
21.	611 leased properties located in the PRC	No commercial value	No commercial value
Sub-total:		Nil	Nil
Grand total:		1,240,184,000	810,642,000

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 <i>RMB</i>
1.	3 properties held by the Company in Liaoning Province and Guangdong Province The PRC	The properties comprise an office building and 2 residential units completed in 1997 and 1998. The properties have a total gross floor area of approximately 2,769.14 sq.m.	The properties are currently occupied by the Group for office use except for the 2 residential units which are vacant.	No commercial value

Notes:

1. The office building of the properties with a gross floor area of approximately 2,578.7 sq.m. has obtained a BOC, however, no relevant LURC has been obtained.

According to the opinion given by the Company's PRC legal advisers, the Group is entitled to occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of the building and the corresponding land use rights. However, if the Group intends to transfer, lease or mortgage the building, it should go through the land grant procedure at the relevant land authority and pay additional land premium or land appreciation yields.

2. For the remaining 2 units of the properties with a total gross floor area of approximately 190.44 sq.m., we have not been provided with any BOCs and LURCs under the name of the Group.

According to the opinion given by the Company's PRC legal advisers, there is no legal impediment for the Company in applying for the registered name alteration procedure of the BOCs and LURCs of the 2 units.

3. In the valuation of the properties, we have attributed no commercial value to them as the proper LURCs and/or BOCs have not been obtained. However, for reference purpose, we are of the opinion that the capital value of the properties as at the date of valuation would be RMB10,275,000 assuming all relevant title certificates have been obtained and the properties could be freely transferred.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB										
2.	Various properties held by China National Pharmaceutical Group Shanghai Corporation in Shanghai The PRC	The properties comprise a parcel of land with a site area of approximately 3,706 sq.m. and 5 buildings with a total gross floor area of approximately 9,416 sq.m. erected thereon. The properties also comprise 2 residential units with a total gross floor area of approximately 291.21 sq.m. The buildings and units have a total gross floor area of approximately 9,707.21 sq.m. and were completed in various stages between 1967 and 2006. Details of uses and gross floor areas of the properties are listed as follows: <table><tr><td><u>Use</u></td><td><u>Area</u> (sq.m.)</td></tr><tr><td>Office</td><td>3,624.00</td></tr><tr><td>Storage</td><td>5,792.00</td></tr><tr><td>Residential</td><td>291.21</td></tr><tr><td>Total:</td><td>9,707.21</td></tr></table>	<u>Use</u>	<u>Area</u> (sq.m.)	Office	3,624.00	Storage	5,792.00	Residential	291.21	Total:	9,707.21	The properties are currently occupied by the Group for office, storage and residential uses except for certain portions of the properties which are rented to various independent third parties. (Refer to note 5)	8,117,000 interest attributable to the Group: RMB8,117,000
<u>Use</u>	<u>Area</u> (sq.m.)													
Office	3,624.00													
Storage	5,792.00													
Residential	291.21													
Total:	9,707.21													

Notes:

- China National Pharmaceutical Group Shanghai Corporation is a wholly-owned subsidiary of the Company.
- Pursuant to a Building Purchase Contract dated 12 November 2007, a unit with a gross floor area of approximately 171.72 sq.m. was purchased by the Group at a consideration of RMB4,300,000.
- Pursuant to 2 RETCs, the building ownership rights for the 2 units of the properties with a total gross floor area of approximately 291.21 sq.m. have been obtained by the Group and the corresponding land use rights have been granted to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group owns the building ownership rights and the corresponding land use rights of the 2 units. The Group is entitled to occupy, use, receive benefit from, lease, mortgage, transfer or otherwise dispose of the 2 units.

- Pursuant to a LURC and a BOC, the building ownership rights of 5 buildings of the properties with a total gross floor area of approximately 9,416 sq.m. have been obtained by the Group and corresponding land use rights of a parcel of land with a site area of approximately 3,706 sq.m. have been allocated to the Group.

APPENDIX V — PROPERTY VALUATION

According to the opinion given by the Company's PRC legal advisers, the Group is entitled to occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of the above land and buildings. However, if the Group intends to transfer, lease or mortgage the land and buildings, it should go through the land grant procedure at the relevant land authority and pay additional land premium or land appreciation yields.

5. According to 3 Tenancy Agreements, portions of the properties with a total gross floor area of approximately 1,715 sq.m. are rented to various independent third parties for storage use with the expiry dates between 31 March 2010 and 14 August 2010 at a total annual rent of RMB555,060.

According to the opinion given by the Company's PRC legal advisers, the above Tenancy Agreements are valid.

6. In the valuation of the properties, we have attributed no commercial value to the land parcel and the 5 buildings erected thereon mentioned in note 4 as proper LURC have not been obtained. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the 5 buildings (excluding the land) as at the date of valuation would be RMB4,063,000 assuming all relevant title certificates have been obtained and the buildings could be freely transferred.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB
3.	4 properties held by Shanghai Ourchem Chemical Reagent Co., Ltd. in Shanghai The PRC	The properties comprise a unit and 3 buildings completed in various stages between 1989 and 1995. The properties have a total gross floor area of approximately 6,381.46 sq.m.	2 buildings with a total gross floor area of approximately 4,290.8 sq.m. are currently vacant, the remaining building is rented to an independent third party (note 4). The unit is currently occupied by the Group for office use.	No commercial value

Notes:

- Shanghai Ourchem Chemical Reagent Co., Ltd. is a wholly-owned subsidiary of the Company.
- Pursuant to 3 LURCs and 3 BOCs, the building ownership rights of a unit and 2 buildings with a total gross floor area of approximately 3,288.66 sq.m. have been obtained by the Group and the corresponding land use rights have been allocated to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group is entitled to occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of the property. However, if the Group intends to transfer, lease or mortgage the property, it should go through the land grant procedure at the land authority and pay additional land premium or land appreciation yields.

- For the remaining building with a gross floor area of approximately 3,092.8 sq.m., according to a LURC mentioned in note 2, the corresponding land use rights have been allocated to the Group, however, no relevant BOC has been obtained.

According to the opinion given by the Company's PRC legal advisers, the Group will own the building ownership rights and the corresponding land use rights of the above building after completing the land grant procedure and obtaining the BOC.

- According to a Tenancy Agreement, a building mentioned in note 2 with a gross floor area of approximately 1,473 sq.m. is rented to an independent third party for commercial use with the expiry date on 31 March 2010 at an annual rent of RMB110,000.

According to the opinion given by the Company's PRC legal advisers, the above Tenancy Agreement is valid.

- In the valuation of the properties, we have attributed no commercial value to the properties as the proper LURC and/or BOC have not been obtained.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB												
4.	Various properties held by Beijing Sinopharm Tianyuan Real Estate & Property Management Co., Ltd. and its subsidiary in Beijing The PRC	The properties comprise a parcel of land with a site area of approximately 37,588 sq.m. and 4 buildings with a total gross floor area of approximately 12,233.2 sq.m. erected thereon. The properties also comprise 14 buildings or units with a total gross floor area of approximately 17,221.21 sq.m. The buildings and units have a total gross floor area of approximately 29,454.41 sq.m. and were completed in various stages between 1980 and 2001. Details of uses and gross floor areas of the properties are listed as follows: <table><tr><td><u>Use</u></td><td><u>Area</u> (sq.m.)</td></tr><tr><td>Commercial</td><td>3,485.31</td></tr><tr><td>Office</td><td>12,415.00</td></tr><tr><td>Storage</td><td>12,167.40</td></tr><tr><td>Ancillary</td><td>1,386.70</td></tr><tr><td>Total:</td><td>29,454.41</td></tr></table>	<u>Use</u>	<u>Area</u> (sq.m.)	Commercial	3,485.31	Office	12,415.00	Storage	12,167.40	Ancillary	1,386.70	Total:	29,454.41	The properties are currently occupied by the Group for commercial, office, storage and ancillary uses except for certain portions of the properties which are rented to various independent third parties. (Refer to note 6)	No commercial value
<u>Use</u>	<u>Area</u> (sq.m.)															
Commercial	3,485.31															
Office	12,415.00															
Storage	12,167.40															
Ancillary	1,386.70															
Total:	29,454.41															

Notes:

- Beijing Sinopharm Tianyuan Real Estate & Property Management Co., Ltd. is a wholly-owned subsidiary of the Company.
- Pursuant to a LURC and a BOC, the building ownership rights of a building of the properties with a gross floor area of 1,434.4 sq.m. have been obtained by the Group and the corresponding land use rights have been allocated to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group is entitled to occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of the building and the corresponding land use rights. However, if the Group intends to transfer, lease or mortgage the building and the corresponding land use rights, it should go through the land grant procedure at the relevant land authority and pay additional land premium or land appreciation yields.

- Pursuant to 3 BOCs, 10 buildings or units of the properties with a total gross floor area of approximately 14,976.29 sq.m. have obtained BOCs, however, no LURCs have been obtained.

APPENDIX V — PROPERTY VALUATION

According to the opinion given by the Company's PRC legal advisers, the Group is entitled to occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of the above buildings and the corresponding land. However, if the Group intends to transfer, lease or mortgage the buildings and the corresponding land use rights, it should go through the land grant procedure at the relevant land authority and pay additional land premium or land appreciation yields.

4. For 4 buildings with a total gross floor area of approximately 12,233.2 sq.m. which are erected on a parcel of land with a site area of 37,588 sq.m., we have been provided with the BOC for 3 buildings with a total gross floor area of 11,733.2 sq.m., however, no LURC for the land and BOC for the building with a gross floor area of approximately 500 sq.m. has been obtained.

According to the opinion given by the Company's PRC legal advisers:

- (i) Among the above, a parcel of land with a site area of approximately 37,588 sq.m. has been listed in the government planning, therefore the Group can not go through the land grant procedure at present, however, there will be no effect for the Group to occupy and use the land and the buildings erected thereon;
 - (ii) for 3 buildings with a total gross floor area of approximately 11,733.2 sq.m., the Group is entitled to occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of them and the corresponding land. However, if the Group intends to transfer, lease or mortgage the buildings and the corresponding land use rights, it should go through the land grant procedure at the relevant land authority and pay additional land premium or land appreciation yields; and
 - (iii) for a building with a gross floor area of 500 sq.m., the Group will own the building ownership rights and the corresponding land use rights of the building after obtaining the BOC and LURC.
5. For the remaining buildings or units with a total gross floor area of approximately 810.52 sq.m., we have not been provided with any LURC and BOC.

According to the opinion given by the Company's PRC legal advisers, the Group will own the building ownership rights and the corresponding land use rights of the above building and units after obtaining the BOCs and LURCs.

6. According to 10 Tenancy Agreements, portions of the properties with a total gross floor area of approximately 16,739.7 sq.m. are rented to various independent third parties for commercial, office and storage uses with the expiry dates between 31 December 2009 and 1 May 2017 at a total annual rent of RMB7,090,459.

According to the opinion given by the Company's PRC legal advisers, 8 Tenancy Agreements in relation to the properties with proper title certificates are valid. The absence of proper title certificates regarding the leased properties under the rest 2 Tenancy Agreements will not have a material adverse effect on the business of the Group.

7. In the valuation of the properties, we have attributed no commercial value to them as proper LURCs and/or BOCs have not been obtained. However, for reference purpose, we are of the opinion that the capital value of the properties (excluding the land mentioned in note 4) as at the date of valuation would be RMB234,911,000 assuming all relevant title certificates have been obtained and the properties could be freely transferred.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB														
5.	Various properties held by Sinopharm Holding Tianjin Co., Ltd. and its subsidiary in Tianjin The PRC	The properties comprise 3 parcels of land with a total site area of approximately 71,505.16 sq.m. and 16 buildings with a total gross floor area of approximately 29,897.11 sq.m. erected thereon. The properties also comprise 12 units with a total gross floor area of approximately 2,962.65 sq.m. The buildings and units have a total gross floor area of approximately 32,859.76 sq.m. and were completed in various stages between 1950 and 2005. Details of uses and gross floor areas of the properties are listed as follows: <table><tr><td><u>Use</u></td><td><u>Area</u> (sq.m.)</td></tr><tr><td>Office</td><td>9,582.88</td></tr><tr><td>Commercial</td><td>1,992.25</td></tr><tr><td>Storage</td><td>18,372.36</td></tr><tr><td>Residential</td><td>521.31</td></tr><tr><td>Ancillary</td><td>2,390.96</td></tr><tr><td>Total:</td><td>32,859.76</td></tr></table>	<u>Use</u>	<u>Area</u> (sq.m.)	Office	9,582.88	Commercial	1,992.25	Storage	18,372.36	Residential	521.31	Ancillary	2,390.96	Total:	32,859.76	The properties are currently occupied by the Group for office, commercial, storage, residential and ancillary uses except for certain portion of the properties which is rented to an independent third party. (Refer to note 5).	19,133,000 interest attributable to the Group: RMB19,133,000
<u>Use</u>	<u>Area</u> (sq.m.)																	
Office	9,582.88																	
Commercial	1,992.25																	
Storage	18,372.36																	
Residential	521.31																	
Ancillary	2,390.96																	
Total:	32,859.76																	

Notes:

1. Sinopharm Holding Tianjin Co., Ltd. is a 90% interest owned subsidiary of the Company and China National Pharmaceutical Group Shanghai Corporation holds its remaining 10% equity interest.
2. Pursuant to a LURC, a BOC and 2 RETCs, the building ownership rights of 5 buildings and 2 units of the properties with a total gross floor area of approximately 10,633.23 sq.m. have been obtained by the Group and the corresponding land use rights of the 5 buildings and 2 units including a parcel of land with a site area of approximately 58,718.36 sq.m. have been granted to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group owns the building ownership rights and the corresponding land use rights of the above land and buildings. The Group is entitled to occupy, use, receive benefit from, lease, mortgage, transfer or otherwise dispose of the above land and buildings.

3. Pursuant to 3 LURCs, 3 BOCs and 6 RETCs, the building ownership rights of 11 buildings and 9 units of the properties with a total gross floor area of approximately 22,046.3 sq.m. have been obtained by the Group and the corresponding land use rights of 11 buildings and 9 units including 2 parcels of land with a total site area of approximately 12,786.8 sq.m. have been allocated to the Group.

APPENDIX V — PROPERTY VALUATION

According to the opinion given by the Company's PRC legal advisers, the Group is entitled to occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of the above land and buildings. However, if the Group intends to transfer, lease or mortgage the land and buildings, it should land authority and pay additional land premium or land appreciation yields.

4. Pursuant to a BOC, a unit of the properties with a gross floor area of approximately 180.23 sq.m. has obtained the BOC, however no LURC has been obtained.

According to the opinion given by the Company's PRC legal advisers, the Group is entitled to occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of the unit and the corresponding land use rights. However, if the Group intends to transfer, lease or mortgage the property, it should go through the land grant procedure at the relevant land authority and pay additional land premium or land appreciation yields.

5. According to a Tenancy Agreement, a portion of the properties with a gross floor area of approximately 156 sq.m. is rented to an independent third party for commercial use with the expiry date on 14 August 2013 at an annual rent of RMB120,000.

According to the opinion given by the Company's PRC legal advisers, the above Tenancy Agreement is valid.

6. In the valuation of the properties, we have attributed no commercial value to the properties mentioned in notes 3 and 4 as the proper LURCs and/or BOCs have not been obtained. However, for reference purpose, we are of the opinion that the capital value of them (excluding the 2 parcels of land mentioned in note 3) as at the date of valuation would be RMB33,136,000 assuming all relevant title certificates have been obtained and the properties could be freely transferred.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB												
6.	Various properties held by Sinopharm Holding Shenyang Co., Ltd. and its subsidiary in Liaoning Province The PRC	The properties comprise a parcel of land with a site area of approximately 85,751 sq.m and 26 buildings with a total gross floor area of approximately 10,716 sq.m. and various structures erected thereon. The properties also comprise 6 buildings or units with a total gross floor area of approximately 6,703.37 sq.m. The buildings and units have a total gross floor area of approximately 17,419.37 sq.m. and were completed in various stages between 1952 and 1999. Details of uses and gross floor areas of the properties are listed as follows: <table><tr><th>Use</th><th>Area (sq.m.)</th></tr><tr><td>Office</td><td>5,952.00</td></tr><tr><td>Commercial</td><td>504.37</td></tr><tr><td>Storage</td><td>10,716.00</td></tr><tr><td>Ancillary</td><td>247.00</td></tr><tr><td>Total:</td><td>17,419.37</td></tr></table>	Use	Area (sq.m.)	Office	5,952.00	Commercial	504.37	Storage	10,716.00	Ancillary	247.00	Total:	17,419.37	The properties are currently occupied by the Group for commercial and ancillary uses except for certain portions of the properties which are rented to various independent third parties. (Refer to note 4)	116,004,000 interest attributable to the Group: RMB115,908,000
Use	Area (sq.m.)															
Office	5,952.00															
Commercial	504.37															
Storage	10,716.00															
Ancillary	247.00															
Total:	17,419.37															

Notes:

1. Sinopharm Holding Shenyang Co., Ltd. is a 90% interest owned subsidiary of the Company and China National Pharmaceutical Group Shanghai Corporation holds its remaining 10% equity interest.
2. Pursuant to 4 LURCs and 30 BOCs, the building ownership rights of 30 buildings or units of the properties with a total gross floor area of approximately 17,159.37 sq.m. have been obtained and the corresponding land use rights of 30 buildings or units including a parcel of land with a site area of approximately 85,751 sq.m. have been granted to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group owns the building ownership rights and the corresponding land use rights of the above land and buildings. The Group is entitled to occupy, use, receive benefit from, lease, mortgage or transfer or otherwise dispose of the above land and buildings.

APPENDIX V — PROPERTY VALUATION

3. Pursuant to a LURC and 2 BOCs, the building ownership rights of 2 units of the properties with a total gross floor area of approximately 260 sq.m. have been obtained by the Group and the corresponding land use rights have been allocated to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group is entitled to occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of these 2 units and the corresponding land use rights. However, if the Group intends to transfer, lease or mortgage the unit, it should go through the land grant procedure at the relevant land authority and pay additional land premium or land appreciation yields.

4. According to 3 Tenancy Agreements, portions of the properties with a total gross floor area of approximately 1,718 sq.m. are rented to various independent third parties for commercial use with the expiry dates between 31 December 2009 and 1 April 2017 at a total annual rent of RMB1,080,000.

According to the opinion given by the Company's PRC legal advisers, the above Tenancy Agreements are valid.

5. In the valuation of the properties, we have attributed no commercial value to the portions of the properties mentioned in note 3 as the proper LURCs have not been obtained. However, for reference purpose, we are of the opinion that the capital value of them as at the date of valuation would be RMB1,755,000 assuming all relevant title certificates have been obtained and the 2 units could be freely transferred.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB										
7.	A parcel of leased land and 5 buildings erected thereon held by the subsidiary of China National Pharmaceutical Group Northwest Medicine Co., Ltd. in Shaanxi Province The PRC	The property comprises a parcel of leased land with a site area of approximately 1,468.9 sq.m. and 5 buildings erected thereon which were completed in about 1984. The buildings have a total gross floor area of approximately 4,915.92 sq.m. Details of uses and gross floor areas of the properties are listed as follows: <table> <tr> <th>Use</th> <th>Area (sq.m.)</th> </tr> <tr> <td>Office</td> <td>2,405.84</td> </tr> <tr> <td>Residential</td> <td>2,131.05</td> </tr> <tr> <td>Ancillary</td> <td>379.03</td> </tr> <tr> <td>Total:</td> <td>4,915.92</td> </tr> </table>	Use	Area (sq.m.)	Office	2,405.84	Residential	2,131.05	Ancillary	379.03	Total:	4,915.92	The property is occupied by the Group for office, residential and ancillary uses except for certain portion of the property which is rented to an independent third party. (Refer to note 3)	No commercial value
Use	Area (sq.m.)													
Office	2,405.84													
Residential	2,131.05													
Ancillary	379.03													
Total:	4,915.92													

Notes:

- China National Pharmaceutical Group Northwest Medicine Co., Ltd. is a 60% interest owned subsidiary of the Company.
- Pursuant to a land use rights lease agreement, a LURC and a BOC, the building ownership rights of 5 buildings with a gross floor area of approximately 4,915.92 sq.m. have been obtained by the Group and the corresponding land use rights have been leased to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group has obtained the building ownership rights of the property and the corresponding land use rights have been leased to the Group. The Group is entitled to occupy and use the property. However, according to the land use rights lease agreement if the Company intends to lease the property, a prior approval from the land administration authorities should be obtained. Moreover, the property can not be transferred and mortgaged.

- According to a Tenancy Agreement, a portion of an office building of the property with a gross floor area of approximately 500 sq.m. is rented to an independent third party for office use with the expiry date on 30 November 2018 at an annual rent of RMB600,000.

According to the opinion given by the Company's PRC legal advisers, the above Tenancy Agreement is valid.

- In the valuation of the property, we have attributed no commercial value to it as the proper LURC has not been obtained. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB14,951,000 assuming all relevant title certificates have been obtained and the properties could be freely transferred.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB
8.	Various properties held by the subsidiaries of Sinopharm Holding GuoDa Drug Store Co., Ltd. in Tianjin, Beijing, Jiangsu Province and Zhejiang Province The PRC	The properties comprise 19 buildings or units completed in various stages between 1995 and 2005. The properties have a total gross floor area of approximately 3,771.79 sq.m.	The properties are currently occupied by the Group for commercial use except for certain portions of the properties which are rented to various independent third parties. (Refer to note 5)	36,236,000 interest attributable to the Group: RMB32,118,000

Notes:

- Sinopharm Holding GuoDa Drug Store Co., Ltd. is a 99% interest owned subsidiary of the Company.
- Pursuant to 3 LURCs, 4 RETCs and 8 BOCs, the building ownership rights of 12 buildings of the properties with a total gross floor area of approximately 2,195.81 sq.m. have been obtained by the Group and the corresponding land use rights have been granted to the Group.
According to the opinion given by the Company's PRC legal advisers, the Group owns the building ownership rights and the corresponding land use rights of the 12 buildings. The Group is entitled to occupy, use, receive benefit from, lease, mortgage or transfer or otherwise dispose of the above buildings
- Pursuant to 2 LURCs, 2 RETCs and 2 BOCs, the building ownership rights of 4 units of the properties with a total gross floor area of approximately 865.7 sq.m. have been obtained by the Group and the corresponding land use rights have been allocated to the Group.
According to the opinion given by the Company's PRC legal advisers, the Group is entitled to occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of the 4 units and the corresponding land use rights. However, if the Group intends to transfer, lease or mortgage the units, it should go through the land grant procedure at the relevant land authority and pay additional land premium or land appreciation yields.
- Pursuant to 3 BOCs, 3 units of the properties with a total gross floor area of approximately 710.28 sq.m. have obtained BOCs, however, no the relevant LURCs have been obtained.
According to the opinion given by the Company's PRC legal advisers, the Group is entitled to occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of the 3 units and the corresponding land use rights. However, if the Group intends to transfer, lease or mortgage the 3 units, it should go through the land grant procedure at the relevant land authority and pay additional land premium or land appreciation yields.
- According to 6 Tenancy Agreements, portions of the properties with a total gross floor area of approximately 757.38 sq.m. are rented to various independent third parties for commercial use with the expiry dates between 24 August 2009 and 30 June 2012 at a total annual rent of RMB673,900.
According to the opinion given by the Company's PRC legal advisers, 5 Tenancy Agreements in relation to the properties with proper title certificates are valid. The absence of proper title certificates regarding the leased property under the remaining one Tenancy Agreement will not have a material adverse effect on the business of the Group.
- In the valuation of the properties, we have attributed no commercial value to the properties mentioned in notes 3 and 4 as proper LURCs and/or BOCs have not been obtained. However, for reference purpose, we are of the opinion that the capital value of them as at the date of valuation would be RMB21,049,000 assuming all relevant title certificates have been obtained and these properties could be freely transferred.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB
9.	A unit held by Sinopharm Holding Suzhou Co., Ltd. in Jiangsu Province The PRC	The property comprises a unit on Level 12 of a 12- storey office building completed in 1998. The property has a gross floor area of approximately 560.84 sq.m.	The property is currently occupied by the Group for office use.	4,487,000 interest attributable to the Group: RMB3,141,000

Notes:

1. Sinopharm Medicine Holding Suzhou Co., Ltd. is a 70% interest owned subsidiary of the Company.
2. Pursuant to a Building Purchase Contract, a unit with a gross floor area of approximately 560.84 sq.m. was purchased by the Group at a consideration of RMB2,944,410.
3. Pursuant to a LURC and a BOC, the building ownership rights of the property with a gross floor area of approximately 560.84 sq.m. have been obtained by the Group and the corresponding land use rights have been granted to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group owns the building ownership rights and the corresponding land use rights of the property. The Group is entitled to occupy, use, receive benefit from, lease, mortgage, transfer or otherwise dispose of the property.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB										
10.	Various properties held by Sinopharm Logistics Co., Ltd. and its subsidiary in Guangdong Province, Tianjin and Shanghai The PRC	The properties comprise 3 parcels of land with a total site area of approximately 92,897.2 sq.m., 11 buildings with a total gross floor area of approximately 69,377.07 sq.m. and various structures erected thereon. The buildings were completed in various stages between 2006 and 2009. Details of uses and gross floor areas of the properties are listed as follows: <table><tr><td><u>Use</u></td><td><u>Area</u> (sq.m.)</td></tr><tr><td>Office</td><td>10,870.62</td></tr><tr><td>Storage</td><td>58,126.68</td></tr><tr><td>Ancillary</td><td>379.77</td></tr><tr><td>Total:</td><td>69,377.07</td></tr></table> The properties also comprise a parcel of land with a site area of approximately 10,420.9 sq.m. and a building (the “CIP building”) which is currently under construction. The construction of the CIP building is scheduled to be completed in December 2009. The planned gross floor area of CIP building upon completion will be approximately 16,003 sq.m.	<u>Use</u>	<u>Area</u> (sq.m.)	Office	10,870.62	Storage	58,126.68	Ancillary	379.77	Total:	69,377.07	The properties are currently occupied by the Group for office, storage and ancillary uses except for the CIP building which is under construction.	335,746,000 interest attributable to the Group: RMB335,746,000
<u>Use</u>	<u>Area</u> (sq.m.)													
Office	10,870.62													
Storage	58,126.68													
Ancillary	379.77													
Total:	69,377.07													

Notes:

1. Sinopharm Logistics Co., Ltd. is a wholly-owned subsidiary of the Company.
2. Pursuant to 4 State-owned Land Use Rights Grant Contracts, the land use rights of 4 parcels of land with a total site area of approximately 103,318.1 sq.m. were contracted to be granted to the Group. The total land premium was RMB10,599,932.33.
3. Pursuant to 2 RETCs, the building ownership rights of 10 buildings of the properties with a total gross floor area of approximately 49,690.07 sq.m. have been obtained by the Group and the land use rights of 2 parcels of land with a total site area of approximately 57,931.2 sq.m. have been granted to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group owns the building ownership rights of the above buildings and the land use rights. The Group is entitled to occupy, use, receive benefit from, lease, mortgage, transfer or otherwise dispose of the above properties.

APPENDIX V — PROPERTY VALUATION

4. Pursuant to a LURC, the land use rights of a parcel of land with a site area of 34,966 sq.m. have been granted to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group owns the land use rights of the above land. The Group is entitled to occupy, use, receive benefit from, lease, mortgage, transfer or otherwise dispose of the above land.

5. For a building with a gross floor area of approximately 19,687 sq.m. erected on the land mentioned in note 4, we have not been provided with the BOC.

According to the opinion given by the Company's PRC legal advisers, the Group has obtained all the construction approvals of the building and there is no legal impediment for the Group in obtaining the BOC of the building.

6. For a parcel of land with a site area of approximately 10,420.9 sq.m., we have not been provided with the LURC.

According to the opinion given by the Company's PRC legal advisers, the Group has entered into the Land Use Rights Grant Contract with the relevant land administration authorities and the land premium has been fully paid. There is no legal impediment for the Group in obtaining the LURC.

7. Pursuant to a Construction Work Planning Permit — 2009 Bao Shui Jian Zheng No. 0037, the development of the CIP building with a total planned gross floor area of approximately 16,003 sq.m. has been approved for construction.

8. Pursuant to a Construction Work Commencement Permit, permission by the relevant local authority was given to commence the construction work of the CIP building.

9. As advised by the Group, the total construction cost of the CIP building is estimated to be approximately RMB51,304,700, of which approximately RMB1,929,111.59 has been paid up to the date of valuation.

According to the opinion given by the Company's PRC legal advisers, the Group has obtained all the construction approvals of the CIP building and there is no legal impediment for the Group in obtaining the BOC upon completion of the CIP building.

10. In the valuation of the properties, we have attributed no commercial value to the properties mentioned in note 5, 6 and the CIP building as the BOC or LURC have not been obtained. However, for reference purpose, we are of the opinion that the capital value of them as at the date of valuation would be RMB83,202,000 assuming all relevant title certificates have been obtained and the properties could be freely transferred.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB																
11.	Various properties held by Shenzhen Accord Pharmaceutical Co., Ltd. and its subsidiaries in Guangxi Province, Guangdong Province, Jiangsu Province and Shanghai The PRC	The properties comprise 10 parcels of land with a total site area of approximately 142,594.07 sq.m., 61 buildings with a total gross floor area of approximately 91,481 sq.m. and various structures erected thereon. The properties also comprise 55 buildings or units with a total gross floor area of approximately 63,058.66 sq.m. The buildings and units have a total gross floor area of approximately 154,539.66 sq.m. and were completed in various stages between 1965 and 2009. Details of uses and gross floor areas of the properties are listed as follows: <table><tr><th>Use</th><th>Area (sq.m.)</th></tr><tr><td>Office</td><td>28,524.33</td></tr><tr><td>Commercial</td><td>20,357.45</td></tr><tr><td>Storage</td><td>43,495.62</td></tr><tr><td>Industrial</td><td>45,632.90</td></tr><tr><td>Residential</td><td>12,526.67</td></tr><tr><td>Ancillary</td><td>4,002.69</td></tr><tr><td>Total:</td><td>154,539.66</td></tr></table>	Use	Area (sq.m.)	Office	28,524.33	Commercial	20,357.45	Storage	43,495.62	Industrial	45,632.90	Residential	12,526.67	Ancillary	4,002.69	Total:	154,539.66	The properties are currently occupied by the Group for office, commercial, storage, industrial, residential and ancillary uses except for certain portions of the properties which are rented to various independent third parties. (Refer to note 6)	357,742,000 interest attributable to the Group: RMB121,336,000
Use	Area (sq.m.)																			
Office	28,524.33																			
Commercial	20,357.45																			
Storage	43,495.62																			
Industrial	45,632.90																			
Residential	12,526.67																			
Ancillary	4,002.69																			
Total:	154,539.66																			

Notes:

- Shenzhen Accord Pharmaceutical Co., Ltd. is a 38.33% interest owned subsidiary of the Company.
- Pursuant to 14 LURCs, 41 RETCs and 23 BOCs, the building ownership rights for 76 buildings or units with a total gross floor area of approximately 111,373.76 sq.m. have been obtained by the Group and the corresponding land use rights of 76 buildings or units including 7 parcels of land with a total site area of approximately 120,144.51 sq.m. have been granted to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group owns the building ownership rights of the 76 buildings or units with a total gross floor area of approximately 111,373.76 sq.m. and the land use rights of 7 parcels of land with a total site area of approximately 120,144.51 sq.m. The Group is entitled to occupy, use, receive benefit from, lease, mortgage or transfer or otherwise dispose of the above land and buildings.

APPENDIX V — PROPERTY VALUATION

3. Pursuant to 8 RETCs, the building ownership rights for 11 buildings or units with a total gross floor area of approximately 33,206.06 sq.m. have been obtained by the Group and the corresponding land use rights of the 11 buildings or units including 3 parcels of land with a total site area of approximately 22,449.56 sq.m. have been allocated to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group is entitled to occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of the above land and buildings. However, if the Group intends to transfer, lease or mortgage the property, it should go through the land grant procedure at the relevant land authority and pay additional land premium or land appreciation yields.

4. Pursuant to 3 BOCs, 3 buildings of the properties with a total gross floor area of approximately 902.12 sq.m. have obtained BOCs, however, no LURCs have been obtained.

According to the opinion given by the Company's PRC legal advisers, the Group is entitled to occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of the above buildings and the corresponding land use rights. However, if the Group intends to transfer, lease or mortgage the above buildings, it should go through the land grant procedure at the relevant land authority and pay additional land premium or land appreciation yields.

5. We have not been provided with LURCs and/or BOCs for the remaining 26 buildings or units with a total gross floor area of approximately 9,057.72 sq.m.

According to the opinion given by the Company's PRC legal advisers, for 26 buildings or units with a total gross floor area of approximately 9,057.72 sq.m., the Group will legally own the building ownership rights upon completing the relevant procedures for land granting or construction approvals and obtaining the BOCs.

6. According to 69 Tenancy Agreements, portions of the properties with a total gross floor area of approximately 18,622.79 sq.m. are rented to various independent third parties for office, commercial, storage and residential uses with the expiry dates between 30 September 2009 and 30 September 2017 at a total annual rent of RMB7,951,718.41.

According to the opinion given by the Company's PRC legal advisers, 68 Tenancy Agreements in relation to the property with proper title certificates are valid. The absence of proper title certificates regarding the leased properties under the remaining one Tenancy Agreement will not have a material adverse effect on the business of the Group.

7. In the valuation of the properties, we have attributed no commercial value to the properties mentioned in notes 3 to 5 as proper LURCs and/or BOCs have not been obtained. However, for reference purpose, we are of the opinion that the capital value of them (excluding the land) as at the date of valuation would be RMB152,344,000 assuming all relevant title certificates have been obtained and the properties could be freely transferred.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB
12.	4 units held by Sinopharm Holding Zhejiang Co., Ltd. in Zhejiang Province The PRC	The property comprises 4 units on Level 16 of a 24-storey office building completed in 2004. The property has a gross floor area of approximately 620.28 sq.m.	The property is currently occupied by the Group for office use.	8,374,000 interest attributable to the Group: RMB7,207,000

Notes:

1. Sinopharm Holding Zhejiang Co., Ltd. is an 86.05% interest owned subsidiary of the Company.
2. Pursuant to 4 LURCs and 4 BOCs, the building ownership rights of the property with a gross floor area of approximately 620.28 sq.m. have been obtained by the Group and the corresponding land use rights have been granted to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group owns the building ownership rights and the corresponding land use rights of the property. The Group is entitled to occupy, use, receive benefit from, lease, mortgage, transfer or otherwise dispose of the property.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB																
13.	Various properties held by China National Medicine Co., Ltd. and its subsidiaries in Anhui Province and Beijing The PRC	The properties comprise 4 parcels of land with a total site area of approximately 53,009.4 sq.m., 19 buildings with a total gross floor area of approximately 46,463.73 sq.m. and various structures erected thereon. The properties also comprise 12 units with a total gross floor area of approximately 1,055.88 sq.m. The buildings and units have a total gross floor area of approximately 47,519.61 sq.m. and were completed in various stages between 1983 and 2005. Details of uses and gross floor areas of the properties are listed as follows: <table><tr><th><u>Use</u></th><th><u>Area</u> (sq.m.)</th></tr><tr><td>Industrial</td><td>16,278.52</td></tr><tr><td>Office</td><td>9,462.99</td></tr><tr><td>Storage</td><td>17,996.51</td></tr><tr><td>Commercial</td><td>291.64</td></tr><tr><td>Ancillary</td><td>2,725.71</td></tr><tr><td>Residential</td><td>764.24</td></tr><tr><td>Total:</td><td>47,519.61</td></tr></table>	<u>Use</u>	<u>Area</u> (sq.m.)	Industrial	16,278.52	Office	9,462.99	Storage	17,996.51	Commercial	291.64	Ancillary	2,725.71	Residential	764.24	Total:	47,519.61	The properties are currently occupied by the Group for industrial, office, storage, commercial, ancillary and residential uses.	169,456,000 interest attributable to the Group: RMB51,760,000
<u>Use</u>	<u>Area</u> (sq.m.)																			
Industrial	16,278.52																			
Office	9,462.99																			
Storage	17,996.51																			
Commercial	291.64																			
Ancillary	2,725.71																			
Residential	764.24																			
Total:	47,519.61																			

Notes:

- China National Medicine Co., Ltd. is a 44.01% interest owned subsidiary of the Company.
- Pursuant to 5 LURCs and 20 BOCs, the building ownership rights of 21 buildings or units the properties with a total gross floor area of approximately 46,755.37 sq.m. have been obtained by the Group and the corresponding land use rights of 21 buildings or units including 4 parcels of land with a total site area of approximately 53,009.4 sq.m. have been granted to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group owns the building ownership rights of the 21 buildings or units with a total gross floor area of approximately 46,755.37 sq.m. and the land use rights of 4 parcels of land with a total site area of approximately 53,009.4 sq.m. The Group is entitled to occupy, use, receive benefit from, lease, mortgage, transfer or otherwise dispose of the above properties.

- For the remaining 10 units of the properties with a total gross floor of approximately 764.24 sq.m., we have not been provided with LURCs and BOCs.

According to the opinion given by the Company's PRC legal advisers, the 10 units with a total gross floor area of approximately 764.24 sq.m. are used as staff quarters by the Group. The title defects of the units will not cause material impact on the Company.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Information Pack.

APPENDIX V — PROPERTY VALUATION

4. In the valuation of the properties, we have attributed no commercial value to the 10 units mentioned in note 3 as the proper LURCs and/or BOCs have not been obtained. However, for reference purpose, we are of the opinion that the capital value of them as at the date of valuation would be RMB2,904,000 assuming all relevant title certificates have been obtained and the 10 units could be freely transferred.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB
14.	A residential unit held by China National Pharmaceutical Group Southwest Medicine Co., Ltd. in Chongqing The PRC	The property comprises a residential unit on Level 13 of a building completed in 2001. The property has a gross floor area of approximately 68.4 sq.m.	The property is currently vacant.	219,000 interest attributable to the Group: RMB148,000

Notes:

1. China National Pharmaceutical Group Southwest Medicine Co., Ltd. is a 67.45% interest owned subsidiary of the Company.
2. Pursuant to a LURC and a BOC, the building ownership rights of the property with a gross floor area of approximately 68.4 sq.m. have been obtained by the Group and the corresponding land use rights have been granted to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group owns the building ownership rights and the corresponding land use rights of the property. The Group is entitled to occupy, use, receive benefit from, lease, mortgage, transfer or otherwise dispose of the property.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB												
15.	Various properties held by Sinopharm Holding Jiangsu Co., Ltd. in Jiangsu Province The PRC	The properties comprise 4 parcels of land with a total site area of approximately 29,665.48 sq.m. and 4 buildings with a total gross floor area of approximately 21,383.1 sq.m. erected thereon. The properties also comprise 13 buildings or units with a total gross floor area of approximately 9,404.25 sq.m. The buildings and units have a total gross floor area of approximately 30,787.35 sq.m. and were completed in various stages between 1949 and 1998. Details of uses and gross floor areas of the properties are listed as follows: <table><tr><th><u>Use</u></th><th><u>Area</u> (sq.m.)</th></tr><tr><td>Industrial</td><td>2,139.87</td></tr><tr><td>Storage</td><td>19,243.23</td></tr><tr><td>Commercial</td><td>8,717.83</td></tr><tr><td>Residential</td><td>686.42</td></tr><tr><td>Total:</td><td>30,787.35</td></tr></table>	<u>Use</u>	<u>Area</u> (sq.m.)	Industrial	2,139.87	Storage	19,243.23	Commercial	8,717.83	Residential	686.42	Total:	30,787.35	The properties are currently occupied by the Group for industrial, storage, commercial and residential uses except for a portion of the properties which is rented to an independent third party. (Refer to note 6).	101,741,000 interest attributable to the Group: RMB65,968,000
<u>Use</u>	<u>Area</u> (sq.m.)															
Industrial	2,139.87															
Storage	19,243.23															
Commercial	8,717.83															
Residential	686.42															
Total:	30,787.35															

Notes:

1. Sinopharm Holding Jiangsu Co., Ltd. is a 64.84% interest owned subsidiary of the Company.
2. Pursuant to 10 LURCs and 11 BOCs, the building ownership rights of 10 buildings or units of the properties with a total gross floor area of approximately 10,458.89 sq.m. have been obtained by the Group and the corresponding land use rights of 10 buildings or units including a parcel of land with a site area of approximately 2,014.4 sq.m. have been granted to the Group.
3. According to a Mortgage Contract, certain portions of the properties have been mortgaged for bank loans with the mortgage period with the expiry date on 18 September 2009 at the total amount of RMB24,000,000.

According to the opinion given by the Company's PRC legal advisers, the Group owns the building ownership rights of the 10 buildings or units with a total gross floor area of approximately 10,458.89 sq.m. and the land use rights of a parcel of land with a site area of approximately 2,014.4 sq.m. The Group is entitled to occupy, use, receive benefit from, lease, mortgage, transfer or otherwise dispose of the above properties except for the mortgaged portion of the above mentioned transfer of such portion is subject to the approval of the mortgagee.

APPENDIX V — PROPERTY VALUATION

4. Pursuant to 6 LURCs and 6 BOCs, the building ownership rights of 6 buildings or units with a total gross floor area of approximately 20,190.51 sq.m. have been obtained by the Group and the corresponding land use rights of 6 buildings or units including 3 parcels of land with a total site area of approximately 27,651.08 sq.m. have been allocated to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group is entitled to occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of the above land, buildings and units. However, if the Group intends to transfer, lease or mortgage the above land, buildings and units, it should go through the land grant procedure at the relevant land authority and pay additional land premium or land appreciation yields.

5. For the remaining unit of the properties with a gross floor area of approximately 137.95 sq.m., we have not been provided with LURC and BOC.

According to the opinion given by the Company's PRC legal advisers, the Group will own the unit and the corresponding land use rights after obtaining the BOC and LURC.

6. According to a Tenancy Agreement, a portion of the properties with a gross floor area of approximately 2,960 sq.m. is rented to an independent third party for office use with the expiry date on 30 September 2012 at an annual rent of RMB1,500,000.

According to the opinion given by the Company's PRC legal advisers, the above Tenancy Agreement is valid.

7. In the valuation of the properties, we have attributed no commercial value to the properties mentioned in notes 4 and 5 as the proper LURCs and/or BOCs have not been obtained. However, for reference purpose, we are of the opinion that the capital value of them (excluding the 3 parcels of land mentioned in note 4) as at the date of valuation would be RMB17,405,000 assuming all relevant title certificates have been obtained and these properties could be freely transferred.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB												
16.	Various properties held by the subsidiaries of China National Pharmaceutical Chemical Reagent Co., Ltd. in Jiangsu Province and Shanghai The PRC	The properties comprise 2 parcels of land with a total site area of approximately 30,765.4 sq.m. and 11 buildings with a gross floor area of approximately 14,065.12 sq.m. erected thereon and also comprise a residential unit with a gross floor area of approximately 73.91 sq.m. The buildings and unit have a total gross floor area of approximately 14,139.03 sq.m. and completed in 1995 and 2009. Details of uses and gross floor areas of the properties are listed as follow: <table><tr><th><u>Use</u></th><th><u>Area</u> (sq.m.)</th></tr><tr><td>Residential</td><td>73.91</td></tr><tr><td>Office</td><td>1,426.65</td></tr><tr><td>Storage</td><td>12,277.76</td></tr><tr><td>Ancillary</td><td>360.71</td></tr><tr><td>Total:</td><td>14,139.03</td></tr></table>	<u>Use</u>	<u>Area</u> (sq.m.)	Residential	73.91	Office	1,426.65	Storage	12,277.76	Ancillary	360.71	Total:	14,139.03	The properties are currently occupied by the Group for residential, office, storage and ancillary uses.	911,000 interest attributable to the Group: RMB547,000
<u>Use</u>	<u>Area</u> (sq.m.)															
Residential	73.91															
Office	1,426.65															
Storage	12,277.76															
Ancillary	360.71															
Total:	14,139.03															

Notes:

- China National Pharmaceutical Chemical Reagent Co., Ltd. is a 90% interest owned subsidiary of the Company and China National Pharmaceutical Group Shanghai Corporation holds its remaining 10% equity interest.
- Pursuant to a LURC, the land use rights of a parcel of land with a site area of approximately 4,487.3 sq.m. have been granted to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group has obtained the LURC for the above land. During the terms stipulated in the LURC, the Group is entitled to occupy, use, transfer, receive benefit from, lease, mortgage or otherwise dispose of the land use rights.

- Pursuant to a State-owned Land Use Rights Grant Contract dated 12 June 2009, the land use rights of a parcel of land with a site area of approximately 26,278.1 sq.m. were contracted to be granted to the Group at the land premium of RMB9,300,000.
- For the parcel of land with a site area of approximately 26,278.1 sq.m. (mentioned in note 3), we have not been provided with the LURC.

According to the opinion given by the Company's PRC legal advisers, there is no legal impediment for the Group in obtaining the LURC.

APPENDIX V — PROPERTY VALUATION

5. Pursuant to a Building Purchase Contract 18 March 2009, the residential unit with a gross floor area of approximately 73.91 sq.m. was purchased by the Group at a consideration of RMB185,000.
6. Pursuant to a RETC, the building ownership rights of the residential unit with a gross floor area of approximately 73.91 sq.m. have been obtained by the Group and the corresponding land use rights have been allocated to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group is entitled to occupy, use or with approval to transfer, lease, mortgage or otherwise dispose of the unit and the corresponding land use rights. However, if the Company intends to transfer, lease or mortgage the property, it should go through the land grant procedure at the relevant land authority and pay additional land premium or land appreciation yields.

7. For the remaining 11 buildings with a total gross floor area of approximately 14,065.12 sq.m., we have not been provided with the BOCs.

According to the opinion given by the Company's PRC legal advisers:

- (i) For a building with a gross floor area of approximately 600 sq.m. erected on the granted land mentioned in note 2, the Group will own the building ownership rights of the building after obtaining the BOC.
 - (ii) For the remaining 10 buildings with a total gross floor area of approximately 13,465.12 sq.m. erected on the land parcel without LURC, the Group has entered into the Land Use Rights Grant Contract with the relevant land administration authorities and the land premium has been fully paid. The Group confirms that they will complete the relevant construction approvals after obtaining the LURC.
8. In the valuation of the properties, we have attributed no commercial value to the properties mentioned in notes 3, 6 and 7 as proper LURC and BOCs have not been obtained. However, for reference purpose, we are of the opinion that the capital value of them as at the date of valuation would be RMB29,284,000 assuming all relevant title certificates have been obtained and these properties could be freely transferred.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

Group II — Property interest held for investment by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB
17.	A unit held by Sinopharm Holding Hubei Co., Ltd. in Hubei Province The PRC	The property comprises a unit on Level 16 of a 27-storey office building completed in 1996. The property has a gross floor area of approximately 208.52 sq.m.	The property is currently rented to an independent third party for office use.	1,251,000 interest attributable to the Group: RMB876,000

Notes:

1. Sinopharm Holding Hubei Co., Ltd. is a 70% interest owned subsidiary of the Company.
2. Pursuant to a LURC and a BOC, the building ownership rights of the property with a gross floor area of approximately 208.52 sq.m. have been obtained by the Group and the corresponding land use rights have been granted to the Group.

According to the opinion given by the Company's PRC legal advisers, the Group owns the building ownership rights and the corresponding land use rights of the property. The Group is entitled to occupy, use, receive benefit from, lease, mortgage, transfer or otherwise dispose of the property.

3. According to a Tenancy Agreement, the property is rented to an independent third party for office use with the expiry date on 31 July 2010 at an annual rent of RMB57,552.

According to the opinion given by the Company's PRC legal advisers, the above Tenancy Agreement is valid.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

Group III — Property interests held for future development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB
18.	A parcel of land held by Sinopharm Logistics Co., Ltd. in Shanghai The PRC	The property comprises a parcel of land with a site area of approximately 42,599 sq.m. The land use rights of the property have been granted for a term of 50 years for storage use.	The property is currently vacant.	No commercial value

Notes:

1. Sinopharm Logistics Co., Ltd. is a wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Grant Contract, the land use rights for a parcel of land with a site area of approximately 42,599 sq.m. were contracted to be granted to the Group. The land premium was RMB6,388,450.47.

According to the opinion given by the Company's PRC legal advisers, the Group has entered into the Land Use Rights Grant Contract with the relevant land administration authorities and the land premium has been fully paid. There is no legal impediment for the Group in obtaining the LURCs.

3. In the valuation of the property, we have attributed no commercial value to the property as the LURC has not been obtained. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB134,826,000 assuming all relevant title certificates have been obtained and the property could be freely transferred.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB
19.	3 parcels of land held by Shenzhen Accord Pharmaceutical Co., Ltd. and its subsidiaries in Guangdong Province The PRC	The property comprises 3 parcels of land with a total site area of approximately 110,282.36 sq.m. The land use rights of 2 parcels of land have been granted for terms of 50 years for industrial use.	The property is currently vacant.	52,100,000 interest attributable to the Group: RMB19,970,000

Notes:

- Shenzhen Accord Pharmaceutical Co., Ltd. is a 38.33% interest owned subsidiary of the Company.
- Pursuant to a State-owned Land Use Rights Grant Contract, the land use rights of a parcel of land with a site area of approximately 6,101.88 sq.m. were contracted to be granted to the Group. The land premium was RMB3,319,100.
- Pursuant to 2 LURCs, the land use rights of 2 parcels of land with a total site area of approximately 105,450.19 sq.m., including the land mentioned in note 2, have been granted to the Group for terms with the expiry dates on 24 January 2050 and 16 October 2058 for industrial use.

According to the opinion given by the Company's PRC legal advisers, the Group owns the land use rights for 2 parcels of land with a total site area of approximately 105,450.19 sq.m. The Group is entitled to occupy, use, receive benefit from, lease, mortgage or transfer or otherwise dispose of the above land.

- For the remaining parcel of land with a site of approximately 4,832.17 sq.m., we have not been provided with LURC.

According to the opinion given by the Company's PRC legal advisers, for a parcel of land with a site area of approximately 4,832.17 sq.m., the relevant land grant procedure is under application.

- In the valuation of the property, we have attributed no commercial value to the land mentioned in note 4 as no proper LURC has been obtained.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2009 RMB
20.	A parcel of land held by Sinopharm Holding Shenyang Co., Ltd. in Liaoning Province The PRC	The property comprises a parcel of land with a site area of approximately 66,667 sq.m. The land use rights of the property have been granted for a term with the expiry date on 9 February 2059 for industrial use.	The property is currently vacant.	28,667,000 interest attributable to the Group: RMB28,667,000

Notes:

1. Sinopharm Holding Shenyang Co., Ltd. is a 90% interest owned subsidiary of the Company and China National Pharmaceutical Group Shanghai Corporation holds its remaining 10% equity interest.
2. Pursuant to a State-owned Land Use Rights Grant Contract, the land use rights of a parcel of land with a site area of approximately 66,667 sq.m. were contracted to be granted to the Group. The land premium was RMB24,733,457.
3. Pursuant to a LURC, the land use rights of a parcel of land with a site area of approximately 66,667 sq.m. have been granted to the Group for a term with the expiry date on 9 February 2059 for industrial use

According to the opinion given by the Company's PRC legal advisers, the Group owns the land use rights for a parcel of land with a site area of approximately 66,667 sq.m. The Group is entitled to occupy, use, receive benefit from, lease, mortgage or transfer or otherwise dispose of the property.

APPENDIX V — PROPERTY VALUATION

VALUATION CERTIFICATE

Group IV — Property interests rented and occupied by the Group in the PRC

		Capital value in existing state as at 30 June 2009 RMB																		
No.	Property	Description and tenure	Particulars of occupancy																	
21.	611 leased properties located in the PRC	The properties comprise 611 buildings or units with a total gross floor area of approximately 190,699.2 sq.m., which were completed in various stages between 1940s and 2000s. Details of uses and gross floor areas of the properties are listed as follows: <table><tr><td><u>Use</u></td><td><u>Area</u> (sq.m.)</td></tr><tr><td>Industrial</td><td>3,815.16</td></tr><tr><td>Office</td><td>32,714.42</td></tr><tr><td>Storage</td><td>66,423.12</td></tr><tr><td>Commercial</td><td>86,055.69</td></tr><tr><td>Residential</td><td>885.83</td></tr><tr><td>Ancillary</td><td>804.98</td></tr><tr><td>Total:</td><td>190,699.20</td></tr></table> The properties are rented to the Group from various independent third parties and 3 connected parties (together referred to as the “Lessors”) for various terms.	<u>Use</u>	<u>Area</u> (sq.m.)	Industrial	3,815.16	Office	32,714.42	Storage	66,423.12	Commercial	86,055.69	Residential	885.83	Ancillary	804.98	Total:	190,699.20	The properties are currently occupied by the Group for industrial, office, storage, commercial, residential and ancillary purposes.	No commercial value
<u>Use</u>	<u>Area</u> (sq.m.)																			
Industrial	3,815.16																			
Office	32,714.42																			
Storage	66,423.12																			
Commercial	86,055.69																			
Residential	885.83																			
Ancillary	804.98																			
Total:	190,699.20																			

Notes:

- Pursuant to various Tenancy Agreements, 603 buildings or units with a total gross floor area of approximately 183,409.7 sq.m. are rented to the Group from various independent third parties for various terms at a total annual rent of RMB87,137,586.42 for industrial, office, storage, commercial, residential and ancillary uses.
- Pursuant to 8 Tenancy Agreements, 8 buildings or units with a total gross floor area of approximately 7,289.5 sq.m. are rented from 3 connected parties of the Company for various terms with a total annual rent of RMB7,435,873.12.
- We have been provided with a legal opinion on the legality of the Tenancy Agreements to the properties issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - For the above properties, the Lessors have provided the Building Ownership Certificates and/or the property owner's consent to sublease or registration with local authorities for 474 properties with a total gross floor area of approximately 138,646.67 sq.m. The relevant Tenancy Agreements are valid.

APPENDIX V — PROPERTY VALUATION

- (ii) For the remaining 137 properties with a total gross floor area of approximately 52,052.53 sq.m., for which the Lessors have not provided relevant Building Ownership Certificates and/or the property owner’s consent to sublease or registration with local authorities, the Tenancy Agreements may not be protected by the PRC laws. However, the Lessors of 106 properties with a total gross floor area of approximately 46,049.93 sq.m. have provided with written confirmation letters undertaking to indemnify any loss of the Group arising from any defect of property titles. The absence of relevant title certificates of the leased properties will not have a material adverse effect on the business of the Group.
- (iii) As confirmed by the Company, the existing uses of the properties are in compliance with the prescribed uses stated in the Tenancy Agreements; and
- (iv) There are 61 properties with a total gross floor area of approximately 28,599.06 sq.m. which have been mortgaged.

APPENDIX VI — TAXATION

This appendix contains a summary of laws and regulations in respect of taxation in Hong Kong and the PRC.

PRC TAXATION

The following is a discussion of certain PRC tax provisions relating to the ownership and disposal of H Shares purchased in connection with the [●] and held by the investors as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares and does not take into account the specific circumstances of any particular investors. This summary is based on the PRC tax laws in effect as of the Latest Practicable Date, as well as on the Arrangement between Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on 21 August 2006 and the Second Protocol to Arrangement between Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排第二議定書》) signed on 11 June 2008 (collectively, the “Arrangements”), all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This discussion does not address any aspects of PRC taxation other than tax on dividends, capital tax, stamp duty, estate duty, income tax, value-added tax and business tax. Prospective investors are urged to consult their tax advisors regarding PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

TAXATION APPLICABLE TO THE SHAREHOLDERS

Taxation of Dividends

Individual investors. According to the Law of the People’s Republic of China on Individual Income Tax (《中華人民共和國個人所得稅法》) (the “Individual Income Tax Law”) as amended on 29 December 2007 and effective from 1 March 2008, dividends paid by PRC companies are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a PRC resident, the receipt of dividends from a company in China is normally subject to a withholding tax of 20% unless specifically exempted by the finance authority of the State Council or reduced by an applicable tax treaty. However, on 21 July 1993, the State Administration of Taxation (the “SAT”), the PRC central government tax authority which succeeded the State Tax Bureau, issued the Notice of the State Administration of Taxation Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals (《國家稅務總局關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知》) (the “Tax Notice”), which states that dividends paid by a PRC company to individuals with respect to shares listed on an overseas stock exchange (“Overseas Shares”), such as H Shares, are temporarily not subject to PRC withholding tax.

In a letter dated 26 July 1994 to the former State Commission for Restructuring the Economic System, the former State Council Securities Commission and CSRC, the SAT reiterated the temporary tax exemption stated in the Tax Notice for dividends received from a PRC company listed overseas. If this tax exemption is withdrawn, a 20% tax may be withheld on dividends in accordance with the Provisional Regulations of concerning Questions of Taxation on Enterprises Experimenting with the Share System (《股份制試點企業有關稅收問題的暫行規定》) (the “Provisional Regulations”) and the Individual Income Tax Law. The withholding tax may be reduced under an applicable double taxation treaty. To date, the relevant tax authority has not collected withholding tax on dividend payments on Overseas Shares, including H Shares.

APPENDIX VI — TAXATION

Enterprises. According to the EIT Law (amended on 16 March 2007 and effective from 1 January 2008), dividends paid by PRC companies to foreign enterprises that do not have an office or establishment in China, or has an office or establishment in China but its income, including dividends and bonuses received, is not related to such office or establishment, are ordinarily subject to a PRC withholding tax levied at a tax rate of 20%. 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 (《國家稅務總局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) effective from 6 November 2008, 10% withholding tax shall be imposed on the dividends paid by Chinese resident enterprises to H-share holders which are overseas non-resident enterprises. Such H-share holders are allowed to apply for tax rebate in accordance with the applicable tax treaties or arrangements, if any.

Tax treaties. Investors who do not reside in the PRC but reside in countries that have entered into treaties for the avoidance of double taxation with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends to such investors. China currently has entered into treaties for the avoidance of double taxation with a number of other countries, including but not limited to Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Under the Agreement between the Government of the People’s Republic of China and the Government of the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《中華人民共和國政府和美利堅合眾國政府關於對所得避免雙重徵稅和防止偷漏稅的協定》) signed on 30 April 1984, Protocol to Agreement between the Government of the People’s Republic of China and the Government of the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《中華人民共和國政府和美利堅合眾國政府關於對所得避免雙重徵稅和防止偷漏稅的協定的議定書》) signed on 30 April 1984, Protocol concerning the Interpretation of Paragraph 7 of the Protocol to the Agreement between the Government of the People’s Republic of China and the Government of the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, signed on 30 April 1984 (《中華人民共和國政府和美利堅合眾國政府對1984年4月30日簽訂的關於對所得避免雙重徵稅和防止偷漏稅的協定的議定書第七款解釋的議定書》) signed on 10 May 1986 and Exchange of Notes (《中華人民共和國政府和美利堅合眾國政府關於對所得避免雙重徵稅和防止偷漏稅的協定的換文》) (collectively, the “Treaties”), the PRC Government may tax a dividend paid by the Company to an Eligible U.S. Holder up to a maximum of 10% of the gross amount of such dividend. For the purpose of this section, an “Eligible U.S. Holder” is any beneficial owner of H Shares that (i) is a resident of the United States for purposes of the Treaties; (ii) does not maintain a permanent establishment or fixed base in the PRC to which H Shares are attributable and through which the beneficial owner carries on or has carried on business (or, in the case of an individual, performs or has performed independent personal services); and (iii) who is not otherwise ineligible for benefits under the Treaties with respect to income and gain derived in connection with the H Shares.

According to the Arrangements, the PRC Government may impose tax on dividends payable by a PRC company to a Hong Kong resident. However, such tax should not exceed 10% of the gross amount of dividends payable, and in the case where a Hong Kong resident holds 25% equity interest or more in a PRC company, such tax should not exceed 5% of the gross amount of dividends payable by the PRC company.

Taxation of Capital Gains

Individual investors. With respect to individual holders of H Shares, the Regulations for the Implementation of the Individual Income Tax Law of the People’s Republic of China (《中華人民共和國個人所得稅法實施條例》), issued on 28 January 1994 and amended on 19 December 2005

APPENDIX VI — TAXATION

and 18 February 2008, stipulate that gains realized on the sale of equity shares would be subject to income tax at a rate of 20% on the gains, and empower the Ministry of Finance to formulate the rules for the taxation of individual income derived from transfer of stocks, which shall be approved by the State Council for implementation. However, to date, no such implementation rules have been promulgated. Gains on the sale of shares by individuals were temporarily exempted from individual income tax pursuant to Notice concerning the Extending of Temporary Exemption on Individual Income Tax on the Income Derived from Transfer of Stocks (《財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》), jointly issued by the Ministry of Finance and SAT on 30 March 1998. No income tax on gains of individual investors realized on the sale of equity shares has been collected. If this temporary exemption is withdrawn or ceases to be effective, individual holders of H Shares may be subject to capital gains tax at the 20% rate unless such tax is reduced or eliminated by an applicable double taxation treaty.

Enterprises. According to the new EIT Law, a foreign enterprise which does not have an office or an establishment in China, or has an office or establishment in China but its income is not related to such office or establishment, should be subject to the enterprise income tax at a rate of 20% on the capital gains it obtained from PRC companies. The Regulation on Implementation of the Enterprises Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》), which became effective on 1 January 2008, further stipulates that such tax rate is reduced to 10%. Such withholding tax may be reduced pursuant to an applicable treaty for the avoidance of double taxation.

Additional PRC Tax Considerations

Stamp Duty. In accordance with the *Provisional Regulations of the People's Republic of China on Stamp Duty* (《中華人民共和國印花稅暫行條例》) and the *Detailed Rules for Implementation of Provisional Regulations of the People's Republic of China on Stamp Duty* (《中華人民共和國印花稅暫行條例施行細則》), which became effective on 1 October 1988, the PRC stamp duty shall only be levied on documents, which have legal effects within PRC and are protected under PRC law, executed or received within the PRC. The purchase and disposal of H Shares that take place outside PRC are not subject to the PRC stamp duty.

Estate duty. No liability for estate duty under PRC law will arise from non-Chinese nationals holding H Shares.

TAXATION APPLICABLE TO THE COMPANY

Income Tax

According to the EIT Law, which became effective from 1 January 2008, the income tax for both domestic companies and foreign invested enterprises will be levied at the uniform rate of 25% except for certain income tax deductions prescribed by the EIT Law. However, the EIT Law provides some transitional preferential measures for enterprises established before the promulgation of the EIT Law which enjoy lower tax rates or regular tax reduction and exemption treatments under the previous tax laws and administrative regulations. According to the Notice of the State Council on the Implementation of Transitional Preferential Policies in Respect of Enterprises Income Tax (《國務院關於實施企業所得稅過渡優惠政策的通知》) issued on 26 December 2007, such enterprises will continue to enjoy a gradually increasing transitional income tax rate within five years after the EIT Law becomes effective. Enterprises entitled to enjoy regular tax reduction and exemption treatments under the previous income tax laws may continue to enjoy remaining incentives in accordance with the requirements and period specified by the previous income tax laws. However, for enterprises that have not made any profits and thus not enjoyed such preferential treatments, the period for enjoying

APPENDIX VI — TAXATION

preferential treatments shall be calculated from the year 2008. Enterprises may irrevocably choose to apply either transitional preferential policies or the preferential policies provided by the EIT Law, as the case may be.

Under the Notice on the Preferential Policies for Western Development Program (《財政部、國家稅務總局、海關總署關於西部大開發稅收優惠政策問題的通知》), which became effective as of 1 January 2002, domestic companies and foreign invested enterprises which are the encouraged industries by the State in Western Region shall be subject to the enterprise income tax at a reduced rate of 15% commencing from 2001 and expiring in 2010. The Notice of the State Council on the Implementation of Transitional Preferential Policies in respect of Enterprise Income Tax (《國務院關於實施企業所得稅過渡優惠政策的通知》) confirms that the preferential policies for western development program shall be carried out continuously after the EIT Law becomes effective.

Value-Added Tax

The Provisional Regulations of the People’s Republic of China on Value Added Tax (《中華人民共和國增值稅暫行條例》) (promulgated on 13 December 1993, amended on 5 November 2008 and effective from 1 January 2009) apply to domestic enterprises and foreign invested enterprises that sell goods, provide processing or repair services or import goods in the PRC. Value-added tax (“VAT”) payable is calculated as “output VAT” minus “input VAT”. Input VAT payable by a company on purchases is recoverable out of the output VAT collected from its customers, and any excess of output VAT over input VAT paid is payable to the tax authority. The rate of VAT is 17%, provided that a rate of 13% is levied on certain specified categories of goods sold or imported.

Business Tax

According to the Provisional Regulations of the People’s Republic of China on Business Tax (《中華人民共和國營業稅暫行條例》) (promulgated on 13 December 1993, amended on 10 November 2008 and effective from 1 January 2009), enterprises and individuals that provide various services and that assign intangible assets or sell real property in the PRC shall be subject to business tax at a rate ranging from 3% to 20%.

TAXATION IN HONG KONG

Tax on Dividends

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Company.

Taxation on gains from sale

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the H Shares. However, trading gains from the sale of the property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 16.5% on corporations and at a maximum rate on individuals of 15%. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for examples, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment. Trading gains from sales of H Shares traded on the Hong Kong Stock Exchange will be considered to be derived from or arising in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales

APPENDIX VI — TAXATION

of H Shares traded on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong Stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for, or the market value of, the H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of H Shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of H Shares. Where one of the parties to a transfer is resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong, pursuant to which estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H Shares whose deaths occur on or after 11 February 2006.

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

This appendix sets out summaries of certain aspects of the PRC legal and judicial system, its arbitration system and its company and securities regulations. It also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the PRC Company Law and the Companies Ordinance, certain requirements of the Hong Kong Listing Rules and certain additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of PRC issuers.

PRC LAWS AND REGULATIONS

I. PRC Legal System

The PRC legal system is formulated on the framework of the People’s Republic of China Constitution (《中華人民共和國憲法》) (the “Constitution”) and is made up of written laws, administrative regulations, local regulations, autonomous regulations, separate regulations and rules of State Council departments, rules of local governments and international treaties of which the PRC government is a signatory. Court cases do not constitute legally binding precedents, although they are used for the purposes of judicial reference and guidance.

The NPC and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing State organs, civil and criminal matters and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during the adjournment of the NPC, provided such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest organ of State administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people’s congresses of provinces, autonomous regions and municipalities directly under the PRC Central Government and their respective standing committees may formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, which do not contravene the Constitution, laws and administrative regulations. The people’s congresses of comparatively larger cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual needs which do not contravene the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions, and implement upon approval from the standing committees of the people’s congresses of provinces or autonomous regions. The standing committee of the people’s congresses of provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the Constitution, laws, administrative regulations and local regulations of the province or autonomous region concerned. Where conflicts with the rules and regulations of the people’s government of the province or autonomous region concerned are identified in the examination of local regulations of comparatively larger cities by the standing committee of the people’s congresses of provinces or autonomous regions, a decision shall be made to resolve the issue. “Comparatively larger cities” refer to cities where the people’s governments of provinces or autonomous regions are located, cities where special economic zones are located and comparatively larger cities as approved by the State Council.

People’s congresses of national autonomous region have the power to enact autonomous regulations and separate regulations in the light of the political, economic and cultural characteristics of the ethnic minority groups in the region. The autonomous regulations and separate regulations of autonomous regions shall be effective upon approval by the Standing Committee of the NPC. The

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

autonomous regulations and separate regulations of autonomous prefecture or autonomous county shall be effective upon approval by the standing committees of the people’s congresses of provinces, autonomous regions or municipalities directly under the PRC Central Government. Adaptations of provisions of laws and administrative regulations may be introduced to the autonomous regulations and separate regulations based on the characteristics of ethnic minority groups in the region so long as they do not contravene the basic principles of the laws or administrative regulations, provided that no adaptations shall be made to the PRC Constitution, the Law of the People’s Republic of China on Regional National Autonomy (《中華人民共和國民族區域自治法》) and the specific provisions concerning national autonomous regions contained in other relevant laws and administrative regulations.

The ministries and commissions of the State Council, People’s Bank of China, the State Audit Administration and institutions with administrative functions directly under the State Council may formulate rules within the scope of their power based on the laws or the administrative regulations, decisions and orders of the State Council. Provisions of departmental rules shall relate to the enforcement of the laws and administrative regulations, decisions and orders of the State Council. The people’s governments of provinces, autonomous regions, municipalities directly under the PRC Central Government and comparatively larger cities may formulate rules based on the laws, administrative regulations and local regulations of such provinces and autonomous regions and municipalities directly under the PRC Central Government.

The power to interpret laws is vested in the Standing Committee of the NPC. According to The Resolution of the Standing Committee of the NPC Regarding an Improved Interpretation of Laws (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on 10 June 1981, the Supreme People’s Court has the power to give general interpretation on application of laws in judicial proceedings in addition to its power to issue specific interpretation for specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the statutes and administrative regulations which they have promulgated. At the regional level, the power to give interpretations of the regional regulations is vested in the regional legislative and administrative organs which promulgate such regulations.

II. PRC Judicial System

Under the PRC Constitution and the Law of Organization of the People’s Courts of the People’s Republic of China (《中華人民共和國人民法院組織法》), the judicial system is made up of the Supreme People’s Court, the people’s courts at various local levels, military courts and other special people’s courts. The local people’s courts are divided into three levels, namely the basic people’s courts, the intermediate people’s courts and the higher people’s courts. The basic people’s courts are further divided into civil, criminal, economic and administrative divisions. The intermediate people’s courts have divisions similar to those of the basic people’s courts and other special divisions (such as the intellectual property division). People’s courts at the lower levels are subject to supervision of people’s courts at the higher levels. The people’s procurators also have the power to exercise legal supervision over the proceedings of people’s courts of the same level and lower levels. The Supreme People’s Court is the highest judicial body in the PRC. It supervises the administration of justice by the people’s courts at all levels.

The people’s courts adopt a “second instance as final” appellate system. A party to the case concerned may appeal against the judgment or ruling of the first instance of a people’s court. The people’s procurator may protest to the people’s court at the next higher level in accordance with procedures stipulated by the laws. In the absence of any appeal by any parties to the case and any protest by the people’s procurator within the stipulated period, the judgment or ruling of the people’s court shall be the final judgment or ruling. Judgments or rulings of the second instance of the

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

intermediate people’s courts, the higher people’s courts and the Supreme People’s Court are final. Judgments or rulings of the first instance of the Supreme People’s Court are also final. If, however, the Supreme People’s Court or a people’s court at a higher level finds a definite error in a final and binding judgment which has taken effect in any people’s court at a lower level, or the president of a people’s court finds a definite error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The Civil Procedure Law of the People’s Republic of China (《中華人民共和國民事訴訟法》) (the “Civil Procedure Law”) adopted on 9 April 1991 and later amended on 28 October 2007, prescribes the provisions for instituting a civil action, the jurisdiction of the people’s courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is heard by a court located in the defendant’s place of domicile. The jurisdiction may also be selected by express agreement amongst the parties to a contract provided that the people’s court having the jurisdiction is located at the plaintiff’s or the defendant’s place of domicile, the place of performing the contract, the place of signing the contract or the place of the subject matter, as long as such agreement on jurisdiction does not contravene the provisions of the Civil Procedure Law.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country’s judicial system limits the litigation rights of the PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to perform a judgment or ruling made by a people’s court or an award made by an arbitration institution in the PRC, the other party may apply to the people’s court for the enforcement of the same. Specific time limits are imposed on the right to apply for such enforcement. The time limit applicable to applications to enforce a judgment is two years, commencing from the last day of the time limit for satisfaction of the judgment specified in the legal documentation; where the legal documentation provides for satisfaction of the judgment in stages, the time limit shall commence from the last day of the period for satisfaction of the judgment at the relevant stage; where the legal documentation does not provide a time limit for satisfaction of the judgment, the time limit shall commence from the effective date of the legal documentation. Where a party refuses to perform a ruling or judgment, the other party may apply to the people’s court for execution of the ruling or judgment. Alternatively, a judge may refer such judgment or ruling to an enforcement officer for enforcement.

A party seeking to enforce a judgment or ruling of a people’s court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or ruling. A people’s court of the PRC may recognize and enforce a foreign judgment or ruling according to the international treaties concluded or acceded to by the PRC or based on the principle of reciprocity, as long as the court does not consider such foreign judgment or ruling contradicts the basic principles of the laws of the PRC or contravenes the sovereignty, national security or social and public interests of the PRC.

III. Company Law

The PRC Company Law (《中華人民共和國公司法》) was promulgated by the Standing Committee of the NPC on 29 December 1993 and came into effect on 1 July 1994. It was amended on 25 December 1999 and 28 August 2004 and revised on 27 October 2005. The revised PRC Company Law came into effect on 1 January 2006.

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

The Special Regulations were promulgated on 4 August 1994 by the State Council. The Special Regulations are formulated in respect of the overseas share subscription and listing of joint stock limited companies according to Articles 85 and 155 of the applicable PRC Company Law. The Mandatory Provisions jointly promulgated by the PRC Securities Commission of State Council and the PRC State Commission for Restructuring the Economic Systems on 27 August 1994, prescribe provisions which must be incorporated in the articles of association of a joint stock limited company to be listed on overseas stock exchanges. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association. References to a “company” which made in this appendix refers to a joint stock limited company established pursuant to PRC Company Law with foreign shares.

The main provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions are listed as below.

1. General Provisions

A “joint stock limited company” is a corporate legal person established under the PRC Company Law with independent legal properties and enjoys property rights of legal person, whose registered capital is divided into shares of equal value. Its shareholders’ liability is limited to the extent of the shares subscribed by them; while the company’s liability is limited to the amount of its total assets.

2. Establishment

A company may be established by promotion or subscription.

A company may be established by a minimum of 2 but not more than 200 promoters, and more than half of the promoters must have domicile within the PRC.

Companies incorporated by promotion are companies of which the entire registered capital registered with the company registration authorities is subscribed for by the promoters. The initial capital contribution by all promoters of the Company shall not be less than 20% of the registered capital. The remainder shall be paid up within two years from the date of incorporation of the company by the promoters. For investment companies, the remainder may be paid up within five years. Shares shall not be offered to other persons unless the registered capital has been paid up. For companies incorporated by subscription, the registered capital of a company is the amount of its total paid up capital as registered with the relevant registration authorities. The minimum registered capital of a joint stock limited company is RMB5 million or as required by the laws or administrative regulations, whichever is higher. In accordance with the PRC Securities Law, the minimum registered capital of a joint stock limited company seeking to be listed shall not be less than RMB30 million.

For companies incorporated by way of promotion, the promoters shall subscribe in full in writing for shares required to be subscribed by them by the articles of association. The full amount of capital contribution shall be paid up if payments are made in one lump sum and the first installment shall be paid forthwith if payments are made in installment. Procedures relating to the transfer of titles for non-monetary assets shall be duly completed if such assets are to be contributed as capital. Promoters who fail to pay up their capital contributions in accordance with the foregoing provision shall assume liabilities for breach of contract in accordance with the covenants laid down in the promoters’ agreement. After the promoters have completed the initial capital contribution, a board of directors and a supervisory committee shall be elected and the board of directors shall apply for registration of incorporation by filing the articles of association with the company registration authorities, together with capital verification certificate issued by a capital verification institution established lawfully and other documents required by the law or administrative regulations.

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Where companies are incorporated by subscription, not less than 35% of their total shares must be subscribed for by the promoters, unless otherwise provided by the law or administrative regulations. A promoter who offers shares to the public must publish a share offer prospectus and draft a share subscription letter to be signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and their addresses. The subscribers shall pay up the amounts for the number of shares they have subscribed for. Where a promoter is offering shares to the public, such offer shall be underwritten by securities companies established lawfully, in relation to which underwriting agreements shall be signed. A promoter offering shares to the public shall also sign an agreement with a bank in relation to the receipt of subscription amounts. The receiving bank shall receive and keep in custody the subscription amounts, issue receipts to subscribers who have paid the subscription amounts and furnish evidence of receipt of subscription amounts to relevant authorities. After the subscription amounts for the share issuance have been paid in full, a capital verification institution established by law must be engaged to conduct capital verification and furnish a report thereon. The promoters shall preside and convene an inaugural meeting within 30 days after subscription amount of shares issued have been fully paid up. The inauguration meeting shall be formed by the subscribers. Where shares issued remain under subscribed by the cut-off date stipulated in the share offering prospectus, or where the promoter fails to convene an inauguration meeting within 30 days after subscription amounts for the shares issued have been fully paid up, the subscribers may demand the promoter to return the subscription amounts so paid up together with interests at bank rates for a deposit for the same term. Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company.

A company is formally established on the date when its business license is granted.

A company’s promoter shall be liable for:

- (i) the obligations incidental to the liabilities and expenses incurred in the incorporation process if the company cannot be incorporated;
- (ii) the obligations incidental to the refund of subscription amounts to the subscribers together with interest at bank rates for a deposit for the same term if the company cannot be incorporated; and
- (iii) damages suffered by the company as a result of the fault of the promoters in the course of incorporation of the company.

3. Share Capital

The promoter may make capital contribution in cash, non-monetary assets such as in kind, intellectual property right, land use right, or other non-monetary properties that can be appraised by monetary value and transferred lawfully, save for assets that cannot be treated as capital contributions under any law or administrative regulation. If a capital contribution is made other than in cash, a valuation and verification of the asset contributed must be carried out without any overvaluation or under-valuation, subject to any provisions of the law or administrative regulations on valuation. The amount of monetary contribution by all shareholders shall not be less than 30% of the registered capital of the company.

A company may issue registered or bearer share certificates. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in RMB and subscribed for in foreign currency. Shares

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed in the Hong Kong Stock Exchange are classified as H shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of H shares, to retain not more than 15% of the aggregate number of overseas listed foreign-invested shares proposed to be issued after accounting for the number of underwritten shares. The share offering price may be equal to or greater than the par value, but shall not be less than the par value.

4. Increase in Capital

According to the PRC Company Law, the issuance of shares shall be conducted in a fair and equitable manner. Shares in the same class shall rank *pari passu* with one another. Shares of the same class in the same offer shall be issued on the same terms and at the same price. Each share subscribed by any institutions or individuals shall be paid with the same price.

Where a company is issuing new shares, resolutions shall be passed by the shareholders’ general meeting in accordance with the articles of association in respect of the class and amount of the new shares, the issue price of the new shares, the commencement and end of the new share issue and the class and amount of new shares to be issued to existing shareholders. When a company launches a public issue of new shares with the approval of CSRC, a new share offering prospectus and financial accounting report must be published and a share subscription letter must be prepared. After the new share issue of the company has been paid up, the change must be registered with the company registration authorities and an announcement must be made. Where a company is issuing new shares to increase its registered capital, the subscription of new shares by shareholders shall be conducted in accordance with same provisions on the payment of subscription amounts in relation to the incorporation of joint stock limited companies.

5. Reduction of Capital

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- The company shall prepare a balance sheet and an inventory of assets;
- The reduction of registered capital must be approved at a shareholders’ general meeting;
- The company shall inform its creditors of the reduction in registered capital within 10 days from the date of the resolution approving such reduction and publish a public announcement in a newspaper within 30 days from the date of such resolution;
- The creditors may within 30 days from the receipt of notice or 45 days from the date of announcement in absence of notice, require the company to repay its debts or provide security for the debts; and
- The company must apply to the relevant administration bureau for industry and commerce for modification registration relating to the reduction in registered capital.

6. Repurchase of Shares

A company shall not purchase its own shares other than for one of the following purposes: (i) to reduce its registered share capital; (ii) to merge with another company that holds its shares; (iii) to

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

grant shares to its employees as incentives; and (iv) upon the request of its shareholders who vote against the resolution regarding the merger and demerger in a shareholders' general meeting to purchase the shares held by such shareholders.

The company's acquisition of its own shares on the grounds set out in (i) to (iii) above shall require approval by way of a resolution of the shareholders' general meeting. Following the company's acquisition of its shares in accordance with the foregoing, such shares shall be canceled within 10 days from the date of acquisition in the case of (i) and transferred or canceled within six months in the case of (ii) or (iv).

Shares acquired by the company in accordance with (iii) of paragraph one shall not exceed 5% of the total number of issued shares of the company. Such acquisition shall be financed by funds appropriated from the company's profit after tax, and the shares so acquired shall be transferred to the employees within one year.

The company shall not accept the shares of the company as the subject of a pledge.

7. Transfer of Shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. A shareholder may only make a transfer of its shares on a stock exchange established in accordance with law or by other way as required by the State Council.

Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by the law or administrative regulations. Following the transfer, the company shall enter the name and address of the transferee into the share register. No changes of registration in the share register provided in the foregoing shall be effected during a period of 20 days prior to the convening of the shareholders' general meeting or 5 days prior to the record day for the purpose of determining entitlements to dividend distributions, subject to any legal provisions on the registration of changes in the share register of listed companies.

Transfer of bearer shares shall be effective upon the delivery of the share certificates by the shareholders to the transferees.

Shares of a company held by a promoter shall not be transferred within one year after the date of establishment of the company. Shares issued before public offering shall not be transferred within one year after the date of the company's listing on the stock exchange.

Directors, supervisors and the senior management of a company shall declare to the company his shareholdings in the company and any changes of such shareholdings. During their term of office, they shall transfer no more than 25% of the shares they hold in the company each year. They shall not transfer the shares they hold within 1 total year from the date of the company's listing on a stock exchange. Any of the aforesaid persons who ceases to hold his post shall not transfer any of his shares within 6 months from the date on which he ceases to hold his post. The articles of association may lay down other restrictive provisions in respect of the transfer of shares in the company held by the Directors, supervisors and the senior management of the company.

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

8. Shares

Shareholders have the rights and obligations as set forth in the articles of association of the company, which is binding on each shareholder.

Under the PRC Company Law, the rights of a shareholder include right:

- To receive asset gain, participate in major decision-making and be able to choose the management;
- To attend shareholders’ general meetings in person or by proxy, and to vote in accordance with the number of shares held;
- To transfer his shares in accordance with the applicable laws and administrative regulations and the articles of association of the company;
- To inspect the company’s articles of association, share register, corporate bond counterfoils, minutes of shareholders’ general meetings, resolutions of board meetings, resolutions of supervisory meetings and financial and accounting reports and to make proposals or enquiries in respect of the company’s operations;
- To apply to the people’s court to revoke any resolution passed at a shareholders’ meeting or a board meeting that has been convened or whose voting has been conducted in a manner violating any law, administrative regulations or the articles of association, or any resolution which violates the articles of association provided that such application is submitted within a prescribed period;
- To receive dividends and distributable benefits in other forms in proportion to his shareholding;
- To receive residual assets of the company upon its liquidation in proportion to his shareholding; and
- Any other shareholders’ rights provided for in the PRC Company Law and the articles of association.

The obligations of a shareholder include the obligation to abide by the company’s articles of association, to pay the subscription amounts in respect of share subscribed for, to be liable for the company’s debts and liabilities to the extent of the shares subscribed by him and any other shareholders’ obligation specified in the company’s articles of association.

9. Shareholders’ General Meetings

The shareholders’ general meeting is the organ of power of the company, which exercises its powers in accordance with the PRC Company Law.

The shareholders’ general meeting exercises the following powers:

- To decide on the company’s business policies and investment plans;
- To elect and remove directors not being employee representatives, and to decide on matters relating to the remuneration of directors;

**APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND
REGULATORY PROVISIONS**

- To elect and remove supervisors not being employee representatives, and decide on matters relating to the remuneration of supervisors;
- To examine and approve reports of the board of directors;
- To examine and approve reports of the supervisory committee;
- To examine and approve the company’s proposed annual financial budget and final accounts;
- To examine and approve the company’s proposal for profit distribution plans and recovery of losses;
- To decide on increase or reduction of the company’s registered capital;
- To decide on the issue of bonds by the company;
- To decide on issues such as merger, demerger, dissolution, liquidation and change of company form of the company;
- To amend the company’s articles of association; and
- Other authorities as provided for in the article of association.

The shareholders’ general meeting shall be held once a year. An extraordinary shareholders’ general meeting shall be held within two months after the occurrence of any of the following circumstances:

- The number of directors is less than the number stipulated by the PRC Company Law or two-thirds of the number specified in the company’s articles of association;
- The aggregate un-recovered losses of the company reach one-third of the company’s total paid-up share capital;
- Shareholder alone or in aggregate holding more than 10% of the company’s issued shares request the convening of an extraordinary shareholders’ general meeting;
- The board of directors deems necessary;
- The supervisory committee so requests; or
- Other circumstances as provided and/or stated in the articles of association.

Shareholders’ general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by the majority of directors shall preside over the meeting. Where the board of directors is incapable of performing or not performing its duties of convening the shareholders’ general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company’s shares for 90 days consecutively may unilaterally convene and preside over such meeting.

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Notice of the shareholders’ general meeting stating the time and venue of and matters to be considered at the meeting shall be given to all shareholders 45 days before the meeting in accordance with the Mandatory Provisions. Shareholders alone or in aggregate holding more than 3% of the company’s shares may submit interim proposals to the board of directors in writing 10 days before the shareholders’ general meeting. The board of directors shall notify other shareholders within 2 days after receiving such proposal and submit such interim proposal for review by the shareholders’ general meeting. Interim proposals shall be within the powers of the shareholders’ general meeting and shall carry specific subjects and matters for resolution. A shareholders’ general meeting shall not make any resolution in respect of any matters not set out in the two types of notices mentioned above. Holders of bearer share certificates who wish to attend the shareholders’ general meeting shall deposit their share certificates with the company 5 days before the meeting, which share certificates shall remain in the custody of the company until the close of the shareholders’ general meeting. Shareholders present at the shareholders’ general meeting shall have one vote for each share held. However, shares of the company held by the company carry no voting rights.

Resolutions proposed at the shareholders’ general meeting must be passed by more than half of the voting rights held by shareholders present in person (including those represented by proxies) at the meeting, with the exception of special resolutions which, in accordance with the articles of association of the company, must be passed with more than two-thirds of the voting rights held by shareholders present, including those represented by proxies at the meeting.

Where the PRC Company Law and the articles of association provide that the transfer or assignment of significant assets or the provision of external guarantees by a company must be approved by way of resolution of the shareholders’ general meeting, the directors shall convene a shareholders’ general meeting promptly to vote on the above matters. The accumulative voting system may be adopted pursuant to the provisions of the articles of association or a resolution of the shareholders’ general meeting for the election of directors and supervisors at the shareholders’ general meeting. Under the accumulative voting system, each share shall be entitled to votes equivalent to the number of directors or supervisors to be elected for the election of directors and supervisors at the shareholders’ general meeting, and shareholders may consolidate their voting rights when casting a vote.

According to the Mandatory Provisions, the increase or reduction of share capital, the issue of shares of any type, warrants or other similar securities, bonds or debentures, liquidation, and any matters required by ordinary resolutions to be approved through special resolutions, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present at the shareholders’ general meeting. A shareholder may appoint a proxy to attend a shareholders’ general meeting on his behalf by a written power of attorney specifying the scope of the authorization.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders’ meeting. However, the Special Regulations and the Mandatory Provisions provide that a shareholders’ general meeting may be held when written replies to the notice of that meeting from shareholders holding shares representing more than 50% of the voting rights in the company have been received 20 days before the proposed date. If that 50% level is not achieved, the company shall within five days of the last day for receiving written replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the shareholders’ general meeting may be held thereafter. The Mandatory Provisions require class shareholders’ meeting to be held in the event of a variation or abolition of the rights of class shareholders. Holders of domestic invested shares and holders of H shares are deemed to be different classes of shareholders for this purpose.

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

10. Directors

A company shall have a board of directors, which shall consist of 5 to 19 members. Under the PRC Company Law, each term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and the articles of association until a duly re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of directors results in the number of directors being less than the quorum.

Meetings of the board of directors shall be convened at least twice a year. Notices of the meetings shall be given to all directors and supervisors 10 days before the meetings. The board of directors may provide for a different method of giving notice and notice period of board meetings for convening an extraordinary meeting of the board of directors.

Under the PRC Company Law, the board of directors exercises the following powers:

- (i) To convene the shareholders' general meetings and report on its work to the shareholders' general meeting;
- (ii) To implement the resolutions of the shareholders' general meetings;
- (iii) To decide on the company's business plans and investment proposals;
- (iv) To formulate the company's proposed annual budget and final accounts;
- (v) To formulate the company's proposal for profit distribution plans and recovery of losses;
- (vi) To formulate proposals for increase or reduction of the company's registered capital and the issuance of corporate bonds;
- (vii) To prepare plans for the merger, demerger, dissolution or change in the form of the company;
- (viii) To decide on the composition of the company's internal management structure;
- (ix) To appoint or dismiss the company's general manager and decide on his remuneration, and, based on the general manager's nomination, to appoint or dismiss the deputy general manager and financial officers of the company and to decide on their remunerations;
- (x) To formulate the company's basic management system;
- (xi) To formulate proposals for the amendment to the articles of association; and
- (xii) To exercise other powers provided for in the company's articles of association.

Meetings of the board of directors shall be held only if over half of the directors are present. Resolutions of the board of directors require the approval of more than half of all the directors. In the event of equality of affirmative votes and negative votes, the chairman of the board of directors shall have a casting vote. In any vote on a resolution of the board of directors, each director shall have one vote.

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

If a director is unable to attend a board meeting, he may appoint another director by a proxy form specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the law, administrative regulations, the articles of association or resolutions of shareholders' meetings as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director ever expressly opposed the resolution, and that such opposition was recorded in the minutes of the meeting, such director may be relieved from that liability.

Under the PRC Company Law, the following persons shall not serve as a director of a company:

- persons without civil capacity or with restricted civil capacity;
- persons having been sentenced to imprisonment for the following crimes: corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the completion of this deprivation;
- former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated being personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- legal representatives of a company or enterprise which had its business license revoked or ordered to close due to violation of the law being personally liable, where less than three years have elapsed since the date of the revocation of the business license of the company or enterprise; or
- persons with a relatively large amount of individual debts due and outstanding.

The election or appointment of directors by the company in violation of the aforesaid provisions shall be null and void. Directors committing the above during their terms of office shall be released of their duties by the company.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions.

The board of directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist in the work of the chairman. In the event that the chairman is incapable of performing or not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by the majority of directors shall perform his duties.

11. Supervisors

A company shall have a supervisory committee composed of not less than three members. Each term of office of a supervisor is three years and a supervisor may serve consecutive terms if

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

re-elected. The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company’s staff, provided that the proportion of company’s staff shall not be less than one-third. Directors and senior management shall not act concurrently as supervisors. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisors results in the number of supervisor being less than the quorum.

The supervisory committee exercises its powers:

- To review the company’s financial information such as financial reports, business reports and profit distribution plan submitted by the board of directors to the shareholders’ general meeting and in case of finding any doubts, appointing certified public account on behalf of company to assist re-examination of the same;
- To supervise the duty of directors and senior management and to propose the removal of the directors and senior management who have violated laws, administrative regulations, the articles of association or resolution of a shareholders’ general meeting;
- To require the directors or senior management to rectify any action which adversely affects the company’s interests;
- To propose the convening of extraordinary shareholders’ general meetings and to convene and preside over shareholders’ meetings when the board of directors fails to perform the duty of convening and presiding over shareholders’ meeting under the PRC Company Law;
- To propose any bill in a shareholders’ general meeting;
- To initiate proceedings against directors and senior management in accordance to Article 152 of the PRC Company Law; and
- Other powers specified in the company’s articles of association.

Supervisors may be in attendance at board meetings as non-voting delegates and make enquiries or proposals in respect of board resolutions. The supervisory committee may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in his work at the company’s expense.

The circumstances under which a person is disqualified from being a director of a company as described above also apply mutatis mutandis to supervisors of a company.

The chairman and the vice chairman of the supervisory committee are elected with approval of more than half of all the supervisors. The chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the chairman of the supervisory committee is incapable of performing or not performing his duties, the vice chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the vice chairman of the supervisory committee is incapable of performing or not performing his duties, a supervisor nominated by the majority of supervisors shall convene and preside over supervisory committee meetings.

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

12. Manager and Other Senior Management

A company shall have a manager, who shall be appointed or removed by the board of directors. The manager is responsible to the board of directors and may exercise the following powers:

- (i) To oversee the production, operation and administration of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) To arrange for the implementation of the company's annual business and investment proposals;
- (iii) To propose plans for the establishment of the company's internal management structure;
- (iv) To propose the basic management system of the company;
- (v) To formulate the company's specific rules;
- (vi) To recommend the appointment or dismissal of deputy manager(s) and person(s) in charge of finance and decide on the appointment or dismissal of other officers (other than those required to be appointed or dismissed by the board of directors);
- (vii) To sit in at board meetings; and
- (viii) To exercise other powers granted by the board of directors or the company's articles of association.

Pursuant to the PRC Company Law, the Special Regulations and Mandatory Provisions provide that, apart from the manager, other senior management of a company includes deputy manager(s), person(s) in charge of finance secretary of the board of directors of a listed company and other officers as specified in the articles of association.

The circumstances under which a person is disqualified from being a director of a company described above also apply mutatis mutandis to managers and other senior management of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and file legal proceedings according to the articles of association of the company.

13. Duties of Directors, Supervisors, Managers and Other Senior Management

Directors, supervisors, managers and senior management of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties in good faith and diligence.

Directors, supervisors, managers and other senior management are prohibited from making use of their powers to accept bribes or other unlawful income and from misappropriating the company's properties. Directors and senior management are prohibited from:

- (i) Misappropriation of company funds;
- (ii) Deposit of company funds into accounts under his own name or the name of other individuals;

**APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND
REGULATORY PROVISIONS**

- (iii) Loaning company funds to others or providing security in favor of others on the basis of the company properties in violation of the articles of association or without approval of the shareholders' general meeting or board of directors;
- (iv) Entering into contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders' general meeting;
- (v) using one's position and powers to procure business opportunities for oneself or others that should have otherwise been available to the company or operating for one's own benefit or managing on behalf of others businesses similar to that of the company without approval of the shareholders' general meeting;
- (vi) Accepting for one's own benefit commission from a third party dealing with the company without prior approval of the informed shareholders' general meeting;
- (vii) Unauthorized divulgence of confidential information of the company;
- (viii) Other acts in violation of the fiduciary duty to the company.

Income generated by directors or senior management in violation of the foregoing provisions shall be reverted to the company.

A director, supervisor or senior management who contravenes any law, administrative regulation or the company's articles of association in the performance of his duties resulting in any loss to the company shall be liable to the company.

Where the attendance of a director, supervisor or senior management is requested by the shareholders' general meeting, such director, supervisor or senior management shall attend the meeting as requested and answer enquiries of shareholders. Directors and senior management should furnish with truthful facts and information to the supervisory committee without obstructing the discharge of duties by the supervisory committee.

Where a director or senior management who contravenes any law, regulation or the company's articles of association in the performance of his duties resulting in any loss to the company, shareholders holding alone or in aggregate more than 1% of the company's shares consecutively for more than 180 days may request in writing the supervisory committee to institute litigation at the people's court. Where a supervisor violates the law or administrative regulations or the articles of association in the discharge of his duties resulting in losses to the company, the aforesaid shareholders may request in writing the board of directors to institute litigation at the people's court. In the event that the supervisory committee or board of directors refuses to institute litigation after receiving the written request of shareholders as provided in the foregoing, or fails to institute litigation within 30 days after receiving the request, or in case of emergency where failure to institute litigation immediately will result in irrecoverable damage to the company's interest, shareholders mentioned in the foregoing shall have the power to institute litigation directly at the people's court in his own name for the company's benefit. For other parties who infringe the lawful interests of the company resulting in losses to the company, shareholders may institute litigation at the people's court in accordance with the foregoing provisions. Where a director or a senior manager who contravenes any law, administrative regulation or the articles of association in infringement of shareholders' interests, shareholders may also institute litigation at the people's court.

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, managers and other senior management shall have fiduciary duties towards the company. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions contains detailed stipulations on these duties.

14. Financial and Accounting Affairs

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each accounting year prepare a financial and accounting report which shall be audited by an accountant as provided in accordance with law. The financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of financial department of the State Council.

A joint stock limited company shall deposit its financial and accounting report at the company for the inspection by the shareholders 20 days before the convening of an annual general meeting of shareholders. A joint stock limited company established by subscription must publish its financial and accounting report. When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve fund (except where the fund has reached 50% of the company's registered capital). When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make up the losses before allocations are set aside for the statutory common reserve fund. After the company has made appropriations to the statutory common reserve fund from its after-tax profit, it may, with the approval of the shareholders' meeting or the shareholders' general meeting by way of resolution, make further appropriations from its after-tax profit to the discretionary common reserve fund. After the company has made up its losses and made allocations to its common reserve fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders, except for distributions stipulated by the articles of association which are not to be made in a proportionate manner. Profit distributed to shareholders by the shareholders' general meeting or the board of directors, before losses have been made and appropriations have been made to the statutory common reserve fund in violation of the foregoing provisions must be returned to the company. Shares held by the company shall not be entitled to any distribution of profit.

The premium over the nominal value of the shares of the company on issue and other gains required by the department of finance under the State Council to be treated as the capital common reserve shall be accounted for as capital common reserve. The common reserve of a company shall be applied to make up the company's losses, expand the business operations of the company or increase the company's capital, provided that the capital common reserve shall not be used to make up the company's losses. Upon the conversion of statutory common reserve into capital, the balance of such statutory common reserve shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. The company's assets shall not be deposited in any accounts opened in the name of an individual.

15. Appointment and Retirement of Auditors

Pursuant to the Special Regulations, the appointment or dismissal of accountants responsible for the company's accounting shall be determined by the shareholders' general meeting and shall be filed with the CSRC. The accountant should be allowed to make presentation when shareholders'

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

general meeting or board of directors is going to conduct a vote on the dismissal of the accountant. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accountant it hires without any refusal, withholding and false information.

The Special Regulations require a company to employ independent PRC certified public accountants to audit the company's annual report and review and verify other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the following annual general meeting.

If a company removes or ceases to engage the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make presentation at a shareholders' general meeting. The appointment, removal or engagement of auditors shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC.

16. Distribution of Profit

The Special Regulations provide that dividends and other distributions to be paid to shareholders of H shares shall be declared and calculated in RMB and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

17. Amendment to Articles of Association

Any amendments to the articles of association must be made in accordance with the procedures set forth in applicable laws, administrative regulations and the articles of association. Any amendment of provisions incorporated in the articles of association in accordance with the Mandatory Provisions will only be effective after obtaining approvals from the company examination and approval department authorized by the State Council and the CSRC. If the amendment to the articles of association falls to be registered and filed and has been adopted, the company must process registration of changes in accordance with applicable laws and administrative regulations.

18. Dissolution and Liquidation

Pursuant to the PRC Company Law, a company shall be dissolved for the following reasons:

- (i) The term of its operation stipulated in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;
- (ii) A resolution is passed at a shareholders' general meeting to dissolve the company;
- (iii) The company is dissolved due to its merger or division;
- (iv) The business license is revoked, the operation is ordered to close down, or the company is dissolved in accordance with the law;
- (v) The company shall be dissolved by the people's court pursuant to Article 183 of the PRC Company Law.

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

In the event of (i) above, the company may carry on its existence by amending its articles of association. The amendment of the articles of association in accordance with the foregoing provisions shall require approval of more than two-thirds of voting rights of shareholders attending a shareholders’ general meeting.

When a company is to be dissolved pursuant to item (i), (ii), (iv) or (v), it shall establish a liquidation committee within 15 days from the occurrence of cause for liquidation and commence the liquidation process. Members of a liquidation committee are appointed by directors or shareholders in a shareholders’ general meeting.

The creditors may apply to the people’s court to designate a team to form a liquidation committee in the event the company fails to establish a liquidation committee within the time limit.

A liquidation committee is required to notify creditors of the company within 10 days after its establishment and issue public announcement on a newspaper within 60 days. A creditor is required to file its claim with the liquidation committee within 30 days after receiving the notification, or within 45 days after the announcement, if such notification has not been received.

The liquidation committee shall exercise the following powers during the liquidation period:

- To identify the company’s properties and to prepare a balance sheet and an inventory of assets;
- To inform or notify creditors by way of notice or public announcement;
- To dispose of and liquidate any relevant outstanding businesses of the company;
- To settle outstanding taxes and other taxes incurred in the course of liquidation;
- To settle financial claims and liabilities;
- To deal with the surplus properties of the company after its debts have been paid off; and
- To represent the company in civil lawsuits.

The assets of the company shall be distributed in the following order: the liquidation expenses, employee wages, social insurance fund and statutory compensation; outstanding taxes and general indebtedness of the company. Any properties post settlement will be distributed to shareholders in proportion to their respective shareholdings.

During liquidation period, the company shall not engage in operating activities that are not related to the liquidation.

If the liquidation committee becomes aware that the company does not have sufficient properties to meet its liabilities, it must immediately apply to the people’s court for a declaration of bankruptcy. After the company is declared bankrupt by the people’s court, the liquidation committee shall hand over all matters relating to the liquidation to the people’s court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders’ general meeting or the people’s court for verification. Thereafter, the report shall be submitted to the company registration authority in order to cancel the company’s registration, and a

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

public notice of its termination shall be issued. Members of the liquidation committee are required to discharge their duties honestly and in compliance with the relevant laws. Members of the liquidation committee shall be prohibited from making use of their powers to accept bribes or other unlawful income and from appropriating the company’s properties. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

Liquidation of a company declared bankrupt according to the law shall be processed in accordance with laws on corporate bankruptcy.

19. Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from CSRC, and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company’s plan to issue H shares and domestic shares which have been approved by CSRC may be implemented by the board of directors of the company by way of separate issues, within 15 months from the date of approval from the CSRC.

20. Loss of Share Certificates

A shareholder of domestic shares may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people’s court in the event that registered share certificates are either stolen, lost or damaged, for a declaration that such certificates are void. Upon such a declaration by the people’s court, the shareholder may apply to the company for the issuance of replacement certificates.

The Mandatory Provisions provides a separate procedure regarding the loss of H share certificates.

21. Merger and Demerger

The merger or demerger of a company must be decided by resolution on shareholders’ general meeting.

Companies may merge through merger and acquisition or consolidation. In the case of merger and acquisition, the company which is acquired shall be dissolved. In the case of consolidation, both parties to the merger shall be dissolved.

When companies merge together, both parties to the merger must reach a merger agreement and prepare for balance sheets and financial statements.

The company shall within 10 days from the date of the resolution of merger notify the creditors and issue announcements in newspapers within 30 days from such date. The creditors may within 30 days from the receipt of notice or 45 days from the date of announcement in the absence of notice, require the company to repay its debts or provide security for the debts.

When companies merge, the credits and debts of the merging parties shall be assumed by the surviving company or the new company. When a company demerges, its assets must be divided accordingly and a balance sheet and inventory of assets must be drawn up. The company should notify its creditors within 10 days of such resolution being passed and announce the same in newspapers within 30 days. Unless otherwise agreed with a creditor, obligations in respect of the liabilities before the demerger of the company shall be borne jointly by the demerged companies.

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Changes in registrable particulars of the companies caused by merger or demerger must be registered with company registration authorities according to law. Cancellation of a company should be registered in accordance with the law when a company is dissolved. Incorporation of a company shall be registered when a new company is incorporated.

IV. SECURITIES LAW AND RULES OF SUPERVISION

Since 1992, the PRC has promulgated a number of regulations in relation to the share offering and trading and the disclosure of information.

In early 1993, the State Council established the Securities Commission and the CSRC. The Securities Commission is responsible for co-coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the securities regulator set up under Securities Commission, and is responsible for drafting securities regulations, supervising securities markets, regulating public offers of securities by PRC companies in the PRC or overseas, and regulating the trading of securities, drawing up statistic information related to securities and conducting research and analysis.

In early 1998, the State Council dissolved the Securities Commission. The duties previously assumed by the Securities Commission were all transferred to CSRC.

On 4 August 1994, the State Council promulgated the Special Provisions. These regulations mainly regulate the issue, subscription, trading and declaration of dividends and other distributions of overseas listed shares, articles of association and disclosure of information of joint stock limited companies having overseas listed shares.

On 25 December 1995, the State Council promulgated the Regulations of the State Council concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (《國務院關於股份有限公司境內上市外資股的規定》). These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign shares.

On 29 December 1998, the Standing Committee of the NPC passed the Securities Law of the People’s Republic of China (《中華人民共和國證券法》). This is the first national securities law in the PRC and is the fundamental law regulating activities in the PRC securities market. The Securities Law took effect on 1 July 1999 and was revised on 27 October 2005.

The Securities Law is applicable to issuance and trading in the PRC shares, bonds, and other securities designated by the State Council according to laws. Provisions of PRC Company Law and other applicable laws and rules are applicable to any affairs not stipulated in the Securities Law.

On 26 March 1999, the State Economic and Trade Commission and the CSRC promulgated the Opinion on the Further Enhancing of the Standardized Operation and In-depth Reform of Overseas Listed Companies (the “Opinion”) (《關於進一步促進境外上市公司規範運作和深化改革的意見》), which is aimed at regulating the internal operation and management of the PRC companies listed overseas. The Opinion regulates, amongst others, the appointments and functions of external directors and independent directors on the board of directors, and the appointment and functions of external supervisors on the supervisory committee.

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

V. THE ARBITRATION LAW

The Arbitration Law of the People’s Republic of China (or the Arbitration Law) (《中華人民共和國仲裁法》) was issued by the Standing Committee of the National People’s Congress of China on 31 August 1994 and came into effect on 1 September 1995. It is applicable to, among other matters, disputes involving properties or contracts where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee is constituted according to the Arbitration Law. Arbitration Law stipulates that before China Arbitration Association draws out arbitration rules, arbitration committee may draw out temporary rules pursuant to the Arbitration Law and Civil Procedure Law. Where the parties have by agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people’s court unless the arbitration agreement is void.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and in the case of the Hong Kong Listing Rules, also in a contract between the company and each director and supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided for in the articles of association, the PRC Company Law and other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of domestic shares; or (iii) a holder of overseas listed foreign and a director, supervisor, or senior management, unless otherwise specified in the articles of association, such parties shall submit that dispute or claim to arbitration to either the CIETAC or the HKIAC for arbitration. If the party seeking arbitration selects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC.

CIETAC is an economic and trade affairs arbitration organ. Pursuant to the CIETAC Arbitration Rules (《中國國際經濟貿易仲裁委員會仲裁規則》) as amended on 11 January 2005 (which amendment became effective on 1 May 2005), CIETAC’s jurisdiction covers disputes relating to Hong Kong. CIETAC is located in Beijing with branches in Shenzhen and Shanghai.

Under the Arbitration Law, the single ruling system shall be applied in arbitration where the arbitration judgment is binding on the parties. If a party fails to comply with an award, the other party may apply to the court for enforcement. The court may revoke or refuse to enforce an arbitrate award made by an arbitration body in accordance with Arbitration Law and Civil Procedure Law.

A party seeking to enforce an arbitral award of a PRC arbitration organ against a party who or whose property is not in the territory of the PRC, may apply to foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. Standing Committee of the NPC passed a resolution on 2 December 1986 that the PRC acceded to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “New York Convention”), which was passed for recognition and enforcement of foreign arbitral awards on 10 June 1958. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

will only apply the New York Convention in disputes considered under PRC laws to arise from contractual or non-contractual mercantile legal relations. On 18 June 1999, an arrangement was made between Hong Kong and the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People’s Court of the PRC and the Hong Kong Legislative Council, and became effective on 1 February 2000. The arrangement is made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by PRC arbitral authorities can be enforced in Hong Kong. The arbitration awards made by Hong Kong arbitration authorities are also enforceable in China.

VI. FOREIGN EXCHANGE CONTROLS

The lawful currency of the PRC is RMB, which is subject to foreign exchange controls and is not freely convertible into foreign exchange. SAFE, under the authority of the PBOC, is empowered to administer all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

In 1994, the conditional convertibility of RMB in current account items was implemented, and the official RMB exchange rate and the market rate for RMB was unified. On 29 January 1996, the State Council promulgated new Regulations of the People’s Republic of China for the Control of Foreign Exchange (“Control of Foreign Exchange Regulations”) (《中華人民共和國外匯管理條例》) which became effective on 1 April 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Current account items are not subject to SAFE approval while capital account items are. The Control of Foreign Exchange Regulations were subsequently amended on 14 January 1997 and 1 August 2008 respectively to affirmatively state that the State shall not restrict international current account payments and transfers.

On 20 June 1996, the PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (the “Settlement Regulations”) (《結匯售匯及付匯管理規定》) which became effective on 1 July 1996. The Settlement Regulations abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On 1 January 1994, the former dual exchange rate system for RMB was abolished and replaced by a controlled floating exchange rate system, which was determined by demand and supply. The PBOC set and published daily the RMB-U.S. dollar base exchange rate. This exchange rate was determined with reference to the transaction price for RMB-U.S. dollar conversions in the inter-bank foreign exchange market on the previous day. The PBOC also, with reference to exchange rates in the international foreign exchange market, announced the exchange rates of RMB against other major currencies. In foreign exchange transactions, designated foreign exchange banks could, within a specified range, freely determine the applicable exchange rate in accordance with the exchange rate announced by the PBOC.

The PBOC announced that, beginning on 21 July 2005, China would implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies. The RMB exchange rate is no longer pegged to the U.S. dollar. The PBOC will announce the closing price of a foreign currency such as the U.S. dollar traded against the RMB in the inter-bank foreign exchange market after the close of market on each working day, setting the central parity for trading the RMB on the following trading day.

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Since 4 January 2006, the PBOC has improved the method to generate the central parity of the RMB exchange rate by introducing an inquiry system while keeping the match-making system in the inter-bank spot foreign exchange market. In addition, the PBOC provided liquidity in the market by introducing a market maker system in the inter-bank foreign exchange market. After the introduction of the inquiry system, the formation of the central parity of RMB against the U.S. dollar was transformed from the previous arrangement based on the closing price determined by price-matching transactions in the inter-bank foreign exchange market to a mechanism under which the PBOC authorized the China Foreign Exchange Trading System to determine and announce the central parity of RMB against the U.S. dollar, based on the inquiry system, at 9:15 am on each Business Day.

All foreign exchange income (except such amount of foreign exchange income as is permitted to be retained and deposited into foreign exchange accounts at the designated foreign exchange banks) generated from current account transactions of Chinese enterprises (including foreign-invested enterprises) is sold to designated foreign exchange banks. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares (for example foreign exchange income by us from the sale of shares overseas) is not required to be sold to designated foreign exchange banks but instead may be deposited into foreign exchange accounts at the designated foreign exchange banks.

Chinese enterprises (including foreign-invested enterprises) which require foreign transactions relating to current account items may, without the approval of SAFE, effect payment into foreign exchange accounts at the designated foreign exchange banks if the enterprises have valid proof of such requirements. Foreign-invested enterprises which require foreign exchange for the distribution of profits to their shareholders, and Chinese enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange (like us), may, on the strength of shareholders’ general meeting resolutions on the distribution of profits, effect payment from their foreign exchange accounts or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, including direct investments and capital contributions, is still subject to restrictions, and prior approval from SAFE must be obtained.

Dividends to holders of H shares are declared in RMB but must be paid in Hong Kong dollars.

We prepare our consolidated financial statements in Renminbi.

HONG KONG LAWS AND REGULATIONS

A. Hong Kong Company Law

The Hong Kong law applicable to a company having share capital incorporated in Hong Kong is based on the Companies Ordinance and is supplemented by common law and rules of equity that apply to Hong Kong. The Company, which is a joint stock limited company established in the PRC seeking a Listing is governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law applicable to a joint stock limited company established in the PRC issuing overseas listed foreign shares to be listed on the Hong Kong Stock Exchange.

Set out below is a summary of the material differences between the Hong Kong company law applicable to a limited liability company incorporated in Hong Kong and the PRC Company

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate existence

Under Hong Kong company law, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. The articles of association of a private company incorporated in Hong Kong is required by the Companies Ordinance to contain certain pre-emptive provisions. A public company does not contain such pre-emptive provisions in its articles of association.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion method or the subscription method. A company must have a minimum registered capital of RMB5 million, or a higher amount as may otherwise be required by laws and regulations. Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company. Under the PRC Company Law, the monetary contributions by all the shareholders must not be less than 30% of the registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

Share capital

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue and a company is not bound to issue the entire amount of its authorized share capital. For a Hong Kong company, the authorized share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not recognize the concept of authorized share capital. The registered capital of a joint stock limited company established by promoters is the amount of the total share capital subscribed by all promoters registered with the authority of company registration. The registered capital of a joint stock limited company established by subscription is the amount of the total paid-in capital registered with the authority of company registration. Any increase in the registered capital must be approved by the shareholders at a shareholder’s general meeting and by the relevant PRC governmental and regulatory authorities.

Under the PRC Securities Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. The monetary contribution shall not be less than 30% of a joint stock limited company’s registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Restrictions on shareholding and transfer of shares

Under the PRC law, the domestic shares (“domestic shares”) in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the State, PRC legal or natural persons, Qualified Foreign Institutional Investors and Qualified Foreign Strategic Investors. The overseas listed foreign shares (“foreign shares”) issued by a joint stock limited company which are denominated in Renminbi, and subscribed for in a currency other than Renminbi may only be subscribed for, and traded by domestic investors of the PRC with approval granted by the relevant PRC authorities, as well as investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC.

Under the PRC Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company’s public offering cannot be transferred within one year from the listing date of the shares on the Hong Kong Stock Exchange. Shares in a joint stock limited company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares they hold in the company. Moreover, the shares they hold in the company cannot be transferred within one year from the listing date of the shares, and within six months after the said personnel has left office. The articles of association of the company may set out other restrictive requirements on shareholdings and transfer of the company’s shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfer of shares under Hong Kong company law.

Financial assistance for acquisition of shares

The PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company’s shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

Variation of class rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed regarding variations of class rights. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix VIII in this document. Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of a Hong Kong company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

The Company (as required by the Hong Kong Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of the H Shares and Domestic Shares are defined in

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

the Articles of Association as holders of shares of different classes, but the special voting procedures of class meetings shall not apply in the following circumstances: (i) with the approval by a special resolution at a shareholders’ general meeting, the Company issues, either separately or simultaneously, Domestic Shares and H Shares at an interval of twelve months, and the numbers of Domestic Shares and H Shares proposed to be issued do not exceed 20% of the issued Domestic Shares and 20% of the issued H Shares respectively; (ii) the Company’s plan to issue Domestic Shares and H Shares at the time of incorporation is accomplished within 15 months from the date of the approval by the CSRC; or (iii) having obtained the approval from the CSRC or relevant securities regulatory authority of the State Council, the Domestic Shares of the Company are transferred to overseas investors and such shares are listed and traded on an overseas stock exchange. The Mandatory Provisions contain detailed provisions relating to circumstances which are deemed to constitute a variation of class rights.

Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors’ interests in material contracts (save for those related to connected transactions), restrictions on interested directors being counted towards the quorum of, and voting at, a meeting of the board of directors at which a transaction in which a director is interested is being considered, restrictions on directors’ authority in making major dispositions, and guarantees in respect of directors’ liability or prohibitions against compensation for loss of office without shareholders’ approval. The Mandatory Provisions, however, contain requirements and restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix VIII to this document.

Supervisory committee

Under the PRC Company Law, the board of directors and managers of a joint stock limited company is subject to the supervision of a supervisory committee. However, there is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

Derivative action by minority shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors who have committed a breach of their fiduciary duties to the company. The PRC Company Law stipulates that if directors and senior officers incur losses for the company due to violation of laws, administrative regulations or the articles of association of the company in his performance of duties for the company, shareholders holding more than 1% shares of the company individually or collectively for a consecutive of more than 180 days may request the supervisory committee to initiate proceedings in the people’s court by giving a written request to the supervisory committee. If supervisors incur losses for the company due to violation of laws, administrative regulations or the articles of association in their office, the aforesaid shareholders may request the board of directors to initiate

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

proceedings in the people’s court by giving a written request to the board of directors. If the supervisory committee, board of directors or the executive directors refuse the written request of proceedings from the shareholders, or do not initiate proceedings within 30 days upon receipt of request, or in case of emergency that will incur irrecoverable losses for the company if no actions are taken, the aforesaid shareholders are entitled to initiate proceedings in the people’s court directly in their own names for the interest of the company. The Mandatory Provisions further provide remedies to the company against directors, supervisors and officers who breach their duties to the company. In addition, as a condition for the listing of H shares on the Hong Kong Stock Exchange and in accordance with the Mandatory Provisions, every director and supervisor of a joint stock limited company applying for a listing of its H shares on the Hong Kong Stock Exchange is required to give an undertaking in favor of the company acting as agent for each of the shareholders. This allows minority shareholders to litigate against the directors and supervisors in default.

Protection of minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of the Hong Kong Government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC law does not contain similar safeguards. The Mandatory Provisions contain provisions to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company’s assets or the individual rights of other shareholders.

Notice of shareholders’ meetings

Under the PRC Company Law, notice of a shareholders’ general meeting must be given not less than 20 days before the meeting, or, in the case of a company having bearer shares, a public announcement of a shareholders’ general meeting must be made 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days’ written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for passing an ordinary resolution and a special resolution are 14 days and 21 days, respectively; and the notice period for an annual general meeting is 21 days.

Quorum for shareholders’ meetings

Under Hong Kong law, two members shall be a quorum for a general meeting, unless the articles of association of the company provides otherwise. In the case of one-member companies, one member shall be a quorum. The PRC Company Law does not specify any quorum requirement for a shareholders’ general meeting, but the Special Regulations and the Mandatory Provisions provide that a company’s general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

meeting. If that 50% level is not achieved, the company shall within 5 days notify its shareholders by public announcement and the shareholders’ general meeting may be held thereafter.

Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires one half or more of the votes cast by shareholders present in person or by proxy at a shareholders’ general meeting except in cases of proposed amendment to the articles of association, merger, demerger or dissolution of, change of form of a joint stock limited company, increase or decrease of registered capital and the change of a company’s form, which require two-thirds or more of votes cast by shareholders present in person or by proxy at a shareholders’ general meeting.

Financial disclosure

A joint stock limited company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statements of changes in financial position and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, a company established by the public subscription method under the PRC Company Law must publish its financial statements. The annual balance sheet has to be verified by certified public accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors’ report and directors’ report, which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

A joint stock limited company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC accounting standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards. The Company is required to publish its interim and annual accounts within 60 days from the end of the first six months of a financial year and within 120 days from the end of a financial year, respectively.

The Special Regulations require that there shall not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences shall also be disclosed simultaneously in the relevant stock exchanges.

Information on directors and shareholders

The PRC Company Law gives the shareholders of a joint stock limited company the right to inspect the articles of association, minutes of the shareholders’ general meetings, register of

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

shareholders, counterfoil of corporate bonds, records of board meetings, records of the meetings of the supervisory committee and financial and accounting reports. Under the articles of association, shareholders of a company have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

Receiving agent

Under both the PRC Company Law and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is 6 years while that under the PRC law is 2 years. The Mandatory Provisions require the appointment of a trust company registered under the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such H shares.

Corporate reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance which requires the sanction of the court. Under the PRC Company Law, such reorganization shall be subject to the relevant approval under the PRC Company Law.

Disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant’s discretion.

Mandatory deductions

Under the PRC Company Law, after-tax profits of a joint stock limited company are subject to deductions of contributions to the company’s statutory common reserve fund and discretionary common reserve fund, as approved by shareholders by way of resolution at a shareholders’ meeting, before they can be distributed to its shareholders. There are prescribed percentages under the PRC Company Law for such deductions. There are no such requirements under Hong Kong Law.

Remedies of a company

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, in compliance with the Hong Kong Listing Rules, remedies of the company similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profits made by a director, supervisor or officer) have been set out in the Articles of Association.

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Dividends

The articles of association of a company empower the company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

Fiduciary duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, officers, and managers owe a fiduciary duty and due diligence duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company without prior approval of shareholders’ general meeting.

Closure of register of shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the Mandatory Provisions, that share transfers may not be registered within 30 days before the date of a shareholders’ meeting or within 5 days before the record date set for the purpose of distribution of dividends.

B. Hong Kong Listing Rules

The Hong Kong Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeks a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company:

Compliance Adviser

A company seeking listing is required to appoint a compliance adviser acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of the publication of its financial results for the first full financial year commencing after its listing date. The compliance adviser is to provide the company with professional advice on continuous compliance with the Hong Kong Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to its two authorized representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require the company to terminate the compliance adviser’s appointment and appoint a replacement.

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

The compliance adviser must keep the company informed on a timely basis of changes in the Hong Kong Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. It must act as the company’s principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

Accountant’s report

An accountant’s report for a PRC issuer will not normally be regarded as acceptable by the Hong Kong Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such report will normally be required to conform to either Hong Kong or international accounting standards.

Process agent

The Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

Public float

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that the aggregate amount of such foreign shares held by the public must constitute not less than 25% of the issued share capital and that such foreign shares for which listing is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalization at the time of listing of not less than HK\$50,000,000. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the Company has an expected market capitalization at the time of listing of over HK\$10,000,000,000.

Independent non-executive directors and supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

Restrictions on purchase and subscription of its own securities

Subject to governmental approvals and the provisions of the Articles of Association, the Company may repurchase its own H Shares on the Hong Kong Stock Exchange in accordance with the provisions of the Hong Kong Listing Rules. Approval by way of special resolutions of shareholders in general meeting and of the holders of Domestic Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, the Company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

and Mergers and any similar applicable law of which the Directors are aware of, if any. Any general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of existing issued H Shares of the Company.

Mandatory Provisions

With a view to increasing the level of protection afforded to investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory committee of such PRC company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix VIII to this document.

Redeemable shares

The Company must not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected.

Pre-emptive rights

Except in the circumstances mentioned below, the Directors are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of Domestic Shares and H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required to the extent that the existing shareholders of the Company have by special resolution in general meeting given a mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot, issue or grant, either separately or concurrently once every 12 months, not more than 20% of the existing Domestic Shares and H Shares as of the date of the passing of the relevant special resolution or of such shares that are part of the Company’s plan at the time of its establishment to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC.

Supervisors

The Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less exacting than those of the Model Code for Securities Transactions by Directors of Listed Issuers (set out in Appendix 10 to the Hong Kong Listing Rules) issued by the Hong Kong Stock Exchange.

The Company is required to obtain the approval of its shareholders at a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to the Company or any of its subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of the Company or its subsidiary: (i) the term of the contract may exceed three years; or (ii) the contract expressly requires us to give more than

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

one year’s notice or to pay compensation or make other payments equivalent to more than one year’s emoluments.

The remuneration committee of the Company or an independent board committee must form a view in respect of service contracts that require shareholders’ approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable and whether such contracts are in the interests of the Company and its shareholders as a whole and advise shareholders on how to vote.

Amendment to the Articles of Association

The Company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Hong Kong Listing Rules, the Mandatory Provisions and the PRC Company Law relating to such Articles of Association.

Documents for inspection

The Company is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of the Company;
- the Company’s latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of the Company;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- a copy of the latest annual return filed with the PRC State Administration for Industry and Commerce; and
- for shareholders only, copies of minutes of meetings of shareholders.

Receiving agents

Under Article 140 of the Mandatory Provisions, the Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

Statements in share certificates

The Company is required to ensure that all its listing documents and share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder of the Company, to observe and comply with the PRC Company Law, the Special Regulations, other relevant laws and administrative regulations and the Articles of Association;
- agrees with the Company, each shareholder, Director, Supervisor, manager and officer of the Company, and the Company, acting for itself and for each Director, Supervisor, manager and officer of the Company, agrees with each shareholder of the Company, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearing in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with the Company and each shareholder of the Company that the H Shares are freely transferable by the holder thereof; and
- authorizes the Company to enter into a contract on his behalf with each Director, Supervisor, manager and officer of the Company whereby each such Director, Supervisor, manager and officer undertakes to observe and comply with his obligation to shareholders as stipulated in the Articles of Association.

Compliance with the PRC Company Law, the Special Regulations and the Articles of Association

The Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

Contract between the Company and its Directors, officers and Supervisors

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the Company to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of the Company between the Company and its Directors or officers and between

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

a holder of H Shares and a Director or officer of the Company, such differences or claims will be referred to arbitration at either CIETAC in accordance with its rules or HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;

- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director or officer with the Company on its own behalf and on behalf of each shareholder; and
- any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award.

The Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

Subsequent listing

The Company must not apply for the listing of any of its H Shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of H Shares are adequately protected.

English translation

All notices or other documents required under the Hong Kong Listing Rules to be sent by the Company to the Hong Kong Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

General

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Hong Kong Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including the Company, subject to special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions in respect of the Listing.

C. Other Legal and Regulatory Provisions

Upon Listing, the provisions of the Securities and Futures Ordinance, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may

APPENDIX VII — SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

be applicable to companies listed on the Hong Kong Stock Exchange will apply to the Company.

D. Securities Arbitration Rules

The Articles of Association provides that certain claims arising from the Articles of Association or the PRC Company Law shall be arbitrated at either CIETAC or HKIAC in accordance with their respective rules. The Securities Arbitration Rules of HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of telecommunications. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

PRC LEGAL MATTERS

Chen & Co, the Company’s legal adviser on PRC law, has sent to the Company an opinion dated 14 August 2009 confirming that the description and summaries of PRC laws, rules and regulations as contained in this document are correct, true, accurate and not misleading. This opinion is available for inspection as referred to in the paragraph headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix X to this document.

Should anyone wish to seek detailed advice on PRC laws or any laws of any jurisdiction, please consult independent legal advisers.

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

This Appendix contains a summary of the Articles of Association. The principal objective is to provide potential investors with an overview of the Articles of Association. As the information contained below is a summary form, it does not contain all the information that may be important to potential investors. As stated in the paragraph headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix X, a copy of the Articles of Association is available for inspection.

The Articles of Association and relevant amendments thereto were adopted by our shareholders at shareholders’ general meetings in accordance with applicable laws and regulations, including the PRC Company Law, the Securities Law of the PRC, the Circular on Opinion concerning Supplementary Amendments to Articles of Association of Companies Listed in Hong Kong (《關於到香港上市公司對公司章程作補充修改的意見的函》), the Special Regulations, the Mandatory Provisions and the Hong Kong Listing Rules.

Directors and Other Officers

Power to Allot and Issue Shares

There is no provision in the Articles of Association empowering the Directors to allot and issue Shares.

To increase the capital of the Company, the Board is responsible for formulating proposals for approval at a shareholders’ general meeting by way of special resolution. Any such increase must be conducted in accordance with the procedures stipulated by the relevant laws and administrative regulations.

Power to Dispose of the Assets of the Company or any Subsidiary

The Board is accountable to the shareholders’ general meeting.

The Board shall not, without the prior approval or consent of shareholders’ general meeting, dispose or agree to dispose of, any fixed assets of the Company where the anticipated value of the assets to be disposed, together with the value of any fixed assets of the Company that has been disposed in the period of four (4) months immediately preceding the proposed disposition, exceeds 33% of the value of the Company’s fixed assets as shown in the last balance sheet placed before the shareholders’ general meeting.

The validity of a disposition by the Company of fixed assets shall not be affected by the breach of the above paragraph.

For the purposes of the Articles of Association, a disposition of fixed assets includes an act involving the transfer of an interest in assets other than the provision of fixed assets as security.

Emoluments and Compensation or Payments for Loss of Office

The Company shall, with the prior approval of shareholders’ general meeting, enter into a contract in writing with each of the Directors or Supervisors wherein his or her emoluments are stipulated. The aforesaid emoluments include:

(1) emoluments in respect of his or her service as a Director, Supervisor or member of senior management of the Company;

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

(2) emoluments in respect of his or her service as a Director, Supervisor or member of senior management of any subsidiary of the Company;

(3) emoluments in respect of provision of other services in relation to the management of the Company and any subsidiary of the Company;

(4) payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

Unless otherwise provided by the contract in the preceding paragraph, a Director or Supervisor shall not file legal proceedings or apply for arbitration against the Company in respect of the benefits due to him/her from the aforesaid matters.

The contracts concerning the emoluments between the Company and its Directors or Supervisors should provide that, in the event of an acquisition of the Company, the Directors and Supervisors shall, subject to the prior approval of the shareholders’ general meeting, have the right to receive compensation or other payment in respect of his/her loss of office or retirement. An “acquisition of the Company” referred to in this paragraph means either:

(1) a takeover offer made by any person to all shareholders; or

(2) a takeover offer made by any person to enable the offeror to become a “controlling shareholder” with the meaning set out in the Articles of Association (see the section headed “— Rights of the Minorities in Relation to Fraud or Oppression” below).

If the relevant Director or Supervisor does not comply with the above, any sum so received by him/her shall belong to those persons who have sold their Shares as a result of the offer made. The expenses incurred in distributing such sum pro rata amongst those persons shall be borne by the relevant Director or Supervisor and not paid out of that sum.

Loans to Directors, Supervisors and Other Officers

The Company shall not directly or indirectly make a loan to, or provide any security in connection with the making of a loan to a Director, Supervisor, our General Manager or other members of senior management of the Company or of the Company’s parent company or any of their respective Related Persons. However, the following transactions are not subject to such prohibition:

- the provision by the Company of a loan or a security of a loan to a company which is a subsidiary of the Company;
- the provision by the Company of a loan or a security in connection with the making of a loan or any other funds to any of its Directors, Supervisors, our General Manager and other members of senior management for them to pay for expenditure incurred or to be incurred by him/her for the purposes of the Company or for the purpose of enabling him/her to perform his/her duties properly, in accordance with the terms of a service contract approved by the shareholders’ general meeting; and
- The Company may make a loan to or provide a security in connection with the making of a loan to any of the relevant Directors, Supervisors, our General Manager and other members of senior management or their respective Related Persons on normal commercial terms, provided that the ordinary course of business of the Company includes the lending of money or the provision of a security of a loan.

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

A loan made by the Company in breach of the above provisions shall be forthwith repayable by the recipient of the loan, regardless of the terms of the loan.

A security provided by the Company in breach of the above provisions shall be unenforceable against the Company, unless:

1. the security was provided in connection with a loan to a Related Person of any of the Directors, Supervisors, our General Manager and other members of senior management of the Company or of the Company's parent company and at the time the loan was advanced the lender did not know the relevant circumstances; or
2. the collateral provided by the Company has been lawfully sold by the lender to a bona fide purchaser.

For these purposes:

- (a) the term "security" shall include an undertaking or property provided to secure the performance of obligations by the obligor; and
- (b) the definition of Related Person as referred to in the sub-section headed "Duties" below applies, mutatis mutandis, to this sub-section.

Financial Assistance for the Acquisition of Shares in the Company or any of its Subsidiaries

Subject to the exceptions in the Articles of Association, the Company and its subsidiaries shall not, by any means at any time, provide any kind of financial assistance (as defined below) to a person who is acquiring or is proposing to acquire shares of the Company. The said acquirer of shares of the Company includes a person who directly or indirectly incurs any obligations (as defined below) due to the acquisition of the shares. The Company and its subsidiaries shall not, by any means at any time, provide financial assistance to the said acquirer as referred to above for the purpose of reducing or discharging the obligations assumed by that person.

The following acts shall not be deemed to be prohibited:

- the provision of financial assistance by the Company where the financial assistance is given in good faith in the interest of the Company, and the main purpose of the financial assistance is not the acquisition of shares of the Company, or the financial assistance is an incidental part of an overall plan of the Company;
- the lawful distribution of the Company's assets by way of dividend in accordance with law;
- the allotment of bonus shares as dividends;
- a reduction of registered capital, a repurchase of shares of the Company or a reorganization of the shareholding structure of the Company effected in accordance with the Articles of Association;
- the lending of money by the Company in the ordinary course of its business, where the lending of money is part of the scope of business of the Company (provided that the net assets of the Company are not thereby reduced or that, to the extent that the net assets are thereby reduced, the financial assistance is provided out of distributable profits); and

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

- the provision of money by the Company for contributions to employee share scheme (provided that the net assets of the Company are not thereby reduced or that, to the extent that the net assets are thereby reduced, the financial assistance is provided out of distributable profits).

For these purposes:

- (a) “financial assistance” includes (without limitation) the following meanings:
- (1) gift;
 - (2) security (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), or compensation (other than compensation incurred by the Company’s own default) or release or waiver of any rights;
 - (3) provision of a loan or any other agreement under which the obligations of the Company are to be fulfilled before the obligations of another party, or a change in the parties to, or the assignment of rights under such loan or agreement; or
 - (4) any other form of financial assistance given by the Company when the Company is unable to pay its debts or has no net assets or when its net assets would thereby be reduced to a material extent.
- (b) “incurring an obligation” includes the incurring of obligations by the changing of the obligor’s financial position by way of contract or the making of an arrangement (whether enforceable or not, and whether made on its own account or with any other persons), or by any other means.

Disclosure of Interests in Contracts with the Company or any of its Subsidiaries

Where a Director, Supervisor, our General Manager or other member of senior management of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company, (other than his/her contract of service with the Company), he shall declare the nature and extent of his/her interests to the Board at the earliest opportunity, regardless whether or not the contract, transaction or arrangement or proposal is otherwise subject to the approval of the Board under normal circumstances.

Unless the interested Director, Supervisor, General Manager or other member of senior management discloses his/her interests in accordance with the Articles of Association and the contract and transaction or arrangement is approved by the Board at a meeting in which the interested Director, Supervisor, General Manager or other member of senior management is not counted in the quorum and refrains from voting, a contract, transaction or arrangement in which that Director, Supervisor, our General Manager or other member of senior management is materially interested is voidable at the option of the Company except as against a bona fide party thereto acting without notice of the breach of duty by the interested Director, Supervisor, our General Manager or other member of senior management.

For these purposes, a Director, Supervisor, our General Manager or other member of senior management of the Company is deemed to be interested in a contract, transaction or arrangement in which an Related Person with the meaning set out under the sub-section “Duties” below of his/hers is interested.

Where a Director, Supervisor, our General Manager or other member of senior management of the Company gives to the Board a general notice in writing stating that, by reason of the facts specified

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

in the notice, he is interested in contracts, transactions or arrangements of any description, which may subsequently be made by our Company, such notice shall be deemed for the purposes of this sub-section to be a sufficient declaration of his/her interests, so far as the content stated in such notice is concerned, provided that such general notice shall have been given before the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by our Company.

Remuneration

The remuneration of Directors must be approved by the shareholders’ general meeting, as referred to under the section headed “Emoluments, Compensation or Payments for Loss of Office” above.

Appointment, Removal and Retirement

The term of office of the chairman of the Board and the other Board members shall be three years. If the term of appointment of a Director expires and he is re-elected, the Director may be reappointed for consecutive terms.

Directors shall be elected and removed by the shareholders’ general meeting. A written notice of the intention to propose a person for election as director and a notice in writing by that person indicating his/her acceptance of such election is required to be given to the Company after the issue of notice of the relevant shareholders’ general meeting for such election and no less than 7 days prior to commencement of such meeting. The length of period of such notices shall be at least 7 days.

The Board shall consist of 13 Directors, at least 3 of whom shall be independent non-executive Directors. The Board shall have one chairman and one vice-chairman. The chairman and vice-chairman shall be elected and removed by a majority of all of the Directors. A Director is not required to hold shares of the Company.

A person may not serve as a Director, Supervisor, our General Manager and any other member of senior management of the Company if any of the following circumstances apply:

- a person without or with restricted capacity of civil conduct;
- a person who has committed an offence of corruption, bribery, infringement of property, misappropriation of property or sabotaging the social economic order and has been punished because of committing such offence; or who has been deprived of his/her political rights, in each case where no more than five (5) years has elapsed since the date of the completion of implementation of such punishment or deprivation;
- a person who is a former director, factory manager or manager of a company or enterprise which has entered into insolvent liquidation because of mismanagement and he is personally liable for the insolvency of such company or enterprise, where no more than three (3) years has elapsed since the date of the completion of the insolvency and liquidation of such company or enterprise;
- a person who is a former legal representative of a company or enterprise which had its business license revoked due to a violation of the law and who incurred personal liability, where no more than three (3) years has elapsed since the date of the revocation of the business license;

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

- a person who has a relatively large amount of debts due and outstanding;
- a person who is under criminal investigation or prosecution by judicial organization for violation of the criminal law which investigation or prosecution is not yet concluded;
- a person who is not eligible for enterprise leadership according to laws and administrative regulations;
- a non-natural person; or
- a person convicted of the contravention of provisions of relevant securities regulations by a relevant government authority, and such conviction involves a finding that he has acted fraudulently or dishonestly, where less than five (5) years has elapsed since the date of the conviction.

There is no provision in the Articles of Association which imposes any age limit for Directors beyond which retirement as a Director is mandatory.

The validity of an act of a Director, our General Manager or other member of senior management on behalf of the Company with respect to, a bona fide third party shall not be affected by any irregularity in his/her appointment, election or any defect in his/her qualification.

Borrowing Powers

Subject to compliance with applicable laws and administrative regulations of the PRC and Hong Kong Listing Rules, the Company has the power to raise and borrow money, which includes, without limitation, the issue of debentures and the charging or mortgaging of part or whole of the Company's properties. The Articles of Association do not contain any specific provision in respect of the manner in which borrowing powers may be exercised by the Directors nor do they contain any specific provision in respect of the manner in which such powers may be varied, other than: (a) provisions which give the Directors the power to formulate proposals for the issue of bonds by the Company; and (b) provisions which provide that the issue of bonds must be approved by the shareholders' general meeting by way of a special resolution.

Duties

In addition to obligations imposed by laws, administrative regulations or required by the stock exchanges on which Shares are listed, each of the Company's Directors, Supervisors, our General Manager and other members of senior management owes a duty to each shareholder, in the exercise of the functions and powers that the Company entrusted to him/her:

- not to cause the Company to exceed the scope of the business stipulated in its business license;
- to act honestly in the best interest of the Company;
- not to expropriate the Company's property, including (without limitation) usurpation of opportunities advantageous to the Company; and
- not to expropriate the individual rights of shareholders, including (without limitation) rights to distribution and voting rights, save pursuant to a restructuring of the Company approved by the shareholders' general meeting in accordance with the Articles of Association.

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

Each of the Company's Directors, Supervisors, our General Manager and other members of senior management owes a duty, in the exercise of his/her powers and discharge of his/her duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Each of the Company's Directors, Supervisors, our General Manager and other members of senior management shall exercise his/her powers or carry on his/her duties in accordance with the principle of fiduciary and shall not put himself/herself in a position where his/her duty and his/her interest may conflict. This principle includes (without limitation) discharging the following obligations:

- to act honestly in the best interests of the Company;
- to exercise powers within the scope of his/her powers and not to exceed those powers;
- to exercise the discretion vested in him/her personally and not to allow himself/herself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders' general meeting, not to delegate the exercise of his/her discretion to others;
- to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- except in accordance with the Articles of Association or with the informed consent of shareholders' general meeting, not to enter into any contract, transaction or arrangement with the Company;
- without the informed consent of shareholders' general meeting, not to use the Company's property for his/her own benefit;
- not to exploit his/her position to accept bribes or other illegal income or expropriate the Company's property by any means, including (without limitation) opportunities advantageous to the Company;
- without the informed consent of shareholders' general meeting, not to accept commissions in connection with the Company's transactions;
- to abide by the Articles of Association, faithfully execute his/her official duties and protect the Company's interests, and not to exploit his/her position and power in the Company to advance his/her own private interests;
- not to compete with the Company in any form without the informed consent of shareholders' general meeting;
- not to misappropriate the Company's funds or lend such funds to others, not to open accounts in his/her own name or other names for the deposit of the Company's assets and not to provide a security for debts of a shareholder of the Company or other individual(s) with the Company's assets; and
- unless otherwise permitted by informed shareholders' general meeting, not to disclose any confidential information acquired by him/her in the course of and during his/her tenure of office and not to use the information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other governmental authorities is permitted if: (i) disclosure is required by law; (ii) the interests of the public require disclosure; (iii) the interests of the relevant Director, Supervisor, our General Manager or other member of senior management require disclosure.

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

Each Director, Supervisor, our General Manager or other member of senior management of the Company shall not cause the following persons or institutions ("Related Persons") to do what he is prohibited from doing:

- (1) the spouse or minor children of that Director, Supervisor, our General Manager or other member of senior management;
- (2) a trustee of that Director, Supervisor, our General Manager or other member of senior management or any person referred to in the preceding paragraph;
- (3) a partner of that Director, Supervisor, our General Manager or other member of senior management or any person referred to in paragraphs (1) and (2) above;
- (4) a company in which that Director, Supervisor, our General Manager or other member of senior management, alone or jointly with one or more persons referred to in paragraphs (1), (2) and (3) above and other Directors, Supervisors, our General Manager and other members of senior management have a de facto controlling interest; and
- (5) the directors, supervisors, general manager and other members of senior management of the controlled company referred to in the preceding paragraph.

The fiduciary duties of the Directors, Supervisors, our General Manager and other members of senior management of the Company do not necessarily cease upon the termination of their tenure. The duty of confidence in relation to trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period on a fair basis depending on the time lapse between the termination and the act concerned and the circumstances and conditions under which the relationships between them and the Company are terminated.

In addition to any rights and remedies provided by the laws and administrative regulations, where a Director, Supervisor, General Manager or other member of senior management of the Company is in breach of his/her duties to the Company, the Company has a right to:

- claim damages from the Director, Supervisor, our General Manager or other member of senior management in compensation for losses sustained by the Company as a result of such breach;
- rescind any contract or transaction entered into by the Company with the Director, Supervisor, our General Manager or other member of senior management or with a third party (where such third party knows or should know that there is such a breach of duties by such Director, Supervisor, our General Manager or other member of senior management);
- require the relevant Director, Supervisor, General Manager or other member of senior management return the benefits received by him/her as a result of the breach of the obligations;
- recover any funds received by the Director, Supervisor, our General Manager or other member of senior management that should have been received by the Company, including (without limitation) commissions; and
- require the relevant Director, Supervisor, the General Manager or other senior officer to return the interest that is earned or may have been earned from the fund which should have been payable to the Company.

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

Alterations to Constitutional Documents

The Company may amend its Articles of Association in accordance with the requirements of laws, administrative regulations and the Articles of Association.

Amendments to the Articles of Association involving the contents of the Mandatory Provisions shall become effective upon approvals by the companies approving department authorized by the State Council and the CSRC. If there is any change relating to the registered particulars of the Company, application shall be made for registration of the changes in accordance with law.

Variation of Rights of Existing Shares or Classes of Shares

Holders of Domestic Shares and holders of overseas listed foreign Shares of the Company shall be considered as different classes of shareholders.

Rights conferred on any class of shareholders in the capacity of shareholders (“class rights”) may not be varied or abrogated unless approved by a special resolution of shareholders’ general meeting and by holders of Shares of that class at a separate meeting conducted in accordance with the Articles of Association.

The following circumstances shall be deemed to be a variation or abrogation of the class rights of a class:

- (1) to increase or reduce the number of shares of that class or the increase or reduce the number of shares of another class which carries the same or more voting rights, distribution right or other privileges;
- (2) to effect an exchange of all or part of the Shares of such class into Shares of another class or to effect an exchange or create a right of exchange of all or part of the Shares of another class into the Shares of such class;
- (3) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to Shares of such class;
- (4) to reduce or remove a dividend preference or a liquidation preference attached to Shares of such class;
- (5) to add, remove or reduce conversion privileges, options, transfer or pre-emptive rights, or rights to acquire securities of the Company attached to Shares of such class;
- (6) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to Shares of such class;
- (7) to create a new class of Shares having voting or equity rights or privileges equal or superior to those of the Shares of such class;
- (8) to restrict the transfer or ownership of the Shares of such class or add to such restriction;
- (9) to allot and issue rights to subscribe for, or convert into, shares in the Company of such class or another class;

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

- (10) to increase the rights or privileges of Shares of another class;
- (11) to restructure the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring; and
- (12) to vary or abrogate provisions in chapter 9 of the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (2) to (8), (11) and (12) above, but interested shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of a class of shareholders shall be passed by votes representing more than two-thirds of the voting rights represented at the relevant meeting who are entitled to vote at class meetings.

Written notice of a class meeting shall be given forty-five (45) days before the date of the class meeting to notify all of the shareholders in the share register of the class of the matters to be considered and the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his/her written reply concerning attendance at the class meeting to the Company twenty (20) days before the date of the class meeting.

If the number of Shares carrying voting rights at the meeting represented by the shareholders who intend to attend the class meeting reaches more than half of the voting Shares at the class meeting, the Company may hold the class meeting; if not, the Company shall within five (5) days notify the shareholders of the class by public announcement, of the matters to be considered, the date and the place for the class meeting. The Company may then hold the class meeting after publication of such notice.

Notice of class meetings need only be served on shareholders entitled to vote thereat.

Meetings of any class of shareholders shall be conducted in a manner as similar as possible to that of shareholders' general meetings. The provisions of the Articles of Association relating to the manner of conducting any shareholders' general meeting shall apply to any meeting of a class of shareholders. Holders of domestic-invested Shares and foreign-invested Shares are deemed to be shareholders of different classes.

The special procedures for voting at a class of shareholders shall not apply in the following circumstances:

- (1) where the Company issues domestic-invested Shares and overseas-listed foreign-invested Shares, upon the approval by a special resolution of its shareholders' general meeting, either separately or concurrently once every twelve months, not exceeding 20% of each of its existing issued;
- (2) where the Company's plan to issue domestic-invested Shares and overseas-listed foreign invested Shares at the time of its establishment is carried out within fifteen (15) months from the date of approval of the CSRC; or
- (3) where upon the approval from the relevant State Council securities regulatory authority, the domestic shareholders of the Company may transfer the domestic shares held thereby to overseas investors and such transferred shares may be listed or traded on an overseas stock exchange.

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

For the purposes of the class rights provisions of the Articles of Association, the meaning of “interested shareholder(s)” is:

- (1) in the case of a repurchase of Shares by offers to all shareholders pro rata or public dealing on a stock exchange, a “controlling shareholder” within the meaning of the Articles of Association;
- (2) in the case of a repurchase of Shares by an off-market contract, a holder of the Shares to which the proposed contract relates; and
- (3) in the case of a restructuring of the Company, a shareholder within a class who bears less than a proportionate burden imposed on that class under the proposed restructuring or who has an interest in the proposed restructuring different from the interest of shareholders of that class.

Resolutions Majority Required

Resolutions of shareholders’ general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, votes representing more than half of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favor of the resolution in order for it to be passed.

To adopt a special resolution, votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favor of the resolution in order for it to be passed.

Voting Rights (generally, on a poll and right to demand a poll)

The ordinary shareholders of the Company have the right to attend or appoint a proxy to attend shareholders’ general meetings and to vote thereat. A shareholder (including proxy) when voting at a shareholders’ general meeting may exercise voting rights in accordance with the number of shares carrying the right to vote and each share shall have one vote. At any general meeting of shareholders a resolution shall be decided by a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- by the chairman of the meeting;
- by at least two shareholders entitled to vote present in person or by proxy; or
- by one or more shareholders present in person or by proxy and representing more than 10% of all shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman that a resolution has on a show of hands been carried, unanimously, or carried by, a particular majority, or lost, and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution. The demand for a poll may be withdrawn by the person who makes such demand.

A poll demanded on the election of the chairman of the meeting, or on an issue of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other issue shall be taken at such

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

time as the chairman of the meeting directs, and any business, other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

On a poll taken at a meeting, a shareholder (including proxy) entitled to two or more votes need not cast all his/her votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall have a casting vote.

Requirements for Annual General Meetings

The Board shall convene an annual shareholders’ general meeting once a year and within six (6) months from the end of the preceding financial year.

Accounts and Audit

The Company shall establish its financial and accounting system in accordance with the laws, administrative regulations and PRC accounting standards formulated by the finance regulatory department of the State Council.

The Board shall place before the shareholders at every annual general meeting such financial reports as required by any laws, administrative regulations or directives promulgated by competent regional and central governmental authorities to be prepared by the Company.

The Company’s financial reports shall be made available for shareholders’ inspection at the Company twenty (20) days before the date of every shareholders’ annual general meeting. Each shareholder shall be entitled to obtain a copy of the financial reports.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either International Financial Reporting Standards, or that of the overseas place where the Company’s shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in an appendix to the financial statements. When the Company is to distribute its after-tax profits, it is required to distribute dividends based on the lower of the Company’s distributable after-tax profits determined under the two accounting standards.

Any interim results or financial information published or disclosed by the Company must also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either International Financial Reporting Standards or that of the overseas place where the Company’s shares are listed.

The Company shall publish its financial reports twice every fiscal year, that is, the interim financial report shall be published within sixty (60) days after the expiration of the first six (6) months of each fiscal year and the annual financial report shall be published within one hundred and twenty (120) days after the expiration of each fiscal year.

Notice of Meetings and Business to be Conducted thereat

The shareholders’ general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with law. The Company shall not, without the prior approval of

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

shareholders' general meeting, enter into any contract with any person other than a Director, Supervisor, our General Manager or other member of senior management whereby the management and administration of the whole or any substantial part of the business of the Company is to be handed over to such person. Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meeting shall be convened by the Board. Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two (2) months:

- when the number of Directors is less than the number of Directors required by the PRC Company Law or two-thirds of the number of Directors specified in the Articles of Association;
- when the unrecovered losses of the Company amount to one-third of the total amount of its share capital;
- when shareholder(s) holding 10% or more of the Company's issued and outstanding shares carrying voting rights request(s) the convening of an extraordinary general meeting;
- when deemed necessary by the Board or as requested by the supervisory committee; or
- the other circumstance as stipulated by laws, administrative regulations, departmental rules, securities regulations of the locality where the Company's shares are listed and the Articles of Association.

When the Company convenes a shareholders' general meeting, written notice of the meeting shall be given forty-five (45) days before the date of the meeting to notify all of the shareholders in the share register of the matters to be considered and the date and the place of the meeting. A shareholder who intends to attend the meeting shall deliver his/her written reply concerning the attendance of the meeting to the Company twenty (20) days before the date of the meeting.

Shareholders who hold either alone or in aggregate 3% or more of voting shares may raise interim motions and submit them in writing to the board of directors. The board of directors shall issue a supplementary notice within 2 days from receipt of such motions to announce the content of interim motion and submit it to the shareholders' general meeting for examination. If the issue of such supplementary notice does not satisfy the requirements stipulated by the listing rules of the locality where the Company is listed in respect of issue of supplementary notice, the Company shall postpone the shareholders' general meeting. The content of interim motion shall fall within the scope of responsibility of the shareholders' general meeting with explicit topics and specific resolution matters.

A shareholders' extraordinary general meeting shall not decide on those matters not stated in the notice of meeting.

The Company shall, based on the written replies received twenty (20) days before the date of the shareholders' general meeting from the shareholders, calculate the number of voting shares represented by shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting reaches more than one half of the Company's total voting shares, the Company may hold the meeting. If not, then the Company shall within five (5) days notify the shareholders again by public announcement of the matters to be considered, the place and the date for the meeting. The Company may hold the meeting after the publication of such notice.

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

A notice of meeting of shareholders shall be required to:

- be in writing;
- specify the place, the date and the hour of the meeting;
- list out the share registration date of shareholders who are entitled to attend the meeting;
- state the matters to be discussed at the meeting;
- provide such information and explanations as are necessary for the shareholders to exercise a sensible judgment on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another, to repurchase shares, to reorganize the share capital or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;
- contain a disclosure of the nature and extent, if any, of the material interests of any Director, Supervisor, our General Manager or other member of senior management in the transaction proposed and the effect of the proposed transaction on them in their capacity as shareholders in so far as it is different from the effect on the interests of the shareholders of the same class;
- contain the full text of any special resolution proposed to be voted at the meeting;
- contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote on behalf of him/her and that a proxy need not be a shareholder; and
- specify the time and place for delivering proxy forms for the relevant meeting.

Notice of shareholders' general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting), by personal delivery or prepaid mail to their addresses as shown in the register of shareholders. For the holders of Domestic Shares, notice of the meetings may be issued by way of public announcement.

The public notice shall be published in newspapers designated by the securities supervisory authority of the State Council within the interval between forty-five (45) days and fifty (50) days before the date of the meeting. After the publication of such notice, the holders of domestic invested Shares shall be deemed to have received the notice of the relevant shareholders' general meeting. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting and the resolution adopted thereat.

The following matters shall be resolved by an ordinary resolution at a shareholders' general meeting:

- work reports of the Board and the supervisory committee;
- plans formulated by the Board for the distribution of profits and for making up losses;

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

- appointment and removal of the members of the Board and members of the supervisory committee, their remuneration and method of payment;
- annual financial budgets, statement of final accounts, balance sheets and profit and loss statements and other financial statements of the Company; and
- matters other than those required by the laws and administrative regulations or by the Articles of Association to be adopted by special resolution.

The following matters shall be resolved by a special resolution at a shareholders’ general meeting:

- the increase or decrease of share capital and the issue of shares of any class, warrants and other similar securities;
- the issue of debentures of the Company;
- the division, merger, change of the corporate form, dissolution, liquidation of the Company;
- amendments to the Articles of Association, and
- any other matters stipulated by law, administrative regulation or Articles of Association, and matters considered by the shareholders’ general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the Company and should be adopted by a special resolution.

Transfer of Shares

All the fully paid-up H Shares can be freely transferred in accordance with the Articles of Association. For H Shares listed on the Hong Kong Stock Exchange, unless the requirements stipulated in the Articles of Association are met, the Board may refuse to accept any transfer documents without giving any explanation for such refusal.

The alteration and rectification of each part of the share register shall be carried out in accordance with the laws of the place where the register is maintained.

No changes in the shareholders’ register due to the transfer of shares shall be made within thirty (30) days before the date of a shareholders’ general meeting or within five (5) days before the record date for the Company’s distribution of dividends.

Power of the Company to Purchase its Own Shares

In accordance with the provisions of the Articles of Association, the Company may reduce its registered share capital. The Company may, with approval according to the procedures provided in the Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:

- cancellation of shares for the reduction of its capital;
- merging with another company that holds shares in the Company;
- and other circumstances permitted by laws and administrative regulations;

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

- awarding shares to the Company's employees; or
- being requested to repurchase the shares of the Company by the shareholders who object to the resolution adopted at the shareholders' general meeting concerning merger and division of the Company.

The Company may, with the approval of the relevant competent authority of the state, repurchase its shares, conducting the repurchase in one of the following ways:

- making a pro rata general offer of repurchase to all of its shareholders;
- repurchase shares through public dealing on a stock exchange;
- repurchase by an agreement outside a stock exchange; or
- other circumstances permitted by laws and administrative regulations.

Where the Company repurchases its shares by an off-market agreement, the prior sanction of shareholders shall be obtained in accordance with the Articles of Association. The Company may release, vary or waive its rights under a contract so entered into by the Company with the prior approval of shareholders obtained in the same manner.

A contract to repurchase shares includes (without limitation) an agreement to become obliged to repurchase or an acquisition of the right to repurchase shares. The Company shall not assign the contracts to repurchase shares and its rights under such contracts.

Shares repurchased in accordance with law by the Company shall be cancelled within the period prescribed by laws and administrative regulations, and the Company shall apply to the original company registration authority for registration of the change of its registered shares capital. The amount of the Company's registered shares capital shall be reduced by the aggregate par value of those cancelled shares.

Unless the Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued Shares:

- where the Company repurchases Shares of the Company at par value, payment shall be made out of book surplus distributable profits of the Company or out of proceeds of a new issue of Shares made for that purpose;
- where the Company repurchases Shares of the Company at a premium to its par value, payment up to the par value shall be made out of the book surplus distributable profits of the Company or out of the proceeds of a fresh issue of Shares made for that purpose.

Payment of the portion in excess of the par value shall be effected as follows: (i) if the Shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of the Company; or (ii) if the Shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of the Company or out of the proceeds of a new issue of Shares made for that purpose, provided that the amount paid out of the proceed of the new issue shall not exceed the aggregate of premiums received by the Company on the issue of the Shares repurchased nor the current amount of the Company's share premium account (including the premiums on the fresh issue);

- payment by the Company in consideration of the following shall be made out of the Company's distributable profits: (i) acquisition of rights to repurchase Shares of the

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

Company; (ii) variation of any contract to repurchase Shares of the Company; and (iii) release of any of the Company’s obligations under any contract to repurchase Shares of the Company; and

- after the Company’s registered share capital has been reduced by the total par value of the cancelled Shares in accordance with the relevant provisions, the amount deducted from the distributable profits of the Company for payment of the par value portion of the Shares repurchased shall be transferred to the Company’s capital reserve fund account.

Power of Any Subsidiary of the Company to Own Shares in the Company

There are no provisions in the Articles of Association preventing ownership of Shares in the Company by a subsidiary.

Dividends and Other Methods of Profit Distribution

The Company may distribute dividends in the form of cash or stock.

Dividends or other payments declared by the Company to be payable to holders of domestic invested shares shall be declared and calculated in RMB, and paid in RMB. Those payable to holders of foreign-invested Shares shall be declared and calculated in RMB, and paid in Hong Kong dollars.

The Company shall appoint receiving agents on behalf of holders of the H Shares to receive on behalf of such shareholders dividends declared and all other monies payable by the Company in respect of their H Shares. The receiving agents appointed on behalf of holders of the H Shares shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

That where power is taken to cease sending dividend warrants by post, if such warrants have been left uncashed, it will not be exercised until such warrants have been so left uncashed on two consecutive occasions. However, such power may be exercised after the first occasion on which such a warrant is returned undelivered.

Proxies

Any shareholder entitled to attend and vote at a meeting of the Company shall be entitled to appoint one or more other persons (whether a shareholder or not) as his/her proxy to attend and vote on his/her behalf, and a proxy so appointed shall:

- have the same right as the shareholder to speak at the meeting;
- have authority to demand or join in demanding a poll; and
- have the right to vote by hand or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

The instrument appointing a proxy shall be in writing signed by the shareholder or signed by the shareholder’s agent duly authorized in writing, or if the shareholder is a legal entity, either sealed by the shareholder or signed by a director or agent duly authorized. The instrument appointing a voting proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointer, a notary certified copy of that power of attorney or other authority, shall be deposited at the residence of the Company or at such other place as is specified for that purpose in the notice convening the meeting, not less than twenty-four (24) hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the resolution.

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

If the appointer is a legal entity, its legal representative or such person as is authorized by resolution of its board of directors or other governing body to act as its representative may attend at any meeting of shareholders of the Company as a representative of the appointer.

Any form issued to a shareholder by the Board for use by him/her for appointing a proxy to attend and vote at a meeting of the Company shall be such as to enable the shareholder according to his/her intention, to instruct the proxy to vote in favor of or against each resolution dealing with matters to be voted at the meeting. Such a form shall contain a statement that in the absence of instructions by the shareholder the proxy may vote as he thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that no notice in writing of such death, insanity, revocation or transfer as aforesaid shall have been received by the Company before the commencement of the meeting at which proxy is used.

Calls on Shares and Forfeiture of Shares

There are no provisions in the Articles of Association relating to the making of calls on Shares or for the forfeiture of Shares.

Rights of Shareholders (including inspection of register)

The ordinary shareholders of the Company shall enjoy the following rights:

- the right to dividends and other distributions in proportion to the number of Shares held;
- the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;
- the right of supervisory management over the Company's business operations, and the rights to present proposals or to raise enquires;
- the right to transfer shares in accordance with laws, administrative regulations and provisions of the Articles of Association;
- the right to obtain relevant information in accordance with the provisions of the Articles of Association, including: (i) the right to obtain a copy of the Articles of Association, subject to payment of the cost of such copy; (ii) the right to inspect and copy, subject to payment of a reasonable charge: (a) all parts of the register of shareholders; (b) personal particulars of each of our Directors, Supervisors, General Manager and other members of senior management as follows: (1) present name and alias and any former name and alias; (2) principal address (residence); (3) nationality; (4) full-time occupation and all other part-time occupations; and (5) identification document and its number; (c) report on the state of the Company's share capital; (d) reports showing the number, aggregate par value, quantity, maximum and minimum price paid in respect of each class of Shares repurchased by the Company since the end of the last accounting year and the aggregate amount incurred by the Company for this purpose; (e) minutes of shareholders' general meetings, resolutions of meetings of Board and meetings of supervisory committee; (f) counterfoil of corporate bond; and (g) disclosed financial reports;

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

- in the event of the termination or liquidation of the Company, to participate in the distribution of remaining assets of the Company in accordance with the number of Shares held; and
- other rights conferred by laws, administrative regulations and the Articles of Association.

Rights of the Minorities in Relation to Fraud or Oppression

In addition to obligations imposed by laws, administrative regulations or required by the stock exchange on which Shares of the Company are listed, a controlling shareholder shall not exercise his/her voting rights in respect of the following matters in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of the Company:

- to relieve a Director or Supervisor of his/her duty to act honestly in the best interests of the Company;
- to approve the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of another person), in any guise, of the Company’s property, including (without limitation) opportunities beneficial to the Company; or
- to approve the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of another person) of the individual rights or interests of other shareholders, including (without limitation) rights to distributions and voting rights save pursuant to a restructuring submitted to shareholders for approval and adopted by the shareholders’ general meeting in accordance with the Articles of Association.

For these purposes, a “controlling shareholder” means a person who satisfies any one of the following conditions:

- he alone, or acting in concert with others, has the power to elect more than half of the Board of Directors;
- he alone, or acting in concert with others, has the power to exercise or to control the exercise of 30% or more of the voting rights in the Company;
- he alone, or acting in concert with others, holds 30% or more of the issued and outstanding shares of the Company; or
- he alone, or acting in concert with others, in any other manner has de facto control of the Company.

See also the section headed “— Variation of Rights of Existing Shares or Classes of Shares” above.

Procedures on Liquidation

The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

- expiry of valid term of business license;
- a resolution for dissolution is passed by shareholders’ general meeting;

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

- dissolution is necessary due to a merger or division of the Company;
- the Company is legally declared bankrupt due to its failure to repay debts due;
- being ordered to close down, revocation of business license, or being dissolved in accordance with law; or
- a court order of dissolution of the Company by the people's court in accordance with Article 183 of the Company Law.

Where the Board proposes to liquidate the Company due to causes other than the declaration of insolvency, the Board shall include a statement in its notice convening a shareholders' general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay off its debts in full within twelve (12) months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders' general meeting for the liquidation of the Company, all functions and powers of the Board shall cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once a year to the shareholders' general meeting on the committee's income and expenditure, the business of the Company and the progress of the liquidation and to present a final report to the shareholders' general meeting on completion of the liquidation.

Other Provisions Material to the Company and our Shareholders

General Provisions

The Company is a joint stock limited company in perpetual existence.

The Articles of Association constitute a legally binding document regulating the Company's organization and activities, and the rights and obligations between the Company and each shareholder and among the shareholders inter se on the date on which they become effective.

The Company may invest in other enterprises, provided that it shall not be a shareholder bearing joint and several liabilities for the invested enterprises' debt unless the law provide otherwise.

The Company may, based on its requirements for operation and development and in accordance with the relevant provisions of the Articles of Association, approve an increase of capital.

The Company may increase its capital in the following ways:

- offering new shares to non-specialty-designated investors for subscription;
- placing new shares to its existing shareholders;
- distributing new shares to its existing shareholders by way of bonus issues; and
- any other way permitted by law and administrative regulations.

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

The Company’s increase of capital by issuing new shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted in accordance with the procedures stipulated by relevant laws and administrative regulations.

Unless otherwise provided by law or administrative regulation, paid-up shares in the Company are freely transferable and are not subject to any lien.

When the Company reduces its registered share capital, it must draw up a balance sheet and an inventory of assets. The Company shall notify its creditors within ten (10) days of the date of the Company’s resolution for reduction of share capital and shall publish a notice in a newspaper at least three times within thirty (30) days of the date of such resolution. A creditor has the right within thirty (30) days of receiving the notice from the Company or, in the case of a creditor who does not receive the notice, within ninety (90) days of the date of the first public notice, to demand the Company to repay its debts or provide a corresponding security for such debt. The Company’s registered capital after reduction shall not be less than the statutory minimum amount.

The ordinary shareholders of the Company shall assume the following obligations:

- to abide by the Articles of Association;
- to pay subscription funds according to the number of shares subscribed and the method of subscription; and
- other obligations imposed by laws, administrative regulations and the Articles of Association.

Shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

Board

The Board is responsible to the shareholders’ general meeting and exercises the following powers:

- (1) to be responsible for convening shareholders’ general meetings and to report on its work to the shareholders’ general meeting;
- (2) to implement the resolutions of the shareholders’ general meetings;
- (3) to decide on the Company’s business plans and investment plans;
- (4) to formulate the Company’s annual financial budget and final accounts;
- (5) to formulate the Company’s profit distribution plan and loss recovery plan;
- (6) to formulate proposals for the increases or decrease of the Company’s registered capital and the issue of corporate debentures;
- (7) to formulate the plans for merger, division, change of form or dissolution of the Company;
- (8) to decide on the establishment of the Company’s internal management structure;

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

- (9) to appoint or remove the Company's General Manager, based on the recommendations of the General Manager, to appoint or remove deputy General Manager and chief financial officer, to appoint or remove the secretary of the board of directors and, to decide on their remuneration and award matters;
- (10) to formulate the Company's basic management system;
- (11) to formulate proposals for any amendment to the Articles of Association;
- (12) to perform other duties or administrative responsibilities as authorized by the shareholders' general meeting and the Articles of Association, except the issues to be determined by the shareholders' general meeting according to the Articles of Association or issues authorized to the General Manager of the Company.

Except for the Board's resolutions in respect of the matters specified in the above paragraphs (6), (7) and (11), which shall be passed by more than two-thirds of the Directors, the Board resolutions in respect of all other matters may be passed by more than half of the Directors.

Meetings of the Board shall be held at least four times a year at approximately quarterly intervals and convened by the chairman of the Board. Notice of the meeting shall be served on all of the Directors fourteen (14) days before the date of the meeting. In case of emergency and where chairman of the board of directors, or more than one-third of the Directors or Supervisors, or shareholders representing more than one-tenth of the voting rights, or the General Manager of the Company so proposes, an extraordinary meeting of the Board may be held.

Meetings of the Board shall be held only if more than one half of the Directors are present. Each Director shall have one vote. Where the number of votes cast for and against a resolution is equal, the chairman of the Board shall have a casting vote.

Supervisory Committee

The Company shall have a supervisory committee. The Directors, our General Manager and other members of senior management, including but not limited to our Chief Financial Officer, shall not act concurrently as Supervisors. The supervisory committee shall be composed of 3 Supervisors. One of the members of the supervisory committee shall act as the chairman. The term of office of Supervisors shall be three years, renewable upon re-election and reappointment. The election or removal of the chairman of the supervisory committee shall be determined by two-thirds or more of the members of the supervisory committee. Decisions of the supervisory committee shall be made by the affirmative vote of two-thirds or more of the Supervisors.

The supervisory committee shall comprise 2 representatives of shareholders and 1 representative of employees of the Company. The representatives of shareholders shall be elected and removed by shareholders' general meeting; the representative of employees of the Company shall be elected and removed by the employees of the Company democratically thereby.

The supervisory committee shall be accountable to the shareholders' general meeting and exercise the following powers in accordance with law:

- to examine the Company's financial situation;

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

- to supervise the performance by the Directors, General Manager and other members of senior management of their duties, and propose to remove the aforesaid personnel for violation of the applicable laws, regulations or the Articles of Association;
- to demand rectification from a Director, General Manager and other members of senior management when the acts of such persons are harmful to the Company’s interest if necessary;
- to verify the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the Board to the shareholders’ general meetings and, should any queries arise, to engage, in the name of the Company, qualified accounting and auditing firms for a re-rectification on aforesaid information;
- to propose to convene an extraordinary shareholders’ general meeting and to convene and preside over the shareholders’ general meeting when the Board of the Company fails to perform the duties of convening and presiding over the shareholders’ general meeting as stipulated in PRC Company Law;
- to represent the Company in communication with Directors or institute proceedings against the Directors, General Manager and other members of senior management in accordance with the Provisions of the PRC Company Law;
- to make proposals to the shareholders’ general meeting; and
- to exercise other powers specified in the Articles of Association.

Members of the supervisory committee may sit in meetings of the Board.

General Manager of the Company

The Company shall have one General Manager, who shall be appointed and dismissed by the Board.

Our General Manager shall be accountable to the Board and exercise the following powers:

- to be in charge of the Company’s operation and management and to organize the implementation of the resolutions of the Board;
- to organize the implementation of the Company’s annual business plan and investment plan;
- to draft plans for the establishment of the Company’s branches;
- to draft plans for the establishment of the internal organizational structure of the Company;
- to draft the Company’s basic management system;
- to formulate basic rules and regulations for the Company;
- to propose the appointment or dismissal of our deputy General Manager and Chief Financial Officer;
- to appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board;

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

- to appoint, change or recommend the representatives, directors or supervisors of controlled subsidiaries or joint-stock subsidiaries within the scope of authorization by the board of directors;
- to determine establishment of the Company’s branches within the scope of authorization by the board of directors; and
- to exercise other powers conferred by the Articles of Association and the Board.

Our General Manager may sit in meetings of the Board. However, the General Manager shall have no voting rights at the meetings unless he is also a director. Our General Manager, in performing his/her functions and powers, shall act honestly and diligently and in accordance with laws, regulations and the Articles of Association.

Chairman of the Board

The chairman of the Board shall exercise the following powers:

- to preside over the shareholders’ meeting, convene and preside over the meetings of the Board;
- to inspect the implementation of the resolutions of the Board;
- to sign the securities issued by the Company; and
- to exercise other powers authorized by the Board.

If the chairman of the board of directors is unable or fails to perform his duties, the vice-chairman shall perform the duties. If the vice-chairman is unable or fails to perform his duties, a director jointly nominated by a majority of directors shall perform the duties.

Secretary of the Board

The secretary of the Board shall be a natural person(s) who has the requisite professional knowledge and experience, and shall be appointed by the Board. The primary responsibilities include, without limitation:

- to ensure that the Company’s documents and records are complete;
- to ensure the lawful preparation and submission by the Company of reports and documents as required by relevant authorities;
- to ensure that the register of shareholders is properly maintained, and to ensure that persons who are entitled to obtain the Company’s records and documents can timely obtain the relevant records and documents;
- to be responsible for the organization and coordination of information disclosure, liaising with investors, and increasing transparency of the Company;
- to remind and provide the Directors with, and ensure their understanding of the relevant laws, regulations and requirements related to company operation of the domestic and overseas regulatory authorities, and to assist the Directors and our General Manager to obey the applicable domestic and overseas laws, regulations, the Articles of Association and other relevant provisions when they perform their duties;

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

- to take charge of organizing and preparing for documents of board of directors and shareholders’ general meeting, make minutes of meeting, ensure the meeting resolution to comply with the statutory procedures and acquaint himself/herself with the implementation of the resolution of the board of directors;
- to participate in the financing activities in capital market; and
- to handle relationships with relevant agencies, supervisory authorities and media, and managing public relation.

Accounts and Audit

Appointment of auditors.

The Company shall appoint independent auditors who are qualified under the relevant regulations of the PRC to audit the Company’s annual financial statements and review the Company’s other financial reports.

The auditors appointed by the Company shall hold office from the conclusion of the annual general meeting of shareholders at which the appointment is made until the conclusion of the next annual meeting of shareholders.

Before the convening of the shareholders’ general meeting, the Board may fill any casual vacancy in the office of the auditors, provided that if there is another auditor in office for the Company during the period of such vacancy, such auditor may act.

The shareholders’ general meeting may, by ordinary resolution, remove an auditor before the expiration of its office, notwithstanding the stipulations in the contract between the Company and the auditor, but without prejudice to the auditor’s right to claim, if any, for damages in respect of such removal.

The remuneration of an auditor or the manner in which such auditor is to be remunerated shall be determined by the shareholders’ general meeting. The remuneration of an auditor appointed by the Board shall be determined by the Board.

Change and removal of auditor.

The Company’s appointment of, removal of and non-reappointment of an auditor shall be resolved by shareholders’ general meetings.

Where it is proposed that any resolution be passed at a shareholders’ general meeting concerning the appointment of an auditor, which is not an incumbent firm, to fill a casual vacancy in the office of the auditor, reappointment of a retiring auditor which was appointed by the Board to fill a casual vacancy, or removal of the auditor before the expiration of its term of office, the following provisions shall apply:

— A copy of the proposal shall be sent to the auditor proposed to be appointed or proposing to leave its post or the auditor which has left its post (leaving includes leaving by removal, resignation and retirement) before notice of meeting is given to the shareholders.

— If the auditor leaving its post makes presentations in writing and requests the Company to notify such presentations to the shareholders, the Company shall (unless the presentations are received

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

too late): (i) in any notice of the resolution given to shareholders, state the fact of the presentations having been made; and (ii) attach a copy of the presentations to the notice and deliver it to the shareholders in the manner stipulated in the Articles of Association.

— If the auditor’s presentations are not sent in accordance with the preceding paragraph, the relevant auditor may require that the presentations be read out at the shareholders’ general meeting and may lodge further complaints.

— An auditor which is leaving its post shall be entitled to attend: (i) the shareholders’ general meeting at which its term of office would otherwise have expired; (ii) any shareholders’ general meeting at which it is proposed to fill the vacancy caused by its removal; and (iii) any shareholders’ general meeting convened on its resignation; and to receive all notices of, and other communications relating to, any such meetings, and to speak at any such meeting in relation to matters concerning its role as the former auditor of the Company.

Resignation of auditor.

Where the auditor resigns, it shall state to the shareholders’ general meeting whether there has been any impropriety on the part of the Company.

Any auditor may resign by depositing at the Company’s legal residence a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following:

- (1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or
- (2) a statement of any such circumstances.

Where a notice is deposited under the preceding paragraph, the Company shall within fourteen (14) days after receiving of such notice send a copy of the notice to the relevant governing authority. If the notice contains a statement under subparagraph (2) of the preceding paragraph, the Company shall also send a copy of such statement to every Shareholder who is entitled to receive financial report of the Company.

Where the auditor’s notice of resignation contains a statement of any circumstances which should be brought to the notice of the shareholders or creditors of the Company, the auditor may require the Board to convene a shareholders’ extraordinary general meeting for the purpose of giving an explanation of the circumstances connected with its resignation.

Dispute Resolution

Whenever any disputes or claims arise between holders of the H Shares and the Company, holders of the H Shares and the Company’s Directors, Supervisors, General Manager or other members of senior management, or holders of the H Shares and holders of Domestic Shares, based on the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or any other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.

A claimant may elect arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

APPENDIX VIII — SUMMARY OF ARTICLES OF ASSOCIATION

If a claimant elects arbitration at Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for conducting arbitration in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

If any disputes or claims of rights as provided in section 194(1) of Articles of Association, the Laws of Peoples’ Republic of China shall apply, save as otherwise provided in laws and administrative regulations.

Where a dispute or claim of rights is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration provided that such person is the Company or the Company’s shareholder, Director, Supervisor, General Manager or other member of senior management. Disputes in relation to the identification of shareholders and disputes in relation to the share register need not be referred to arbitration.

The award of an arbitration body shall be final and conclusive and binding on all parties.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

1. FURTHER INFORMATION ABOUT THE COMPANY

A. Incorporation

The Company was converted into a joint stock limited company in the PRC by the promotion method under the PRC Company Law on 6 October 2008 with CNPGC and Sinopharm Investment acting as the two Promoters. The Company has established a place of business in Hong Kong at Flat/Room A, 17th Floor, Victor Court, 18 Wang On Road, North Point, Hong Kong, and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on 8 May 2009. Ngai Wai Fung, the authorized representative of the Company for the purposes of Part XI of the Companies Ordinance whose correspondence address is 8th Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong, has been appointed as the Company’s agent for the acceptance of service of process in Hong Kong. As the Company is established in the PRC, its corporate structure and the Articles of Association are subject to the relevant laws and regulations of the PRC. Summaries of the relevant laws and regulations of the PRC and of the Articles of Association are set out in Appendices V and VI to this document.

B. Registered capital

At the time of its conversion into a joint stock limited company, the Company’s initial registered capital was RMB1,637,037,451, divided into 1,637,037,451 Domestic Shares of par value RMB1.00 each, all of which were held and fully paid up or credited as fully paid up by the Promoters.

Save as aforesaid, there has been no alteration in the registered capital of the Company since its conversion into a joint stock limited company.

2. THE RESTRUCTURING

Shareholders of the Company and the Company itself underwent the Restructuring, details of which are set out in the section headed “History, Restructuring and Corporate Structure — Restructuring” in this document. As confirmed by Chen & Co., our legal advisers as to PRC law, our Restructuring complies with all applicable PRC laws and regulations, and all necessary approvals from relevant PRC regulatory authorities required for the implementation of the Restructuring have been obtained. The steps taken or the approvals obtained in relation to the Restructuring of the Company itself include:

- (a) On 6 August 2008, the shareholders’ meeting of the Company passed resolutions whereby, among other things:
 - (i) the conversion of the Company into a joint stock limited company was approved; and
 - (ii) the draft articles of association of the Company were approved;
- (b) On 18 August 2008, SASAC issued an approval document (Guo Zi Chan Quan [2008] 825) to approve the proposal relating to the management of state-owned equity interest upon [●] of the Company;
- (c) On 5 September 2008, SASAC issued an approval document (Guo Zi Gai Ge [2008] 1071) to approve the application for the conversion of the Company into a joint stock limited company and the draft articles of association;

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- (d) On 6 October 2008, an enterprise legal person business license (No. 310101000307576) was issued by the Shanghai Administration of Industry and Commerce, whereupon the Company was converted into a joint stock limited company and acquired the status of an enterprise legal person;

After the Restructuring and immediately before the [●], the Promoters owned the entire issued share capital of the Company.

3. SUBSIDIARIES AND INTERESTS IN OTHER COMPANIES

A. Principal subsidiaries

The Company's principal subsidiaries are referred to in Note 40 to the Accountant's Report, the text of which is set out in Appendix I to this document.

B. Sino-foreign joint ventures

Information regarding the Sino-foreign equity joint ventures in which we are interested in is set out as follows:

● Logistics Company

Parties and equity interest :	51% by National Medicines; 17.65% by Arich Enterprise Co., Ltd. (Taiwan); 9.93% by IVAX Far East Inc.; 5.52% by China National Pharmaceutical Industrial Co., Ltd.; 5.3% by Harbin Pharmaceutical Group Co., Ltd. General Pharm. Factory; 5.3% by North China Pharmaceutical Company. Ltd.; 5.3% by Shandong Lukang Pharmaceutical Co., Ltd.
Term of joint venture :	50 years
Date of establishment :	8 November 2002
Scope of business :	Warehousing services; logistic information consultation; general freight
Total investment amount :	RMB150,000,000
Registered capital :	RMB90,620,000

Any equity transfer of Logistics Company shall be subject to the provisions relating to the pre-emptive rights of other joint venture parties under the PRC Company Law. Each joint venture party is entitled to profits after tax, dividend and other distributions of Logistics Company based on their respective capital contribution ratio. According to the joint venture contract and the articles of association of Logistics Company, its board of directors is comprised of 11 directors. The chairman and vice chairman shall be determined by each joint venture party or elected by the board. The chairman shall be appointed by the PRC shareholders, while the remaining directors shall be appointed after determination made among the joint venture parties based on their respective capital contribution ratio.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

Upon the expiry of the term of the joint venture contract, the joint venture parties shall be entitled to the remaining assets after paying off all debts of the company, based on their respective capital contribution ratio.

● Shenzhen Main Luck

Parties and equity interest :	35.190% by Accord Pharma; 34.155% by Mercian Corporation Japan; 30.655% by Main Life Corporation Ltd.
Term of joint venture :	20 years
Date of establishment :	4 July 1990
Scope of business :	Development, research, production of anti-cancer pharmaceutical preparations, Famotidine injections and powder injection products such as anti-virus injection, α -interferons. Additions: production of small volume injections (anti-tumour), repacking (capsules), anti-tumor API (Mesna and Ifosfamide)
Total investment amount :	USD5,000,000
Registered capital :	USD5,000,000

Transfers of all or part of the investment amount in Shenzhen Main Luck is subject to the pre-emptive rights of other joint venture parties set out in the joint venture contract and the articles of association of Shenzhen Main Luck. Each joint venture party is entitled to profits after tax, dividend and other distributions of Shenzhen Main Luck based on their respective capital contribution ratio. According to the joint venture contract and the articles of association of Shenzhen Main Luck, its board of directors is comprised of 6 directors. The chairman of the first session of the board shall be appointed by Accord Pharma and the two vice chairmen of the first session of the board shall be appointed by Mercian Corporation Japan and Main Life Corporation Ltd. respectively. Since the second session of the board, the chairman and vice chairman shall be elected by the board.

Upon the expiry of the term of the joint venture contract, the joint venture parties shall be entitled to the remaining assets after liquidation procedure, based on their respective capital contribution ratio.

C. Changes in the share capital of subsidiaries

Save as disclosed below, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years preceding the date of this document:

1. On 30 October 2007, the registered capital of Sinopharm Tianyuan was increased from RMB15,030,000 to RMB36,130,000;
2. On 19 December 2007, the registered capital of Shanghai Ourchem was increased from RMB13,840,000 to RMB18,854,151;
3. On 9 May 2008, the registered capital of Sinopharm Henan was further increased from RMB25,500,000 to RMB41,632,653;

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

4. On 13 May 2008, the registered capital of Sinopharm Henan was further increased from RMB41,632,653 to RMB57,765,300;
5. On 6 June 2008, the registered capital of Southwest Pharmaceutical was increased from RMB1,000,000 to RMB20,000,000;
6. On 11 June 2008, the registered capital of Sinopharm Logistics was increased from RMB100,000,000 to RMB300,000,000;
7. On 20 June 2008, the registered capital of Suzhou Zhijun Wanqing was increased from RMB10,000,000 to RMB30,000,000;
8. On 26 June 2008, the registered capital of Suzhou Zhijun Wanqing was further increased from RMB30,000,000 to RMB39,000,000;
9. On 10 September 2008, the registered capital of Dongguan Accord Pharmaceutical Co., Ltd. (formerly known as Dongguan Dongfeng TCM Co., Ltd.) was increased from RMB500,000 to RMB2,800,000;
10. On 17 September 2008, the registered capital of Sinopharm Suzhou was increased from RMB7,000,000 to RMB15,000,000;
11. On 18 September 2008, the registered capital of National Medicines was increased from RMB133,000,000 to RMB239,400,000;
12. On 17 November 2008, Ningxia Guoda Pharmacy Chainstore Co., Ltd. was incorporated in the PRC and the initial registered capital was RMB10,000,000.
13. On 11 December 2008, Sinopharm Logistics Shanxi Co., Ltd. was incorporated in the PRC and the initial registered capital was RMB15,000,000;
14. On 15 December 2008, Sinopharm Logistics Hunan Co., Ltd. was incorporated in the PRC and the initial registered capital was RMB30,000,000;
15. On 24 December 2008, the registered capital of Sinopharm Tianjin was increased from RMB50,000,000 to RMB150,000,000;
16. On 29 December 2008, Sinopharm Anhui was incorporated in the PRC and the initial registered capital was RMB30,000,000;
17. On 13 March 2009, the registered capital of Hebei Aijia was increased from RMB5,000,000 to RMB10,000,000;
18. On 31 March 2009, the registered capital of Suzhou Zhijun Wanqing was further increased from RMB39,000,000 to RMB80,000,000;
19. On 10 April 2009, the registered capital of Sinopharm Hubei was increased from RMB36,000,000 to RMB50,000,000;
20. On 12 June 2009, Sinopharm Logistics Henan Co., Ltd. was incorporated in the PRC and the initial registered capital was RMB30,000,000;

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

21. On 16 June 2009, the registered capital of Sinopharm Hunan was increased from RMB20,000,000 to RMB50,000,000; and
22. On 24 July 2009, the registered capital of National Medicines was further increased from RMB239,400,000 to RMB478,800,000.

D. Interests in listed companies

As of the Latest Practicable Date, the Company owns the following interests in the listed companies as detailed below:

Name	Place of listing	Attributable equity interests (%)
Accord Pharma	Shenzhen	38.33
National Medicines	Shanghai	44.01

4. FURTHER INFORMATION ABOUT THE BUSINESS

A. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or its subsidiaries within the two years preceding the date of this document and are or may be material:

- (i) an equity transfer agreement dated 17 October 2007 entered into between the Company and 22 individual shareholders of Sinopharm Jiangsu, namely, Huang Jiaying, Wu Rukui, Shi Wei, Zeng Haidong, Hu Shoukang, Wang Huai, Zhang Junshan, Zhou Xueqi, Wang Jinrong, Liu Guiling, Zhu Xuemei, Zhang Zhongyuan, Mei Weide, Xu Qiang, Bo Fengqin, Xu Yulan, Pan Liufang, Chen Yuan, Cao Hongsheng, Zhu Shicai, Xu Yueming and Wang Hualong (collectively, the “22 Individual Shareholders”) regarding the disposal of an aggregate of a 15.74% equity interest in Sinopharm Jiangsu by the 22 Individual Shareholders to the Company at a total cash consideration of RMB6,530,000;
- (ii) an equity transfer agreement dated 17 October 2007 entered into between the Company and Zhou Baoyu regarding the disposal of a 10.2% equity interest in Sinopharm Jiangsu by Zhou Baoyu to the Company at a cash consideration of RMB4,215,000;
- (iii) an equity transfer agreement dated 31 October 2007 entered into between Sinopharm Tianjin and Sinopharm Logistics regarding the disposal of a 95% equity interest in Sinopharm Logistics Tianjing Co., Ltd. by Sinopharm Tianjin to Sinopharm Logistics at a cash consideration of RMB38,000,000;
- (iv) an equity transfer framework agreement dated 30 November 2007 entered into between Sinopharm GuoDa, Hubei Century Longteng and Sinopharm Hubei Xinlong setting out the framework for (i) the disposal of a 60% equity interest in Sinopharm Hubei Xinlong by Sinopharm GuoDa in 3 tranches to Hubei Century Longteng; and (ii) the disposal of a 13.89% equity interest in Sinopharm Hubei by Sinopharm Hubei Xinlong to a subsidiary or parent company of Sinopharm GuoDa at a cash consideration determined based on the relevant appraised asset values;

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- (v) a (25%) equity transfer agreement (the first tranche) dated 30 November 2007 entered into between Sinopharm GuoDa and Hubei Century Longteng regarding the disposal of a 25% equity interest in Sinopharm Hubei Xinlong by Sinopharm GuoDa to Hubei Century Longteng at a cash consideration determined based on the appraised asset value of Sinopharm Hubei Xinlong as of 30 September 2007 and which was agreed to be RMB25,000,000;

Note: The 25% equity interest in Sinopharm Hubei Xinlong disposed of under this agreement is part of the 60% equity interest mentioned in paragraph (iv) above.

- (vi) a (25%) equity transfer agreement (the second tranche) dated 30 November 2007 entered into between Sinopharm GuoDa and Hubei Century Longteng regarding the disposal of a 25% equity interest in Sinopharm Hubei Xinlong by Sinopharm GuoDa to Hubei Century Longteng at a cash consideration determined based on the appraised asset value of Sinopharm Hubei Xinlong as of 30 September 2009 and which shall not be less than RMB25,000,000;

Note: The 25% equity interest in Sinopharm Hubei Xinlong disposed of under this agreement is part of the 60% equity interest mentioned in paragraph (iv) above.

- (vii) a (10%) equity transfer agreement (the third tranche) dated 30 November 2007 entered into between Sinopharm GuoDa and Hubei Century Longteng regarding the disposal of a 10% equity interest in Sinopharm Hubei Xinlong by Sinopharm GuoDa to Hubei Century Longteng at a cash consideration determined based on the appraised asset value of Sinopharm Hubei Xinlong as of 30 September 2010 and which shall not be less than RMB10,000,000;

Note: The 10% equity interest in Sinopharm Hubei Xinlong disposed of under this agreement is part of the 60% equity interest mentioned in paragraph (iv) above.

- (viii) a cooperation framework agreement dated 25 December 2007 entered into between the Company, Wang Wei (for himself and on behalf of 10 other individual shareholders of Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.), namely, Wang Wei, Cui Lihong, Zhang Junwei, Li Zhong, Chen Yunqin, Yang Dezheng, Sun Xiaolan, Niu Shuqin, Wang Huaijiang, Zhao Kexin and Song Jie) (collectively, the “11 Individual Shareholders”) and Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.) regarding (i) the disposal of a 20% equity interest in Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.) by the 11 Individual Shareholders to the Company at a cash consideration of RMB10,200,000; (ii) the subsequent additional capital contribution to Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.) by the Company in the amount of RMB32,265,300; and (iii) the terms of the corporate structure and management of Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.);

- (ix) an equity transfer agreement dated 25 January 2008 entered into between the Company and 5 individual shareholders of Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.), namely, Zhang Junwei, Chen YunQin, Yang Dezheng, Zhao Kexin and Song Jie (collectively, the “5 Individual Shareholders”) regarding the disposal of an aggregate of a 20% equity interest in Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.) by the 5 Individual Shareholders to the Company at a total cash consideration of RMB10,200,000;

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

Note: The 20% equity interest in Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.) disposed of under this agreement is part of the transactions mentioned in paragraph (viii) above.

- (x) a capital increase agreement dated 25 January 2008 entered into between the Company, Wang Wei, Cui Lihong and Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.), pursuant to which the Company contributed RMB32,265,300 to subscribe for the corresponding amount of newly increased registered capital in Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.);

Note: The capital increase under this agreement is part of the transactions mentioned in paragraph (viii) above.

- (xi) a joint venture agreement dated 25 January 2008 entered into between the Company, Wang Wei and Cui Lihong specifying their respective rights and obligations in their capacities as shareholders of Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.);
- (xii) a creditor's right confirmation dated 25 January 2008 entered into between the Company, Wang Wei and Cui Lihong, pursuant to which Wang Wei and Cui Lihong agreed to acquire the equity interest in Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.) held by the Company at a cash consideration of RMB46,711,800 if certain conditions are satisfied;
- (xiii) a guarantee contract dated 25 January 2008 entered into between the Company, Wang Wei and Cui Lihong, pursuant to which Wang Wei and Cui Lihong agreed to charge their equity interests in Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.) to secure the debt in the sum of RMB46,711,800;
- (xiv) an opening of jointly controlled account agreement dated 26 March 2008 entered into between the Company and Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.), pursuant to which the Company and Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.) agreed that the consideration payable by the Company under the acquisition of a 20% equity interest and the additional contribution to newly increased registered capital in Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.) by the Company will be deposited into an account of Sinopharm Henan (formerly known as Zhengzhou Jiurui Medicine Co., Ltd.) held at Bank of Communications, Zhengzhou Branch;
- (xv) an equity transfer agreement dated 27 March 2008 entered into between Zhejiang Intmedic and Sinopharm GuoDa regarding the disposal of a 12% equity interest in Zhejiang Intmedic Drugstore Co., Ltd. by Zhejiang Intmedic to Sinopharm GuoDa at a cash consideration of RMB1,800,000;
- (xvi) a trademark transfer agreement dated 2 April 2008 entered into between Changchun Puhua and Sinopharm GuoDa regarding the transfer of a trademark by Changchun Puhua to Sinopharm GuoDa at a consideration of RMB1.00;
- (xvii) an authorization letter dated 2 April 2008 entered into between Changchun Puhua and Sinopharm GuoDa authorizing the exclusive use of a trademark of Changchun

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- Puhua by Sinopharm GuoDa and restricting the sale of the trademark by Changchun Puhua;
- (xviii) a Shanghai assets and equity transaction contract dated 25 April 2008 entered into between Zhejiang Dong Ming Industrial Co., Ltd. and Sinopharm Guoda, and their respective agents (Shanghai Xintou Equity Broker Co., Ltd. and Shanghai Zhiang Investment Consultation Co., Ltd.) regarding the disposal of a 39% equity interest in Zhejiang Intmedic Drugstore Co., Ltd. by Zhe Jiang Dong Ming Industrial Co., Ltd. to Sinopharm GuoDa at a cash consideration of RMB5,376,491.15;
 - (xix) an equity transfer agreement dated 18 May 2008 entered into between Shenyang Pharmaceutical and Sinopharm GuoDa regarding the disposal of a 51% equity interest in Shenyang Tianyitang by Shenyang Pharmaceutical to Sinopharm GuoDa at a cash consideration of RMB6,375,000;
 - (xx) a capital and share increase agreement dated 18 May 2008 entered into between the Company, China National Pharmaceutical (Group) Tianjin Corporation) and Lu Yi, pursuant to which (i) the Company contributed RMB13,000,000 to subscribe for the corresponding amount of newly increased registered capital of Southwest Pharmaceutical; and (ii) 陸怡 (Lu Yi) contributed RMB7,670,000 to Southwest Pharmaceutical, of which RMB6,000,000 was for the subscription for the corresponding amount of newly increased registered capital and the remaining amount of RMB1,670,000 was credited to the common reserve fund of Southwest Pharmaceutical;
 - (xxi) a Shanghai assets and equity transaction contract dated 18 June 2008 entered into between Sinopharm Hubei Xinlong and the Company, and their respective agents (Shanghai Zhuzong Group Equity Broker Co., Ltd. and Shanghai Celian Management of Investment Co., Ltd.) regarding the disposal of a 13.89% equity interest in Sinopharm Hubei by Sinopharm Hubei Xinlong to the Company at a cash consideration of RMB8,222,864.84;
 - (xxii) a Shanghai assets and equity transaction contract dated 2 July 2008 entered into between Shanghai Company and Accord Pharma, and their respective agents (Shanghai Huiyuan Management of Investment Co., Ltd. and Beijing Deheyongdao) regarding the disposal of a 10% equity interest in Sinopharm Guangzhou by Shanghai Company to Accord Pharma at a cash consideration of RMB30,661,100;
 - (xxiii) a Shanghai assets and equity transaction contract dated 29 July 2008 entered into between Guangxi Guoda Pharmacy Chainstore Co., Ltd. and Accord Pharma, and their respective agents (Beijing Deheyongdao and Beijing Zidesen) regarding the disposal of a 20% equity interest in Guangxi Accord Pharmaceutical Co., Ltd. by Guangxi Guoda Pharmacy Chainstore Co., Ltd. to Accord Pharma at a cash consideration of RMB1,000,595.70;
 - (xxiv) a Shanghai assets and equity transaction contract dated 29 July 2008 entered into between Nanning Medicines Wholesales of Guangxi Zhuang Autonomous Region and Accord Pharma, and their respective agents (Beijing Deheyongdao and Beijing Zidesen) regarding the disposal of a 80% equity interest in Guangxi Accord Pharmaceutical Co., Ltd. by Nanning Medicines Wholesales of Guangxi Zhuang

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- Autonomous Region to Accord Pharma at a cash consideration of RMB4,002,382.79;
- (xxv) an equity transfer agreement dated 26 August 2008 entered into between Shanghai Dongshi Business Enterprise Development Co., Ltd. and Sinopharm Tianjin regarding the disposal of a 10% equity interest in Sinopharm Holding Tianjin Enterprise Development Co., Ltd. (formerly known as Tianjin Dongshi Business Enterprise Development Co., Ltd) by Shanghai Dongshi Business Enterprise Development Co., Ltd. to Sinopharm Tianjin;
- (xxvi) a capital increase agreement dated 8 December 2008 entered into between the Company, Wuhan Ruipu Investment Co., Ltd. and Wuhan Xingrui Investment Management Consultation Co., Ltd., pursuant to which the Company contributed RMB10,295,000 to Sinopharm Hubei, of which RMB7,100,000 was for the subscription for the corresponding amount of newly increased registered capital and the remaining amount of RMB3,195,000 was credited to the common reserve fund and Wuhan Ruipu Investment Co., Ltd. contributed RMB10,005,000 to Sinopharm Hubei, of which RMB6,900,000 was for the subscription for the corresponding amount of newly increased registered capital and the remaining amount of RMB3,105,000 was credited to the common reserve fund;
- (xxvii) a Shanghai assets and equity transaction contract dated 11 December 2008 entered into between Zhijun Pharmaceutical and Accord Pharma, and their respective agents (Beijing Zidesen and Beijing Deheyongdao) regarding the disposal of a 52.91% equity interest in Shenzhen Zhijun Pharmaceutical Trade Co., Ltd., a 10% equity interest in Shenzhen Accord Tradition & Herbal Medicine Co., Ltd., a 10% equity interest in Shenzhen Accord Pharmaceutical Logistics Co., Ltd. and a 35.19% in Shenzhen Main Luck by Zhijun Pharmaceutical to Accord Pharma at a cash consideration of RMB1,740,437, RMB943,000, RMB103,730 and RMB25,880,400 respectively;
- (xxviii) a Shanghai assets and equity transaction contract dated 11 December 2008 entered into between Guangdong Huixin Investment Co., Ltd. and Accord Pharma, and their respective agents (Beijing Zidesen and Beijing Deheyongdao) regarding the disposal of the entire equity interest in Guangdong Hengchang Logistics Co., Ltd. and Sinopharm Holding Foshan Co., Ltd. by Guangdong Huixin Investment Co., Ltd. to Accord Pharma at a cash consideration of RMB1,061,900 and RMB7,077,700 respectively;
- (xxix) a Shanghai assets and equity transaction contract dated 11 December 2008 entered into between Sinopharm Guangzhou and Accord Pharma, and their respective agents (Beijing Zidesen and Beijing Deheyongdao) regarding the disposal of a 51% equity interest in Sinopharm Liuzhou, a 100% equity interest in Guangdong Yuexing Pharmaceutical Co., Ltd., a 100% equity interest in Guangdong Huixin Investment Co., Ltd., a 51% equity interest in Sinopharm Holding Guangdong Xinlong Co., Ltd. and a 10% equity interest in Guangdong Accord by Sinopharm Guangzhou to Accord Pharma at a cash consideration of RMB24,521,900, RMB16,436,000, RMB136,749,500, RMB8,967,942 and RMB5,046,500 respectively;

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- (xxx) a Shanghai assets and equity transaction contract dated 12 December 2008 entered into between Accord Pharma and Guangdong Accord, and their respective agents (Beijing Zidesen and Beijing Deheyongdao) regarding the disposal of a 10% equity interest in Shenzhen Accord Pharma by Accord Pharma to Guangdong Accord at a cash consideration of RMB1;
 - (xxxi) an equity transfer agreement dated 25 December 2008 entered into between Beijing Chang Xin Yi Da Investment Adviser Co., Ltd. and Sinopharm Beijing Huahong regarding the disposal of a 4% equity interest in Sinopharm Beijing by Sinopharm Beijing Huahong to Beijing Chang Xin Yi Da Investment Adviser Co., Ltd. at a cash consideration of RMB4,095,448;
 - (xxxii) an equity transfer framework agreement dated 28 December 2008 entered into between Sinopharm Tianjin, Hebei Medicines, Chen Liwei, Liu Qiang and Tian Yanhui setting out the framework for (i) the disposal of a 80% equity interest in Hebei Aijia by Chen Liwei to Sinopharm Tianjin and disposal of an aggregate 9.8% equity interest in Hebei Aijia by Liu Qiang and Tian Yanhui to Hebei Medicines; (ii) the contribution in cash by Sinopharm Tianjin and Hebei Medicines in proportion to their respective shareholding interest in Hebei Aijia upon the completion of above equity transfers, to increase the registered capital of Hebei Aijia to RMB10,000,000; and (iii) the disposal of a 20% equity interest in Hebei Aijia by Hebei Medicines to Sinopharm Tianjin;
 - (xxxiii) an equity transfer agreement dated 28 December 2008 entered into between Chen Liwei and Sinopharm Tianjin regarding the disposal of a 80% equity interest in Hebei Aijia by Chen Liwei to Sinopharm Tianjin at a cash consideration of RMB5,040,000;
- Note: The 80% equity interest in Hebei Aijia disposed of under this agreement is part of the transactions mentioned in paragraph (xxxii) above.*
- (xxxiv) a framework agreement dated 31 December 2008 entered into between Accord Pharma, Yang Qiaoming and Zhou Fuying setting out the framework for (i) the disposal of 74.36% and 0.64% equity interest in Suzhou Zhijun Wanqing (formerly known as Suzhou Wanqing Pharmaceutical Co., Ltd.) by Yang Qiaoming and Zhou Fuying respectively to Accord Pharma; (ii) the disposal of 1.92% and 23.08% equity interest in Suzhou Zhijun Wanqing (formerly known as Suzhou Wanqing Pharmaceutical Co., Ltd.) by Zhou Fuying and other shareholders of Suzhou Zhijun Wanqing (formerly known as Suzhou Wanqing Pharmaceutical Co., Ltd.) to Yang Qiaoming; (iii) the contribution of RMB30,750,000 and RMB10,250,000 to Suzhou Zhijun Wanqing (formerly known as Suzhou Wanqing Pharmaceutical Co., Ltd.) by Accord Pharma and Yang Qiaoming respectively upon completion of the above two transactions, to increase the registered capital of Suzhou Zhijun Wanqing (formerly known as Suzhou Wanqing Pharmaceutical Co., Ltd.) to RMB80,000,000;
 - (xxxv) an equity transfer agreement dated 5 January 2009 entered into between Accord Pharma, Chen Zhongqi and Chen Zhongyao regarding the disposal of the entire equity interest in Dongguan Accord Pharmaceutical Co., Ltd. (formerly known as Dongguan Dongfeng TCM Co., Ltd.) by Chen Zhongqi and Chen Zhongyao to Accord Pharma at a total cash consideration of RMB2,742,000;

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- (xxxvi) an equity transfer agreement dated 2 February 2009 entered into between the Company and Mitsubishi Corporation regarding the disposal of a 9% equity interest in Sinopharm Beijing Huahong by the Company to Mitsubishi Corporation at a cash consideration of RMB43,200,000;
- (xxxvii) a drugstores equity transfer agreement dated 10 February 2009 entered into between Dongguan Accord Pharmaceutical Co., Ltd. and Shenzhen Accord Pharma regarding the disposal of equity interests in 10 drugstores by Dongguan Accord Pharmaceutical Co., Ltd. to Shenzhen Accord Pharma at a cash consideration of RMB1,350,000;
- (xxxviii) an equity transfer agreement dated 18 February 2009 entered into between Accord Pharma and Yang Qiaoming regarding the disposal of a 75% equity interest in Suzhou Zhijun Wanqing (formerly known as Suzhou Wanqing Pharmaceutical Co., Ltd.) by Yang Qiaoming to Accord Pharma at a cash consideration of RMB103,500,000;

Note: The 75% equity interest in Suzhou Zhijun Wanqing (formerly known as Suzhou Wanqing Pharmaceutical Co., Ltd.) disposed of under this agreement is the total equity interests mentioned in paragraph (xxxiv) above.

- (xxxix) a capital increase agreement dated 23 February 2009 entered into between Accord Pharma and Yang Qiaoming, pursuant to which Accord Pharma and Yang Qiaoming contributed RMB30,750,000 and RMB10,250,000 respectively to subscribe for the corresponding amounts of newly increased registered capital of Suzhou Zhijun Wanqing (formerly known as Suzhou Wanqing Pharmaceutical Co., Ltd.);

Note: The capital increase under this agreement is part of the transactions mentioned in paragraph (xxxiv) above.

- (xxxx) an asset and equity transaction contract dated 10 March 2009 entered into between Sinopharm Beijing Huahong, the Company and Beijing Chang Xin Yi Da Investment Adviser Co., Ltd. regarding the disposal of 4% and 6% equity interest in Sinopharm Beijing by Sinopharm Beijing Huahong to Beijing Chang Xin Yi Da Investment Adviser Co., Ltd. and the Company respectively at a cash consideration of RMB4,095,448 and RMB6,143,172 respectively;

Note: The 4% equity interest in Sinopharm Beijing disposed of under this agreement is the transaction mentioned in paragraph (xxxi) above.

- (xxxxi) a restructuring framework agreement dated 8 April 2009 between the Company, Anhui Yian and Guotou Anhui, the provisions of which include (i) injecting the original business of Guotou Anhui to Sinopharm Anhui; (ii) transferring certain creditor's rights and debts of Guotou Anhui to Sinopharm Anhui with Anhui Yian charging its equity interests in Sinopharm Anhui to secure the compensation related to the above creditor's rights and debts; (iii) disposing of a 67% equity interest in Sinopharm Anhui by Guotou Anhui to the Company;
- (xxxxii) an equity transfer agreement dated 10 April 2009 entered into between the Company and Guotou Anhui regarding the disposal of a 67% equity interest in Sinopharm Anhui by Guotou Anhui to the Company at a cash consideration of RMB36,600,000;

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

Note: The 67% equity interest in Sinopharm Anhui disposed of under this agreement is part of the transactions mentioned in paragraph (xxxi) above.

- (xxxiii) an equity mortgage contract dated 10 April 2009 entered into between the Company and Anhui Yian, pursuant to which Anhui Yian agreed to charge its 33% equity interest in Sinopharm Anhui and the rights in assets that it is entitled (including but not limited to bonus) to secure certain creditor’s rights owned by Anhui Yian and Guotou Anhui under the above restructuring framework agreement;

Note: The equity mortgage under this contract is part of the transactions mentioned in paragraph (xxxi) above.

- (xxxiv) a Shanghai assets and equity transaction contract dated 25 May 2009 entered into between the Company and Accord Pharma, and their respective agents (Shanghai Tian Xing Jian Assets and Equity Managing Co., Ltd. and Beijing Zidesen) regarding the disposal of a 60% equity interest in Sinopharm Holding Nanning Co., Ltd. by the Company to Accord Pharma at a cash consideration of RMB18,259,020;
- (xxxv) a Shanghai assets and equity transaction contract dated 25 May 2009 entered into between Sinopharm Holding Shanghai Co., Ltd. and Accord Pharma, and their respective agents (Shanghai Tian Xing Jian Assets and Equity Managing Co., Ltd. and Beijing Zidesen) regarding the disposal of a 40% equity interest in Sinopharm Holding Nanning Co., Ltd. by Sinopharm Holding Shanghai Co., Ltd. to Accord Pharma at a cash consideration of RMB12,172,680;
- (xxxvi) the Trademark License Agreement dated 31 August 2009 entered into between the Company and CNPGC regarding the license of several trademarks by CNPGC to our Company without any consideration as referred to in the section headed “Connected Transactions” in this document;
- (xxxvii) the Non-Competition Agreement dated 31 August 2009 entered into between the Company and CNPGC regarding the non-competition undertaking given by CNPGC in favor of the Company as referred to in the section headed “Relationship with the Controlling Shareholder and Directors” in this document;
- (xxxviii) the Deed of Indemnity dated 31 August 2009 entered into between the Company and Sinopharm Investment regarding the provision of certain indemnities by Sinopharm Investment in favor of the Company as referred to in the section headed “Connected Transactions” in the document;

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

B. Intellectual property rights

(i) *Patents*

As of the Latest Practicable Date, the following is the patent that the relevant member of our Company has been granted in the PRC:

<u>No.</u>	<u>Patent</u>	<u>Patent Owner</u>	<u>Patent No.</u>	<u>Type</u>	<u>Date of Application</u>
1	Bottle (Anticol)	Zhijun Pharmaceutical (formerly known as Shenzhen Pharmaceutical Factory)	ZL 20053 0157192.9	Design	14 December 2005
2	Oral sustained And controlled release solutions consisting of codeine and chlorpheniramine, and its preparation methods	Zhijun Pharmaceutical (formerly known as Shenzhen Pharmaceutical Factory)	ZL 200510102145.3	Innovation	12 December 2005
3	Cefixime oral disintegrating tablets and its preparation methods	Zhijun Pharmaceutical (formerly known as Shenzhen Pharmaceutical Factory)	ZL 200610032935.3	Innovation	9 January 2006

According to PRC laws, a granted design has a validity period of 10 years from the date of its application and a granted innovation has a validity period of 20 years from the date of its application.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

As of the Latest Practicable Date, the following are patents that the relevant member of our Company has applied for in the PRC:

No.	Patent	Patent Applicant	Application No.	Type	Date of Application
1	Azithromycin and its preparation methods	Zhijun Pharmaceutical (formerly known as Shenzhen Pharmaceutical Factory)	200610157604.2	Innovation	13 December 2006
2	The prescription of suspension and its preparation methods	Zhijun Pharmaceutical (formerly known as Shenzhen Pharmaceutical Factory)	200710073213.7	Innovation	5 February 2007
3	Capsules containing pseudoephedrine and its preparation methods	Zhijun Pharmaceutical (formerly known as Shenzhen Pharmaceutical Factory)	200710076522.X	Innovation	22 August 2007
4	Synthetical method of cefpirome sulfate, a bacteriophage	Suzhou Zhijun Wanqing (formerly known as Suzhou Wanqing Pharmaceutical Co., Ltd.)	200810021609.1	Innovation	12 August 2008
5	Synthetical method of cefixime, a bacteriophage	Suzhou Zhijun Wanqing (formerly known as Suzhou Wanqing Pharmaceutical Co., Ltd.)	200810020976.X	Innovation	12 August 2008
6	Synthetical method of cefepime hydrochloride, a bacteriophage	Suzhou Zhijun Wanqing (formerly known as Suzhou Wanqing Pharmaceutical Co., Ltd.)	200810022542.3	Innovation	15 August 2008

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

(ii) Trademarks

(a) Registered trademarks:

As of the Latest Practicable Date, the following trademarks were registered in the name of the relevant member of our Company:

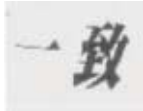
● 化學試劑公司 (*Chemical Reagent Company*)

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
1		PRC	1	Note 1	3159039	20 October 2013
2		PRC	1	Note 2	4940543	13 April 2019
3		PRC	1	Note 3	984151	20 April 2017
4		PRC	9	Note 53	663426	27 October 2013
5		PRC	9	Note 54	4940562	20 September 2018

● 一致藥業 (*Accord Pharma*)

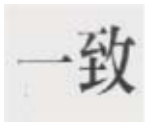
No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
1		PRC	1	Note 4	1184017	20 June 2018
2		PRC	1	Note 4	1292506	13 July 2009*
3		PRC	1	Note 4	1198016	13 August 2018
4		PRC	3	Note 8	1186145	27 June 2018

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
5		PRC	3	Note 8	1200109	20 August 2018
6		PRC	3	Note 8	1292642	13 July 2009*
7		PRC	5	Note 9	1140680	6 January 2018
8		PRC	5	Note 10	1173994	6 May 2018
9		PRC	5	Note 11	1302788	13 August 2009*
10		PRC	5	Note 12	1258326	27 March 2019
11		PRC	5	Note 13	1202292	27 August 2018
12		PRC	7	Note 51	1349522	27 December 2009
13		PRC	7	Note 52	1187297	27 June 2018
14		PRC	7	Note 52	1187296	27 June 2018
15		PRC	7	Note 52	1299446	27 July 2009*

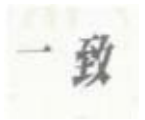
THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Information Pack.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

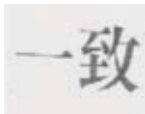
No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
16		PRC	9	Note 55	1343751	13 December 2009
17		PRC	9	Note 56	1341170	6 December 2009
18		PRC	10	Note 58	1145144	20 January 2018
19		PRC	10	Note 58	1163104	27 March 2018
20		PRC	10	Note 59	1189112	6 July 2018
21		PRC	10	Note 59	1189109	6 July 2018
22		PRC	10	Note 60	1306975	20 August 2009*
23		PRC	11	Note 63	1326922	20 October 2009
24		PRC	16	Note 64	1315421	20 September 2009*
25		PRC	18	Note 65	1355566	20 January 2010
26		PRC	20	Note 66	1345398	20 December 2009

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Information Pack.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
27		PRC	21	Note 67	1303119	13 August 2009*
28		PRC	24	Note 68	1330745	6 November 2009
29		PRC	25	Note 69	1313440	13 September 2009
30		PRC	29	Note 70	1313976	13 September 2009*
31		PRC	31	Note 74	1302212	6 August 2009*
32		PRC	32	Note 76	1631430	6 September 2011
33		PRC	32	Note 76	1631431	6 September 2011
34		PRC	32	Note 76	1595412	27 June 2011
35		PRC	33	Note 77	1324609	13 October 2009
36		PRC	35	Note 78	1475917	13 November 2010
37		PRC	35	Note 79	1145826	20 January 2018

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
38		PRC	36	Note 81	1307333	20 August 2009*
39		PRC	42	Note 83	1349887	27 December 2009
40		PRC	42	Note 84	1145703	20 January 2018
41		PRC	42	Note 84	1145734	20 January 2018

* Accord Pharma has applied for the renewal of each of these trademark registrations

● 國藥物流 (Sinopharm Logistics)

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
1		PRC	39	Note 82	3929802	27 March 2017

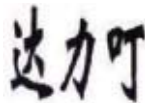
● 國控國大 (Sinopharm GuoDa)

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
1		PRC	5	Note 14	4066495	27 February 2017

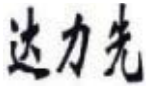
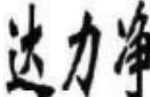
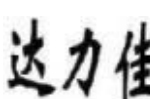
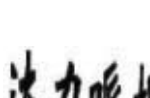
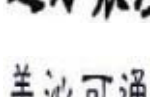
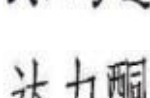
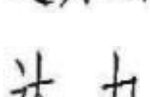
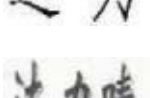
● 太倉滬試試劑有限公司 (Taicang Hushi Chemical Reagent Co., Ltd.)

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
1		PRC	1	Note 5	3732580	6 August 2015

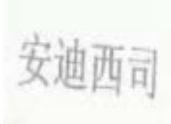
● 致君制藥 (Zhijun Pharmaceutical)

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
1		PRC	5	Note 15	3735523	6 February 2016
2		PRC	5	Note 15	3735532	6 February 2016

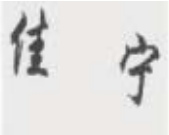
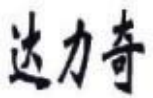
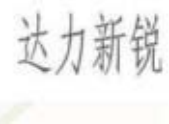
APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
3		PRC	5	Note 15	3735533	6 February 2016
4		PRC	5	Note 15	3735534	6 February 2016
5		PRC	5	Note 15	3735535	6 February 2016
6		PRC	5	Note 15	3735536	6 February 2016
7		PRC	5	Note 15	3735537	6 February 2016
8		PRC	5	Note 15	3735539	6 February 2016
9		PRC	5	Note 15	3740351	6 February 2016
10		PRC	5	Note 15	4107758	27 April 2017
11		PRC	5	Note 16	3418371	6 October 2014
12		PRC	5	Note 17	3418370	27 September 2014
13		PRC	5	Note 18	1600588	13 July 2011
14		PRC	5	Note 18	1600589	13 July 2011

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
15		PRC	5	Note 18	1600590	13 July 2011
16		PRC	5	Note 18	1600591	13 July 2011
17		PRC	5	Note 19	1350834	6 January 2010
18		PRC	5	Note 20	1154630	27 February 2018
19		PRC	5	Note 21	1652451	20 October 2011
20		PRC	5	Note 22	1668428	20 November 2011
21		PRC	5	Note 23	1588481	20 June 2011
22		PRC	5	Note 23	1588482	20 June 2011
23		PRC	5	Note 23	1596496	6 July 2011
24		PRC	5	Note 23	1596547	6 July 2011

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
25		PRC	5	Note 24	1166275	13 April 2018
26		PRC	5	Note 25	1178309	27 May 2018
27		PRC	5	Note 25	1178310	27 May 2018
28		PRC	5	Note 26	1044580	6 July 2017
29		PRC	5	Note 26	1044581	6 July 2017
30		PRC	5	Note 27	568261	19 October 2011
31		PRC	5	Note 28	3735538	13 April 2016
32		PRC	5	Note 29	4657695	20 September 2018
33		PRC	5	Note 29	4643369	13 September 2018

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

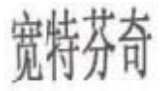
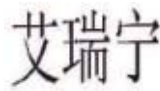
No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
34	锐力克	PRC	5	Note 29	4657694	20 September 2018
35	达力专注	PRC	5	Note 29	4755327	20 March 2019
36	达力聚焦	PRC	5	Note 29	4755307	6 January 2019
37	合力锐能	PRC	5	Note 29	4755310	6 January 2019
38	联力美美	PRC	5	Note 29	4755309	6 January 2019
39	锐力泰	PRC	5	Note 29	4755308	6 January 2019
40		PRC	5	Note 26	1044643	6 July 2017
41	Sefuxim	Hong Kong	5	Note 30	301079389	25 March 2018
42	ZHI JUN	Hong Kong	5	Note 30	301079415	25 March 2018
43		PRC	5	Note 31	4914961	20 March 2019
44	凯雅希	PRC	30	Note 72	1758436	27 April 2012
45	康钙c	PRC	30	Note 71	2013009	13 January 2013
46	康弓C	PRC	30	Note 72	1758437	27 April 2012
47		PRC	31	Note 75	266727	19 October 2016

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

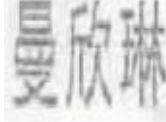
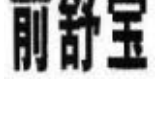
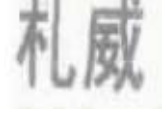
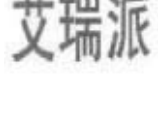
● 國藥集團化學試劑北京有限公司 (*China National Pharmaceutical Group Beijing Chemical Reagent Co., Ltd.*)

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
1		PRC	1	Note 6	656223	6 September 2013
2		PRC	1	Note 7	4496928	27 May 2018
3		PRC	9	Note 57	3282705	13 October 2013

● 國瑞藥業 (*Gouri Pharmaceutical*)

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
1		PRC	5	Note 32	1395488	13 May 2010
2		PRC	5	Note 27	3861940	6 May 2016
3		PRC	5	Note 27	3861944	6 May 2016
4		PRC	5	Note 27	3861942	6 May 2016
5		PRC	5	Note 27	3861941	6 May 2016
6		PRC	5	Note 33	4279854	27 March 2018
7		PRC	5	Note 34	1386390	20 April 2010
8		PRC	5	Note 35	1973886	20 November 2012

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
9		PRC	5	Note 35	1973885	20 November 2012
10		PRC	5	Note 36	3342960	20 May 2014
11		PRC	5	Note 37	3025793	20 December 2012
12		PRC	5	Note 38	1437356	27 August 2010
13		PRC	5	Note 39	1680433	13 December 2011
14		PRC	5	Note 40	1805587	13 July 2012
15		PRC	5	Note 41	3861939	6 May 2016
16		PRC	5	Note 41	3861943	6 May 2016
17		PRC	5	Note 42	3915076	6 August 2016
18		PRC	5	Note 43	1612534	6 August 2011
19		PRC	5	Note 44	4613906	6 August 2018

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
20	艾瑞泰	PRC	5	Note 44	4613907	6 August 2018
21	艾瑞舒	PRC	5	Note 44	4613908	6 August 2018
22	瑞他	PRC	5	Note 45	4827360	20 February 2019
23	瑞诺松	PRC	5	Note 45	4827359	13 February 2019
24	瑞依达	PRC	5	Note 45	4943007	20 February 2019
25	敏瑞清	PRC	5	Note 45	4943005	20 February 2019
26	瑞沙	PRC	5	Note 45	4827358	6 March 2019
27	艾瑞芬	PRC	5	Note 45	4920766	27 March 2019
28	艾欣利尔	PRC	5	Note 46	1260259	6 April 2019
29	艾瑞元	PRC	5	Note 45	5023701	27 April 2019
30	艾欣益乐	PRC	5	Note 45	5115011	27 May 2019

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

● 上海公司 (Shanghai Company)

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
1		PRC	5	Note 47	1536422	13 March 2011
2		PRC	10	Note 61	1543264	20 March 2011

● 中國醫藥天津採購供應站開發區藥品公司 (China National Pharmaceutical Tianjin Purchasing & Supplying Station Development Zone Branch.)

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
1		PRC	35	Note 80	1503967	6 January 2011

● 國控江蘇 (Sinopharm Jiangsu)

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
1		PRC	5	Note 48	1496520	27 December 2010
2		PRC	10	Note 62	1558185	26 April 2011
3		PRC	30	Note 73	3702763	13 June 2015
4		PRC	44	Note 85	3702772	20 January 2016

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

● 蘇州致君萬慶 (*Suzhou Zhijun Wanqing*)

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
1	庆立康	PRC	5	Note 49	3902524	27 June 2016
2	庆乐康	PRC	5	Note 49	3902523	27 June 2016
3	庆君康	PRC	5	Note 49	3902512	27 June 2016
4	庆福达	PRC	5	Note 49	3902511	27 June 2016
5	庆捷康	PRC	5	Note 49	3902510	27 June 2016
6	庆克罗	PRC	5	Note 49	3902508	27 June 2016
7	庆多福	PRC	5	Note 50	3902525	27 June 2016
8	万庆芬	PRC	5	Note 50	3902526	27 June 2016
9	庆复康	PRC	5	Note 50	3902527	27 June 2016

Note 1: CLASS 1: Biochemical catalysts, chemical preparations for scientific use (other than for medical or veterinary purposes), chemical reagents, chemical substances for analyses in laboratories (other than for medical or veterinary purposes), reagent paper, microorganism incubators other than for medical or veterinary purposes, dyestuff assister, biological preparations other than for medical or veterinary purposes, diagnostic preparations other than for medical or veterinary purposes, chemical additives for insecticides.

Note 2: CLASS 1: Dyestuff assister stated in service list; industrial chemicals; biochemical catalysts; chemical reagents (other than for medical or veterinary purposes); chemical substances for analyses in laboratories (other than for medical or veterinary purposes); reagent paper; biological preparations other than for medical or veterinary purposes; microorganism incubators other than for medical or veterinary purposes; microbial cultivators other than for medical or veterinary purposes; edible chemical preservatives.

Note 3: CLASS 1: Acid, alkaline, salt, etc.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- Note 4: CLASS 1: Test paper; chemical reagents for non-medical and non-veterinary purposes; chemical additives for pesticides; settling preparations for juice; germicides for wine; milk enzymes for chemical purposes; fire-extinguishing powder; preservatives for flowers; lubricants; chemical refrigerants.
- Note 5: CLASS 1: Chemical reagents (other than for medical or veterinary purposes); biochemical catalysts; chemical preparations for scientific use (other than for medical or veterinary purposes); chemical substances for analyses in laboratories (other than for medical or veterinary purposes); preparations for low temperature experiments; test paper; olivine (chemical preparations); nitrate paper; litmus test paper; biological preparations other than for medical or veterinary purposes.
- Note 6: CLASS 1: Chemical reagents.
- Note 7: CLASS 1: Chemical reagents (other than for medical or veterinary purposes); chemical substances for analyses in laboratories (other than for medical or veterinary purposes); preparations for low temperature experiments; diagnostic preparations other than for medical or veterinary purposes; reagent paper; chemical preparations for scientific use (other than for medical or veterinary purposes); preparations of microorganisms other than for medical or veterinary uses; biochemical catalysts; chemical preparations for analyses in laboratories other than for medical or veterinary purposes; preparations for bacteriology research other than for medical or veterinary purposes.
- Note 8: CLASS 3: Medicated soap; disinfecting soap; toilet cleaner; grinding paste; essences; fragrance; cosmetics; denture polisher; toilet water; incenses (hygienic-use).
- Note 9: CLASS 5: Medicines for human beings; chemical preparations for pharmaceuticals; pharmaceuticals for medical purposes; Chinese patent medicines; pharmaceutical biological agents; medical oil; injections; tablets; antibiotics; capsules; medical nutriments; (organic or food) provisions preparations; medical healthcare bags.
- Note 10: CLASS 5: Medicines for human beings; chemical-pharmaceutical; pharmaceuticals for medical use; Chinese patent medicines; pharmaceutical biological agents; medical oil; injections; tablets; antibiotics; capsules.
- Note 11: CLASS 5: Medical nutrition beverage; air fresheners; veterinary medicines; Chinese herbal medicine bags; medical pillows; dental medicines; ginseng granules; medicines for human beings; chemic-pharmaceutical preparations; pharmaceuticals for medical use; Chinese patent medicines; pharmaceutical biological agents; medical oil; various injections; various tablets; various antibiotics; capsules; medical nutriments; (organic or made from organisms) provisions preparations; medical healthcare bags.
- Note 12: CLASS 5: Air freshener; veterinary medicines; Chinese herbal medicine pillow; dental medicines; ginseng granules; medical nutrition beverage.
- Note 13: CLASS 5: Ginseng granule; medical nutrition drinks; air fresheners; veterinary medicines; Chinese herbal medicine bags, medicine pillows; dental medicine.
- Note 14: CLASS 5: Medicines for human use; various injections; Chinese patent medicines; biochemical drugs; disinfectant; chemical preparations for pharmaceutical use; ointment; API; medical nutriments; bacteriophage.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- Note 15: CLASS 5: Medicines for human use; chemico-pharmaceutical preparations; injections; ointment (rheumatic ointment, cold remedy ointment, essential balm); API; medical capsules; reagent for medical use; nourishment for medical use; tablets; aqua medicines; (end).
- Note 16: CLASS 5: Medicines for human use; chemico-pharmaceutical preparations; injections; medical capsules; chemical preparations for pharmaceutical use; chemical preparations for medical use; bacteriophage; injections; tablets; API (end of product list).
- Note 17: CLASS 5: Medicines for human use; chemico-pharmaceutical preparations; medical capsules; chemical preparations for pharmaceutical use; bacteriophage; injections; tablets; API; (end of product list).
- Note 18: CLASS 5: Medicines for human use; chemico-pharmaceutical preparations; injections; ointment (rheumatic ointment, cold remedy ointment, essential balm); API; medical capsules; reagent for medical use; nourishment for medical use; tablets; aqua medicines.
- Note 19: CLASS 5: Pharmaceutical reagent.
- Note 20: CLASS 5: Medicines for human use; medical preparations; Chinese patent medicines; chemico-pharmaceutical preparations; injections; tablets; aqua medicines; bacteriophage; capsules.
- Note 21: CLASS 5: Medicines for human use; API; disinfectant; additive nourishment for medical use; purificant; medicine for veterinary use; filler for medical use.
- Note 22: CLASS 5: Medicines for human use; API; disinfectant; nourishing drink for medical use; nourishment for medical use; purificant; medicine for veterinary use; filler for medical use; mosquito coils.
- Note 23: CLASS 5: Medicines for human use; tablets; injections; API; capsules; various pills; medical capsules; powder; aqua medicines; ointment.
- Note 24: CLASS 5: Medicines for human use; preparations for medical use; Chinese patent medicines; chemico-pharmaceutical preparations; injections; tablets; aqua medicines; antibiotics; capsules.
- Note 25: CLASS 5: Medicines for human use; chemico-pharmaceutical preparations.
- Note 26: CLASS 5: Medicines, plaster; disinfectants; Chinese medical herbs; medicated wine.
- Note 27: CLASS 5: Medicines for human use.
- Note 28: CLASS 5: Nourishment for medical use.
- Note 29: CLASS 5: Medicines for human use; chemico-pharmaceutical preparations; injections; oral solutions; API; medicine capsules; preparations for medical use; nourishment for medical use; tablets; aqua medicines.
- Note 30: CLASS 5: Medicines for human use; disinfectant; Chinese medical herbs; medicated wine; nourishment for medical use; food for babies; purificant; medicine for veterinary use; insecticides; herbicides; pesticides; sanitary articles and medicines; plasters; medical health care and nutritious products; materials for stopping teeth; dental wax.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- Note 31: CLASS 5: Medicines for human use; chemico-pharmaceutical preparations; injections; oral solutions; API; medicine capsules; preparations for medical use; nourishment for medical use; tablets; aqua medicines; (end).
- Note 32: CLASS 5: Medicines for human use; chemical preparations for pharmaceutical use; preparations for medical use; sodium salt for pharmaceutical use; chemical preparations for pharmaceutical use; various injections; tablets; API; biochemical drugs; chemico-pharmaceutical preparations.
- Note 33: CLASS 5: Medicines for human use; pharmaceutical preparations; pharmaceuticals for medical purposes; chemical preparations for pharmaceutical use; injections (end).
- Note 34: CLASS 5: Azithromycin for injection.
- Note 35: CLASS 5: Medicines for human use (end of product list).
- Note 36: CLASS 5: Medicines for human use; vitamin preparations; invigorators (medicines); medicinal drinks; chemico-pharmaceutical preparations; pharmaceuticals for medical use; chemical preparations for pharmaceutical use; injections; API (end of product list).
- Note 37: CLASS 5: Chemical preparations for pharmaceutical use; medicines for human use; chemical preparations for pharmaceutical use; various injections; API; biochemical drugs (end).
- Note 38: CLASS 5: Capsules; API; tablets; medicines for human use; chemical preparations for pharmaceutical use; capsules for medicines; capsules for pharmaceutical use; chemico-pharmaceutical preparations; pharmaceutical preparations; pharmaceuticals for medical use.
- Note 39: CLASS 5: Various injections; tablets; biochemical drugs; aqua medicines; capsules for pharmaceutical use; chemico-pharmaceutical preparations; preparations of microorganisms for medical or veterinary uses; medicines for human use; tinctures; ginseng granules.
- Note 40: CLASS 5: Various injections; thin paper for liquid medicine liquoring; cleansing agent; tablets; pharmaceuticals for human use; biochemical drugs; veterinary medicines; aquas; capsules for pharmaceutical purposes; medicated confectionery; (end of product list).
- Note 41: CLASS 5: Medicines for human use (end).
- Note 42: CLASS 5: Medicines for human use; capsules for pharmaceutical use; capsules for medicines; API; Chinese patent medicines; Western medicines; injections; tablets; capsules; chemical preparations for pharmaceutical use (end).
- Note 43: CLASS 5: Antibiotic powder injections.
- Note 44: CLASS 5: Medicines for human use; pharmaceutical preparations; pharmaceuticals for medical use; chemical preparations for pharmaceutical use; tablets.
- Note 45: CLASS 5: Medicines for human use; pharmaceutical preparations; pharmaceuticals for medical purposes; chemical preparations for pharmaceutical use; injections.
- Note 46: CLASS 5: Medicines for human use; preparations for medical use; pharmaceuticals for medical purposes; various injections; various aqua medicines

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- Note 47: CLASS 5: API for Western medicines; Western medicine preparation; Chinese patent medicines; Chinese and Western compound medicine preparations.
- Note 48: CLASS 5: Chinese patent medicine; various kinds of injections; tablets; tinctures; ointment; medical oil (oil for rheumatism; oil for cold; cooling medicated oil); medical fillings; antiseptics papers; medical nutrient foods; medical dressings.
- Note 49: CLASS 5: Medicines for human use; pharmaceuticals for medical purposes; fungicides; tablets for pharmaceutical use; capsules for pharmaceutical use; capsules for medicines; plasters for medical purposes; injections; tablets (end).
- Note 50: CLASS 5: Medicines for human use; pharmaceuticals for medical purposes; pharmaceutical reagent; fungicides; tablets for pharmaceutical use; capsules for pharmaceutical use; capsules for medicines; plasters for medical purposes; injections; tablets (end).
- Note 51: CLASS 7: Pharmaceutical processing machine; pill machine; sugar coating machine; tablet machine; medicine grinding machine.
- Note 52: CLASS 7: Pharmaceutical processing machine; pill machine; sugar coating machine; tablet machine; medicine grinding machine; filter press.
- Note 53: CLASS 9: Beakers, flasks, dryers, mortars, sinks, bottles, alcohol burners, measuring cylinders, measuring cups, measuring bottles, funnels, pipets, glass stopcocks, burettes, evaporating dishes, culture dishes, crystallizing dishes, glass crucibles, test tubes, condenser tubes.
- Note 54: CLASS 9: Weighing apparatus; measurement apparatus; measurement instruments; measuring glassware; specially designed furniture for laboratory; teaching instruments; chemical apparatus and instruments; incubators; chromatography equipment in laboratories; instruments and apparatus for experiment and composition analysis.
- Note 55: CLASS 9: Hamlet; gas mask; fireproof clothing; flash light (signal light); fire extinguisher; lighting signs.
- Note 56: CLASS 9: Electric iron; glasses; electric insect killers; batteries; computers; cash register; camera (photography).
- Note 57: CLASS 9: Laboratory crucibles; graduated glassware; measuring glassware; pipettes; laboratory distillation apparatus; chemical apparatus and instrument; incubators; distillation apparatus for scientific purposes; burettes; spirit lamps (end of product list).
- Note 58: CLASS 10: Medical equipment; medical devices; electronic; nuclear and electrotherapy equipment; laser therapy device; medical X-ray device; medical bed; medical box; medical gloves.
- Note 59: CLASS 10: Massage equipment; massage vibrator; healthcare massage equipment; dental equipment; medical air pillow; medical gloves; condom; artificial limbs; orthopaedic equipment; suture materials.
- Note 60: CLASS 10: Massage equipment; massage vibrator; healthcare massage equipment; dental equipment; medical air pillow; medical gloves; condom; artificial limbs; orthopaedic equipment; suture materials; medical apparatus; medical devices; electronics; nuclear and electrotherapy equipment; laser therapy device; medical X-ray device; medical bed; medical box.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- Note 61: CLASS 10: Nursing devices; medical devices and equipment; medical diagnosis equipment; veterinary apparatus and instruments, dental equipment; suture materials; medical needles; medical syringes; sphygmomanometers; premature baby culture boxes.
- Note 62: CLASS 10: Needles for medical use; devices for hemostasis and suturing use; apparatus for otorhinolaryngology; apparatus for ophthalmology; sterilization apparatus; dental devices; cases fitted medical instruments; hearing aids; massage apparatus; masks.
- Note 63: CLASS 11: Lightings; oven; refrigerating equipment and devices; chiller; bathroom devices; sterilizing equipment.
- Note 64: CLASS 16: Paper; toner and paper for photocopier; toilet paper; calendar; stationeries; ink; stapler; fountain pen; scale ruler; office or domestic plastic tapes.
- Note 65: CLASS 18: Suitcases; school bags; (traveling) trunks; traveling handbags; traveling bags; business cases; wallets; handbags; walking canes.
- Note 66: CLASS 20: Non-metallic tag; plastic packaging container; mirror; indoor window blinds.
- Note 67: CLASS 21: Household glassware (including cups, trays, pots, tubs); glassware; porcelain ware; non-precious metal tea sets; non-precious metal wine glasses; artistic glass pieces; tea pots; toothbrushes; makeup tools; vacuum bottles.
- Note 68: CLASS 24: Clothes; tablecloths; napkins; knit towels; towel blankets; bed sheets; bedspreads; mosquito nets; hygiene gloves; fabric or plastic curtains.
- Note 69: CLASS 25: Swimming suits; baby wear sets; socks; shoes; hats; ties; belts (fashion accessories).
- Note 70: CLASS 29: Meat; food made from fish; canned meat; glace and dried fruit; dried vegetables; eggs; milk; edible oil; jelly; winter mushroom.
- Note 71: CLASS 30: Cordyceps and chicken essence; royal jelly for non-medical use; nourishing cream for non-medical use; nutrient capsule for non-medical use; nutrient fluid for non-medical use; body-building pollen balm; yellow syrup; edible royal jelly (non-medical use); tuchahoe pear paste (end of product list).
- Note 72: CLASS 30: Nourishing cream for non-medical use; nutrient fluid for non-medical use; nutrient powder for non-medical use; nutrient capsules for non-medical use; body-building pollen balm; yellow syrup; cordyceps and chicken essence; edible royal jelly (non-medical use); tuchahoe pear paste; royal jelly for non-medical use.
- Note 73: CLASS 30: Coffee; consumable glucose; nutrient capsules for non-medical use; nutrient fluid for non-medical use; seasonings; seasonings (spicy); consumable flavours (excluding ethereal essence and essential oil); honey (end of product list).
- Note 74: CLASS 31: Sesame; grain; flowers; dried flowers for costume purposes; pollen (raw material); fresh fruits; fresh vegetables; animal feeds; non-medical feed additives; animal fattening preparations.
- Note 75: CLASS 31: Chinese and Western patent medicines; API.
- Note 76: CLASS 32: Mineral water; juice; grape juice; beverage (water); soybean milk; beer; syrups for beverages; soft drink; vegetable juice (beverage); non-alcoholic juice.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

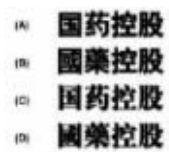
- Note 77: CLASS 33: Alcoholic drink (other than beer); alcohol (beverage); dessert wine (wine and alcohol); light sparkling wine; cocktails; rice wine; liquor; wine; brandy; whiskey.
- Note 78: CLASS 35: Sales agencies (on other parties' behalf); import and export agencies.
- Note 79: CLASS 35: Import and export agencies; sales agencies (on other parties' behalf).
- Note 80: CLASS 35: Sales agencies (on other parties' behalf).
- Note 81: CLASS 36: Real estate leasing; real estate agencies; housing agencies; apartment management; real estate management; apartment leasing; property valuation; real estate brokers.
- Note 82: CLASS 39: Freight transport; transport; transport agencies; goods delivery; commodities packaging; cargo storage; storage; leasing of warehouses; delivery (letters and commodities) (end).
- Note 83: CLASS 42: Provision of hotel accommodation; sightseeing tour; temporary residential leasing; hostels; fast food outlets; buffet restaurants; beauty salons; public bathroom.
- Note 84: CLASS 42: Healthcare; auxiliary medical services; medical consultation; chemical services; mechanical research; cosmetics research.
- Note 85: CLASS 44: Assistant devices for veterinarian; rental sanitary equipment (end).

Our Company is applying for renewal of some of above trademarks which have expired or are about to expire in accordance with the relevant PRC laws and regulations, and such trademarks will be renewed upon the approval of the Trademark Office. As confirmed by Chen & Co. Law Firm, the PRC legal adviser of the Company, there is no legal impediment for the renewal of the trademark registrations. The Directors are of the view that there will not be any material adverse impact on our Company if such trademark registrations expire.

(b) *Trademarks under application:*

As of the Latest Practicable Date, the relevant member of our Company had applied for the registration of the following trademarks:

● The Company

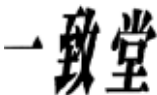
No.	Trademark	Intended Place of Registration	Class	Products Covered	Application Number	Application Date
1		Hong Kong	3, 5, 10, 16, 30, 35, 41, 44	Notes 2, 4, 6, 8, 12, 15, 18, 19	301245401	25 November 2008

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

● 化學試劑公司 (*Chemical Reagent Company.*)

No.	Trademark	Intended Place of Registration	Class	Products Covered	Application Number	Application Date
1		PRC	1	Note 1	6247756	29 August 2007

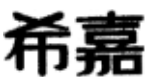
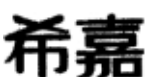
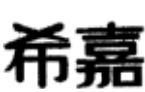
● 一致藥業 (*Accord Pharma*)

No.	Trademark	Intended Place of Registration	Class	Products Covered	Application Number	Application Date
1		PRC	29	Note 11	5995201	13 April 2007
2		PRC	35	Note 16	5995198	13 April 2007

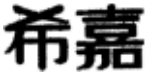
● 國控國大 (*Sinopharm GuoDa*)

No.	Trademark	Intended Place of Registration	Class	Products Covered	Application Number	Application Date
1		PRC	3	Note 3	7202516	16 February 2009
2		PRC	3	Note 3	7202524	16 February 2009
3		PRC	3	Note 3	7259865	17 March 2009
4		PRC	3	Note 3	7259970	17 March 2009
5		PRC	3	Note 3	7458040	9 June 2009
6		PRC	5	Note 5	7202502	16 February 2009
7		PRC	5	Note 5	7202523	16 February 2009

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Intended Place of Registration	Class	Products Covered	Application Number	Application Date
8		PRC	5	Note 5	7259953	17 March 2009
9		PRC	5	Note 5	7259999	17 March 2009
10		PRC	5	Note 5	7458060	9 June 2009
11		PRC	5	Note 5	7459943	10 June 2009
12		PRC	10	Note 7	5790815	18 December 2006
13		PRC	10	Note 7	5790816	18 December 2006
14		PRC	10	Note 7	7458073	9 June 2009
15		PRC	10	Note 7	7459954	10 June 2009
16		PRC	16	Note 9	7458088	9 June 2009
17		PRC	16	Note 9	7460007	10 June 2009
18		PRC	21	Note 10	7202520	16 February 2009
19		PRC	21	Note 10	7260035	17 March 2009
20		PRC	21	Note 10	7458094	9 June 2009
21		PRC	21	Note 10	7460021	10 June 2009
22		PRC	30	Note 13	7202509	16 February 2009

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Intended Place of Registration	Class	Products Covered	Application Number	Application Date
23		PRC	30	Note 13	7202512	16 February 2009
24		PRC	30	Note 13	7458106	9 June 2009
25		PRC	30	Note 13	7458108	9 June 2009
26		PRC	35	Note 16	7182386	23 January 2009
27		PRC	35	Note 16	7182387	23 January 2009

● 蘇州致君萬慶 (*Suzhou Zhijun Wanqing*)

No.	Trademark	Intended Place of Registration	Class	Products Covered	Application Number	Application Date
1		PRC	5	Note 5	5259959	3 April 2006

● 國藥物流有限責任公司 (*Logistics Company*)

No.	Trademark	Intended Place of Registration	Class	Products Covered	Application Number	Application Date
1		PRC	39	Note 17	6078054	30 May 2007

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

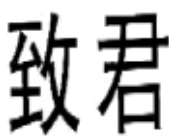
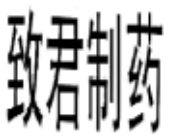
● 致君制藥 (*Zhijun Pharmaceutical*)

No.	Trademark	Intended Place of Registration	Class	Products Covered	Application Number	Application Date
1	Dalixim	PRC	5	Note 5	5456873	3 July 2006
2	达力全	PRC	5	Note 5	5456882	3 July 2006
3	达力兰	PRC	5	Note 5	5456883	3 July 2006
4	达力罗	PRC	5	Note 5	5456884	3 July 2006
5	达力宝	PRC	5	Note 5	5456885	3 July 2006
6	达力尼	PRC	5	Note 5	5456886	3 July 2006
7	锐力奇	PRC	5	Note 5	5456881	3 July 2006
8	达力仑	PRC	5	Note 5	6080914	31 May 2007
9	联力可定	PRC	5	Note 5	6080913	31 May 2007
10	联力可亭	PRC	5	Note 5	6080912	31 May 2007
11	联力平	PRC	5	Note 5	6080911	31 May 2007

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Intended Place of Registration	Class	Products Covered	Application Number	Application Date
12	联力欣	PRC	5	Note 5	6080910	31 May 2007
13	锐力达	PRC	5	Note 5	6080935	31 May 2007
14	锐力灵	PRC	5	Note 5	6080902	31 May 2007
15	锐力坦	PRC	5	Note 5	6080934	31 May 2007
16	锐力特	PRC	5	Note 5	6080933	31 May 2007
17	致力宝	PRC	5	Note 5	6080909	31 May 2007
18	致力佳	PRC	5	Note 5	6080908	31 May 2007
19	致力舒	PRC	5	Note 5	6080907	31 May 2007
20	卓 力	PRC	5	Note 5	6080906	31 May 2007
21	卓力可通	PRC	5	Note 5	6080904	31 May 2007
22	卓力美舒	PRC	5	Note 5	6080903	31 May 2007
23	卓 力 泰	PRC	5	Note 5	6080905	31 May 2007

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Intended Place of Registration	Class	Products Covered	Application Number	Application Date
24		PRC	5	Note 5	6486036	2 January 2008
25		PRC	5	Note 5	5647750	8 October 2006
26		PRC	5	Note 5	5647751	8 October 2006
27		PRC	5	Note 5	5776891	11 December 2006
28		PRC	5	Note 5	5776890	11 December 2006
29		PRC	5	Note 5	5660405	16 October 2006
30		PRC	5	Note 5	5717708	13 November 2006
31		PRC	5	Note 5	6037664	8 May 2007
32		PRC	5	Note 5	6037665	8 May 2007
33		PRC	5	Note 5	6203690	6 August 2007
34		PRC	5	Note 5	6507435	14 January 2008
35		PRC	5	Note 5	6507436	14 January 2008

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Intended Place of Registration	Class	Products Covered	Application Number	Application Date
36		PRC	5	Note 5	6507437	14 January 2008
37	达力新 DALIXIN	PRC	5	Note 5	6507438	14 January 2008
38	致君钙	PRC	5	Note 5	6562252	25 February 2008
39	康钙 A	PRC	5	Note 5	6562253	25 February 2008
40	康钙 B	PRC	5	Note 5	6562254	25 February 2008
41	康钙 D	PRC	5	Note 5	6562255	25 February 2008
42	康钙 E	PRC	5	Note 5	6562256	25 February 2008
43	八卦岭	PRC	5	Note 5	6609714	21 March 2008
44	八卦岭 8 号	PRC	5	Note 5	6609715	21 March 2008
45	八卦岭 5 号	PRC	5	Note 5	6609716	21 March 2008
46	八卦岭 1 号	PRC	5	Note 5	6609717	21 March 2008
47	利 维	PRC	5	Note 5	6945872	9 September 2008

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Intended Place of Registration	Class	Products Covered	Application Number	Application Date
48	畅力	PRC	5	Note 5	6980013	25 September 2008
49	护力	PRC	5	Note 5	6980012	25 September 2008
50	杰力	PRC	5	Note 5	6980014	25 September 2008
51	联力可邦	PRC	5	Note 5	6980015	25 September 2008
52	联力莎丁	PRC	5	Note 5	6980016	25 September 2008
53		PRC	5	Note 5	6507433	14 January 2008
54		PRC	5	Note 5	6507434	14 January 2008
55	达力宁	PRC	5	Note 5	3735522	27 September 2003
56	扶美Q10	PRC	30	Note 13	6037663	8 May 2007
57	致君钙	PRC	30	Note 13	6562262	25 February 2008
58	康钙 A	PRC	30	Note 13	6562263	25 February 2008

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Intended Place of Registration	Class	Products Covered	Application Number	Application Date
59	康钙 B	PRC	30	Note 13	6562264	25 February 2008
60	康钙 D	PRC	30	Note 13	6562265	25 February 2008
61	康钙 E	PRC	30	Note 13	6562266	25 February 2008
62	八卦岭 8 号	PRC	30	Note 13	6609721	21 March 2008
63	八卦岭 5 号	PRC	30	Note 13	6609722	21 March 2008
64	八卦岭 1 号	PRC	30	Note 13	6609723	21 March 2008
65	肤美适	PRC	30	Note 13	6980011	25 September 2008
66	加 T 力	PRC	30	Note 13	6979551	25 September 2008
67	扶美 Q10	PRC	32	Note 14	6037590	8 May 2007
68	康钙 c	PRC	32	Note 14	6203691	6 August 2007
69	致君	PRC	32	Note 14	6037591	8 May 2007
70	致君制药	PRC	32	Note 14	6037592	8 May 2007
71	康钙 E	PRC	32	Note 14	6562257	25 February 2008

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Intended Place of Registration	Class	Products Covered	Application Number	Application Date
72	康钙 D	PRC	32	Note 14	6562258	25 February 2008
73	康钙 B	PRC	32	Note 14	6562259	25 February 2008
74	康钙 A	PRC	32	Note 14	6562260	25 February 2008
75	致君钙	PRC	32	Note 14	6562261	25 February 2008
76	八卦岭 5 号	PRC	32	Note 14	6609719	21 March 2008
77	八卦岭 1 号	PRC	32	Note 14	6609718	21 March 2008
78	八卦岭 8 号	PRC	32	Note 14	6609720	21 March 2008
79	肤美适	PRC	32	Note 14	6979548	25 September 2008
80	加 T 力	PRC	32	Note 14	6979549	25 September 2008

Note 1: CLASS 1: Chemicals for industrial, scientific, photographic, agricultural, gardening and forestry purposes; unprocessed artificial and synthetic resin; unprocessed plastics; fertilizers; fire extinguishing compositions; preparations for quenching and metal welding; chemical food preservatives; tanning materials; industrial adhesives.

Note 2: CLASS 3: Bleaching preparations and other substances for laundry use; cleaning, polishing, scouring and abrasive preparations; soaps; perfumery, essential oils; cosmetics; hair lotions; dentifrices; anti-bacterium washer; bleaching preparations (laundry); stain removers; cleaning preparations; toilet soap spicery; denture polishes; preparations for cleaning dentures (not for medical use); disinfectant soaps.

Note 3: CLASS 3: Bleaching preparations and other substances for laundry use; cleaning, polishing; scouring and abrasive preparations; soaps; perfumery; essential oils; cosmetics; hair lotions; toothpaste.

Note 4: CLASS 5: Pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic substances adapted for medical use; food for babies; plasters; materials for dressings; materials for stopping teeth; dental wax;

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

disinfectants; preparations for destroying vermin; fungicides; herbicides; medicines for human consumption; pharmaceutical medicines; raw material drugs; medicinal oils; medicated bath preparations; chemical preparations for medical and veterinary purposes; air purifiers; medicines for veterinary use; sanitary pads; sanitary cloth; belts for sanitary napkins; surgical gowns; medical dressings; Chinese medicines; medicinal materials; medicinal alcohol; medicinal tea; microorganism (nutritive substances for microorganism); bread for diabetic patients; lactose; medicated candies; pesticides; gum for medical purposes; haemostatic pencils; haemostatic sticks; medicinal sticks for treatment of headaches; cloth with ointments for dressings (surgical); adhesive bands for medical purposes; plasters for medical purposes; adhesive tapes; plasters; scapulars for surgical purposes; bandages (hygienic); bandages for dressings; collodion for medical purposes; absorbent cotton; cotton for medical purposes; antiseptic cotton; aseptic cotton; vulnerary sponges; medical dressings; surgical dressings; dressings (surgical dressings); gauze for dressings; wadding for medical purposes; absorbent wadding; filled first aid bags; tampons; Chinese medicine bags; drug pillows; tissues impregnated with pharmaceutical lotions.

Note 5: CLASS 5: Medical and veterinary preparations; sanitary preparations for medical purposes; dietetic substances adapted for medical use, food for babies; plasters and materials for dressings; material for stopping teeth and dental wax; disinfectants; preparations for destroying vermin; fungicides; and herbicides.

Note 6: CLASS 10: Surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopedic articles; suture materials; x-rays apparatus for medical purposes; physiotherapy apparatus; electrotherapy apparatus; radiotherapy apparatus; hearing aids for the deaf; surgical implants; apparatus for use in medical analysis; vibromassage apparatus; esthetic message apparatus; traction apparatus for medical purposes; radiological apparatus for medical purposes; radiotherapy facilities; filters for ultraviolet rays for medical purposes; protection devices against X-rays for medical purposes; lasers for medical purposes; galvanic therapeutic appliances; electrodes for medical use; electrocardiographs; thermo-electric compressors; electric heating cushions for medical purposes; cushions for medical purposes; hydrostatic beds for medical purposes; air cushions for medical purposes; air mattresses for medical purposes; childbirth mattresses; abdominal pads; obstetric cushions; sterile sheets (surgical); air circulated pillows for medical purposes; water bags for medical purposes; soporific pillows for insomnia; ice bags for medical purposes; sponges and dressings for medical purposes; finger guards for medical purposes; gloves for medical purposes; message gloves; boots for medical purposes; draw-sheets for sick beds; belts for medical purposes; hypogastric belts; incontinence sheets; surgical cotton balls; hearing protectors; ear plugs; spoons for administering medicines; ear picks; urinals; spitboxes; bed pans; basins for medical uses; oxygen bags; hot water bags; contraceptive devices.

Note 7: CLASS 10: Surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopedic articles; suture materials.

Note 8: CLASS 16: Paper, cardboard and goods made from these materials, not included in other classes; printed matter; bookbinding material; photographs; stationery; adhesives for stationery or household purposes; artists' materials; paint brushes; typewriters and office requisites (except furniture); instructional and teaching material (except apparatus); plastic materials for packaging (not included in other classes); printers' type; printing blocks; infrared spectral analysis paper; books; stationery; writing instruments; drawing materials; architects' models; wrapping materials made of paper; plastic film for wrapping; plastic bags for packing; plastic bags for packaging or for wrapping; electrocardiogram.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- Note 9: CLASS 16: Paper, cardboard and goods made from these materials, not included in other classes; printed matter; bookbinding material; photographs; stationery; adhesives for stationery or household purposes; artists' materials; paint brushes; typewriters and office requisites (except furniture); instructional and teaching material (except apparatus); plastic materials for packaging (not included in other classes); printers' type; printing blocks.
- Note 10: CLASS 21: Household or kitchen utensils and containers; comb and sponge; brush (except paint brushes); brush-making materials; articles for cleaning purpose; steel wool; unprocessed and semi processed glass (except glass used in building); glassware; porcelain and earthenware not included in other classes.
- Note 11: CLASS 29: Meat; fish; poultry and game; gravy; preserved frozen, dried and cooked fruits and vegetables; jelly; jam; dried fruit; eggs; milk and dairy products; edible oil and fat.
- Note 12: CLASS 30: Coffee, tea, cocoa, sugar, rice, tapioca, sago, artificial coffee; flour and preparations made from cereals, bread, pastry and confectionery, ices; honey, treacle; yeast, baking-powder; salt, mustard; vinegar, sauces (condiments); spices; ice; non-medical nutrition liquid; non-medical nutrition grease; non-medical nutrition powder; non-medical nutrition capsules; non-medical yeast in pill form; essences for foodstuff (except etheric essences and essential oils); bee glue (propolis) for human consumption.
- Note 13: CLASS 30: Coffee; tea; cocoa; sugar; rice; tapioca; sago; artificial coffee; flour and preparations made from cereals; bread; pastry and confectionery; ices; honey; syrup; yeast; baking-powder; salt; mustard; vinegar; sauces (condiments); spices; and ice.
- Note 14: CLASS 32: Beers; mineral and aerated water and other non-alcoholic drinks; fruit drinks and fruit juices; syrup and other preparations for making beverages.
- Note 15: CLASS 35: Advertising; business management; business administration; office functions; organizing technological exhibitions; demonstration of goods; organization of exhibitions for commercial or advertising purposes; business management assistance; professional business consultancy; agency for export and import services; sales promotion for others; organization of trade fairs for commercial or advertising purposes; human resource management consultancy; organizing technological exhibitions; trade fairs (organization of trade fairs) for commercial or advertising purposes; on-line advertising on a computer network.
- Note 16: CLASS 35: Advertising; business management; business administration; office functions.
- Note 17: CLASS 39: Transport; commodity packaging and storage; traveling arrangement.
- Note 18: CLASS 41: Education; providing of training; entertainment; sporting and cultural activities; arranging and conducting of colloquiums; arranging and conducting of conferences; organization of exhibitions for cultural or educational purposes; provision of museum facilities for presentations and exhibitions.
- Note 19: CLASS 44: Medical services; veterinary services; hygienic and beauty care for human beings or animals; agriculture, horticulture and forestry services; rental of sanitation facilities; beauty salons; medical clinics; message services; convalescent homes; hospital services; health care services; physical therapy; medical assistance; medical consultation; psychologist (services of a psychologist); veterinary assistance; opticians' services; plastic surgery.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

(c) Pursuant to the Trademark License Agreement, the Company has been granted a non-exclusive license to use the following trademarks registered by CNPGC:

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
1		PRC	1	Note 1	1810028	20 July 2012
2		PRC	1	Note 2	3377468	13 May 2015
3		PRC	2	Note 3	1902966	13 August 2012
4		PRC	3	Note 4	1904987	20 August 2012
5		PRC	3	Note 5	3377467	20 July 2014
6		PRC	5	Note 6	3367970	6 August 2014
7		PRC	5	Note 6	3377485	20 August 2014
8		PRC	5	Note 7	3723103	13 June 2016
9		PRC	5	Note 8	674289	20 January 2014
10		Hong Kong	5	Note 9	301192824	31 August 2018
11		PRC	6	Note 10	1762150	6 May 2012
12		PRC	7	Note 11	1803040	6 July 2012

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Information Pack.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
13		PRC	7	Note 12	3160685	27 October 2013
14		PRC	9	Note 13	1757809	27 April 2012
15		PRC	9	Note 14	3160684	13 June 2013
16		PRC	10	Note 15	1792092	20 June 2012
17		PRC	10	Note 16	3377484	20 November 2014
18		PRC	10	Note 17	3723102	20 April 2015
19		PRC	10	Note 18	674515	20 January 2014
20		PRC	11	Note 19	1341920	6 December 2009
21		PRC	11	Note 20	1919734	6 November 2012
22		PRC	11	Note 21	3377483	6 June 2014
23		PRC	11	Note 22	3723101	13 May 2015
24		PRC	12	Note 23	1767326	13 May 2012

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
25		PRC	16	Note 24	1800788	6 July 2012
26		PRC	16	Note 25	3377482	13 December 2014
27		PRC	20	Note 26	1791000	20 June 2012
28		PRC	20	Note 27	3160683	27 April 2014
29		PRC	21	Note 28	1806084	13 July 2012
30		PRC	25	Note 29	1801599	6 July 2012
31		PRC	28	Note 30	3377481	13 July 2014
32		PRC	29	Note 31	3377480	6 February 2014
33		PRC	30	Note 32	2012422	6 September 2012
34		PRC	30	Note 33	3377479	6 May 2014
35		PRC	30	Note 34	3723125	27 April 2015
36		PRC	35	Note 35	1952646	20 November 2012

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
37		PRC	35	Note 36	3160682	13 October 2013
38		PRC	35	Note 37	3723124	13 September 2015
39		Hong Kong	35	Note 38	301192851	31 August 2018
40		PRC	37	Note 39	1954066	27 November 2012
41		PRC	37	Note 40	3160681	13 December 2013
42		PRC	38	Note 41	3723123	27 October 2015
43		PRC	39	Note 42	1960137	27 October 2012
44		PRC	40	Note 43	1948526	13 January 2013
45		PRC	40	Note 44	3160680	13 October 2013
46		PRC	41	Note 45	1957490	20 November 2012
47		PRC	42	Note 46	2001592	6 October 2012
48		PRC	44	Note 47	3160679	20 July 2013

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

No.	Trademark	Place of Registration	Class	Products Covered	Registration Number	Expiry Date
49		PRC	44	Note 48	3723122	6 November 2015
Note 1:	CLASS 1: Distilled water; bacteria-killing chemical additives; ethanol; chemical preservatives; preservatives for pharmaceutical preparations; testing paper; purifiers; corrosives; lubricant; and edible chemical preservatives.					
Note 2:	CLASS 1: Oxygen; salts (chemical preparations); alcohol; industrial chemicals; anti-microorganism solutions; chemical test papers; spectral photographic plates; fruit ripening hormones ; industrial adhesives; fertilizers.					
Note 3:	CLASS 2: Dyeing paper; wood dyes; fixatives for water colors; colorings of beverages; paint; wood paint (oil paint); preservatives; protecting preparations for metal; and gum resin.					
Note 4:	CLASS 3: Anti-bacteria hand wash; bleaching agents (fabric); cleaner; cleaning preparations; scent for soaps; cosmetics; dental lacquer; tooth cleaner preparations (not for clinical purpose); sterilizing soaps; and scent.					
Note 5:	CLASS 3: Medicated soaps; facial cleanser; detergent; cleansing preparations, glazing agents; spices; cosmetics; toothpaste; incense; cosmetics for animals.					
Note 6:	CLASS 5: Medicines for human use; pharmaceutical medicines; pharmaceutical ingredients; medical oil; medical shower gel; pharmaceutical or veterinary chemical preparations; disinfectants; nourishment for medical use; air purifying solutions; veterinary medicines; preparations for destroying vermin; sanitary pads; medical dressings; tooth fillers.					
Note 7:	CLASS 5: Medicines for human use; pharmaceutical ingredients; Chinese patent medicines; radioactive medicines; medical gases; disinfectants; microbial cultivators for medical or veterinary purposes; nourishment for medical uses; purifying agents; medical dressings.					
Note 8:	CLASS 5: Medicines; paste; sterilizing agents (excluding herbs, herbal wine, herbal tea); Chinese medicines; herbs; herbal tea; herbal wine; medical nutrition beverage; nourishment for medical use; medical nutrition food; nourishment for micro-organisms; bakery products for diabetics; preparations for food.					
Note 9:	CLASS 5: Medicines for human beings; pharmaceuticals for medical purposes; API; medical oil; medicated bath preparations; pharmaceutical or veterinary chemical preparations; disinfectants; nourishment for medical use; air purifying solutions; veterinary medicines; preparations for destroying vermin; sanitary pads; medical dressings; tooth fillers; herbal tea; vermifuge (human or veterinary use); radioactive medicines; medical gases; contact lens solution; microorganism incubators for medical or veterinary purposes.					
Note 10:	CLASS 6: Metal identification bracelets for hospitals.					
Note 11:	CLASS 7: Medical processing machines; capsule machines; sugar coating machines; tablet presses; and pharmaceutical mills.					

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- Note 12: CLASS 7: Root tuber choppers; dryers; peeling and shell-cracking machines; packaging machines; sieves; pharmaceutical manufacturing and processing machines; pellet machines; sugar coating machines; medicine crushers; centrifuges for pharmaceutical manufacturing (excluding centrifuges generally used in the chemical industry).
- Note 13: CLASS 9: Medical dispensers.
- Note 14: CLASS 9: Computers; automatic measuring instruments; interphones; glasses; projection equipment; angle-splitting instruments (measurement instruments); medicament dispensers; optical apparatus and instruments; semi-conductor equipment and components; dental protectors.
- Note 15: CLASS 10: Medical apparatus and equipment; veterinary apparatus and equipment; dental apparatus; medical X-ray apparatus; physiotherapy apparatus; electrotherapy apparatus; radiotherapy apparatus; audiphones; implants for surgical purpose; and suture materials.
- Note 16: CLASS 10: Medical apparatus and equipment; medical analytic instruments; vibrators; dental equipment; physiotherapy equipment; hearing aids; prostheses; orthopaedic articles; body-building massage equipment; medical traction instruments.
- Note 17: CLASS 10: Medical apparatus and equipment; massage apparatus; dental equipment; physiotherapy equipment; stretchers; breast pump; condoms; surgical transplants (artificial materials); orthopaedic articles; suturing materials.
- Note 18: CLASS 10: Surgery; medical; dental and veterinary instruments; machinery; equipment (excluding electronics; nuclear; electrotherapy; medical X-ray equipment, machinery and instruments; spirometers); medical radiotherapeutic equipment; radiotherapeutic equipment; medical ultraviolet filter.
- Note 19: CLASS 11: Showers; shower heaters; sinks; sanitary ware and equipment; sterilizing and purifying equipment; and small heaters.
- Note 20: CLASS 11: Sanitary ware and equipment; sterilizing equipment; shower heaters; and showering equipment.
- Note 21: CLASS 11: Illuminators; car lights; cooking utensils; refrigerating equipment and machines; air-conditioning devices; heating devices; adjustment and safety fittings for water supply system; sanitary apparatus and equipment; sterilising equipment; heaters.
- Note 22: CLASS 11: Illuminators; vapour lamps; electric cooking utensils; cooling equipment and devices; air-conditioning devices; heating devices; sterilising equipment; heaters; water pipes for sanitary equipment; sanitary apparatus and equipment.
- Note 23: CLASS 12: wheelchair.
- Note 24: CLASS 16: Infrared spectrometer paper.
- Note 25: CLASS 16: Printings; books; punches for office use; stationery; writing tools; drawing materials; teaching aids; construction models.
- Note 26: CLASS 20: Beds for hospitals; massage beds; dressers (furniture); bathroom vanities; non-metal identification bracelets for hospitals; and magnetic pillows.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- Note 27: CLASS 20: Medicine cupboards; beds for hospitals; non-metallic containers (for storage or transportation); bottle plugs; unprocessed or semi-processed products made from horns, ivory and shells; straws; non-metallic ID bracelets for hospitals; cinerary caskets; magnetic therapy pillows; cushions (backrest).
- Note 28: CLASS 21: Cleansing utensils (manual operation).
- Note 29: CLASS 25: Clothing with special functions (like magnetic clothes, infrared clothes, medical clothes and photographer vests).
- Note 30: CLASS 28: Game consoles; toys; gymnastic apparatus; chess pieces; balls for sports; rackets for sports; body-building apparatus; physical training apparatus; plastic tracks; fishing tackles.
- Note 31: CLASS 29: Food made from pork; food made from fish; fruit flesh; preserved vegetables; eggs; dairy products; edible oil; jelly; refined nuts; soy bean products.
- Note 32: CLASS 30: Coffee; cocoa products; tea and tea leaf substitutes; sugar; candy; Nan candy; nutrition capsules for non-medical use; nourishing tonic for non-medical use; nourishing ointment for non-medical use.
- Note 33: CLASS 30: Coffee; tea; candies; nutrient fluid for non-medical use; nutrient ointments for non-medical use; nutrient powder for non-medical use; nutrient capsules for non-medical use; yeast tablets for non-medical use; edible spices (excluding ethereal essence and essential oil); edible propolis (propolis).
- Note 34: CLASS 30: Cocoa drink; tea; edible glucose; candies; nourishment for medical use; nourishment for non-medical use; royal jelly for non-medical use; dessert; bakery products; table salt; aromatic preparations for food.
- Note 35: CLASS 35: Organizing technical exhibitions; commodity exhibitions; organizing commercial and advertising exhibitions; providing business management assistance; professional consultancy for trading businesses; import and export agencies; sales and promotion (for clients).
- Note 36: CLASS 35: Advertising; organizing commercial or advertising fairs; import and export agencies; human resource management consultancy; organizing technology exhibitions; organizing commercial trade fairs; online advertising on data communication network; data search in computer files (on other parties' behalf).
- Note 37: CLASS 35: Advertising; organizing commercial or advertising fairs; commercial management consultation; import and export agencies; sales agencies (on other parties' behalf); human resources management consultation; relocation of commercial premises; secretary; accounting; leasing of vending machines.
- Note 38: CLASS 35: Advertising; organizing commercial or advertising fairs; commercial management consultation; import and export agencies; sales promotion for others; human resources management consultation; relocation of commercial premises; secretary; accounting; leasing of vending machines; advertisement planning; business studies; organization of exhibitions for commercial or advertising purposes; organizing technological exhibitions; word processing; auditing; seeking sponsorship; information systemization of computer database; commercial organization consultancy; advertising agencies.
- Note 39: CLASS 37: Medical apparatus installation and repair; sanitary facilities installation and repairing; sterilizing.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- Note 40: CLASS 37: Construction supervision; construction; well drilling; building cleaning (interior); indoor decorations; installation and maintenance of electric equipment; installation and maintenance of medical apparatus; vehicle service centers; disinfection; installation and maintenance of entertainment and sports facilities.
- Note 41: CLASS 38: Telecasting; information transmission; computer terminal communication; telecommunication; cable television; providing switch-in services to global computer network users (service providers); telex business; telecommunication routing node services; electronic bulletin board services (communication services); news.
- Note 42: CLASS 39: Rescue measures; transport agencies; freight transport agencies (dispatch); transport; delivery (letters and commodities); cargo delivery; goods delivery; freight transport.
- Note 43: CLASS 40: Pharmaceutical material processing; chemical reagent processing and handling; dental technician (technician); glass vessels blowing; optic glass grinding; optic lens grinding; grinding and processing.
- Note 44: CLASS 40: Medicine materials processing; water-proof treatment for textiles, tea leaf processing; animal specimen fabrication; leather processing; wastes and garbage obliteration; air purification; air refreshing; water purification; metal treatment.
- Note 45: CLASS 41: Arranging and organizing seminars; arranging and organizing conferences; organizing cultural or educational exhibitions; providing museum facilities (for performances and exhibitions).
- Note 46: CLASS 42: Healthcare; medical auxiliaries; nursing (for medical purposes); medical consultancy; massage.
- Note 47: CLASS 44: Sanitary equipment leasing; beauty salons; clinics; massage; sanatoriums; hospitals; healthcare; physiotherapy; medical auxiliaries; medical consultancy.
- Note 48: CLASS 44: Hospitals; medicine consultation; psychologists; sanatoriums; beauty salons; veterinary surgeon auxiliaries; gardening; ophthalmology; healthcare; plastic surgery.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

(iii) Domain names:

As of the Latest Practicable Date, the following domain names were registered in the name of the relevant member of our Company in the PRC:

● *The Company*

Domain name	Expiry date
sinopharmholding.com	13 January 2010

● 國藥物流 (*Sinopharm Logistics*)

Domain name	Expiry date
spl-oa.com.cn	27 August 2010
gylog.com	1 September 2010

● 國控浙江 (*Sinopharm Zhejiang*)

Domain name	Expiry date
gkzj.com	25 March 2013

● 國藥股份 (*National Medicines*)

Domain name	Expiry date
國藥物流.中国	12 September 2018
國藥物流.中國	12 September 2018
国药物流.中国	12 September 2018
国药物流.中國	12 September 2018
國藥物流.cn	12 September 2018
国药物流.cn	12 September 2018

● 國控北京華鴻 (*Sinopharm Beijing Huahong*)

Domain name	Expiry date
gkhh.net	11 March 2013

● 國控沈陽 (*Sinopharm Shenyang*)

Domain name	Expiry date
sy-yy.com	6 December 2010

● 國藥控股南寧有限公司 (*Sinopharm Holdings Nanning Co., Ltd.*)

Domain name	Expiry date
gk-nn.com	2 April 2010

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

● 國藥外高橋 (*Sinopharm Waigaoqiao*)

Domain name	Expiry date
gywgq.com	25 October 2009
sinopharmwgq.com	26 October 2009

● 上海沃愷 (*Shanghai Ourchem.*)

Domain name	Expiry date
reagent.com.cn	18 June 2010

● 國控沈陽 (*Sinopharm Shenyang*)

Domain name	Expiry date
sinopharm-sy.com	2 December 2010

● 國控湖南 (*Sinopharm Hunan*)

Domain name	Expiry date
gykghn.com	6 December 2011

● 一致藥業 (*Accord Pharma*)

Domain name	Expiry date
szaccord.com.cn	22 June 2011

● 國控國大 (*Sinopharm GuoDa*)

Domain name	Expiry date
國大藥房.中国	12 September 2009
国大药房.中国	12 September 2009
國大藥房.中國	12 September 2009
国大药房.中國	12 September 2009
國大藥房.cn	12 September 2009
国大药房.cn	12 September 2009
國大藥房連鎖有限公司.中國	16 September 2009
國大藥房連鎖有限公司.中国	16 September 2009
国大药房连锁有限公司.中国	16 September 2009
国大药房连锁有限公司.中國	16 September 2009
國大藥房連鎖有限公司.cn	16 September 2009
国大药房连锁有限公司.cn	16 September 2009

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

● 国控苏州 (*Sinopharm Suzhou*)

Domain name	Expiry date
suzhou18.com	17 October 2009

● 国控江苏 (*Sinopharm Jiangsu*)

Domain name	Expiry date
yzyy.com.cn	5 April 2019

● 國控河南 (*Sinopharm Henan (formerly known as Sinopharm Holding (Zhengzhou) Jiurui Co., Ltd.)*)

Domain name	Expiry date
ypwang.com.cn	23 October 2009

● 中國醫藥(集團)天津公司 (*China National Pharmaceutical(Group) Tianjin Corporation*)

Domain name	Expiry date
sinopharmtj.cn	6 August 2010

● 天津東方博康醫藥貿易有限公司 (*Tianjin Orient Bookcom Pharmaceutical Trade Co., Ltd.*)

Domain name	Expiry date
bokangcn.com	20 October 2009

● 國瑞藥業 (*Guorui Pharmaceutical*)

Domain name	Expiry date
guorui.cn	17 March 2012
guorui.com.cn	8 October 2012

● 物流公司 (*Logistics Company*)

Domain name	Expiry date
nplc.com.cn	27 August 2019

● 國控廣州 (*Sinopharm Guangzhou*)

Domain name	Expiry date
sinopharm-gz.com	22 May 2010

● 致君製藥 (*Zhijun Pharmaceutical*)

Domain name	Expiry date
szzhijun.com	24 October 2011

● 國控柳州 (*Sinopharm Liuzhou*)

Domain name	Expiry date
sinopharm-lz.com	18 January 2010

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

● 深圳市一致醫藥 (*Shenzhen Accord Pharma*)

Domain name	Expiry date
szaccord.com	29 April 2011
51drug.com.cn	13 April 2010

5. FURTHER INFORMATION ABOUT DIRECTORS, SUPERVISORS, MANAGEMENT AND STAFF

A. Particulars of Directors' and Supervisors' service agreements

Each of the Directors and Supervisors has entered into a service contract with the Company for an initial term of three years commencing on 22 September 2008, 22 December 2008 or 19 August 2009 (as the case may be) (subject to termination in certain circumstances as stipulated in the relevant agreement). Particulars of the service contracts of the Directors are in all material aspects the same. The salaries of the Directors and the Supervisors will be determined each year by the shareholders in the annual general meeting. The Directors and Supervisors shall be entitled to the welfare treatment provided for under the relevant PRC laws and regulations.

B. Directors' and Supervisors' remuneration

The aggregate amount of salaries, allowances, pension, other welfare and benefits in kind paid by the Company to the Directors and the Supervisors for each of the three years ended 31 December 2008 and the five months ended 31 May 2009 were approximately RMB1,082,000, RMB1,159,000, RMB2,915,000 and RMB863,000, respectively.

Under the arrangements currently in force, our Company estimates that the aggregate remuneration (including benefits in kind) of the Directors and the Supervisors payable by our Company for the year ending 31 December 2009 will be about RMB3,082,000.

6. DISCLOSURE OF INTERESTS

A. Disclosure of interests

- (iii) As of the Latest Practicable Date, one Director had an interest in the following equity interest in Sinopharm Investment, an associated corporation (within the meaning of Part XV of the SFO) of the Company.

Name	Registered capital contributed	Capacity	Percentage in total registered capital
Guo Guangchang	RMB343,000,000	Controlled corporation	49% (<i>Note</i>)

Note: Guo Guangchang is the beneficial owner of 0.006% equity interest in Fosun Pharma and 58% shareholding in Fosun International Holdings. In turn, Fosun International Holdings is the beneficial owner of 100% shareholding in Fosun Holdings. In turn, Fosun Holdings is the beneficial owner of 78.24% shareholding in Fosun Company. In turn, Fosun Company is the beneficial owner of 100% shareholding in Fosun High Technology. In turn, Fosun High Technology is the beneficial owner of 49.03% equity interest in Fosun Pharma. In turn, Fosun Pharma is the beneficial owner of 100% equity interest in Qishen Company. In turn, Qishen Company is the beneficial owner of 49% equity interest in Sinopharm Investment. Therefore, Guo Guangchang is deemed to be interested in the 49% equity interest held by Qishen Company in Sinopharm Investment for the purposes of the SFO.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

As of the Latest Practicable Date, one Director had an interest in the following number of Domestic Shares in the Company.

Name	Number of Domestic Shares	Capacity	Percentage in total share capital
Guo Guangchang	1,571,555,953	Controlled corporation	96% (<i>Note</i>)

Note: Guo Guangchang is the beneficial owner of 0.006% equity interest in Fosun Pharma and 58% shareholding in Fosun International Holdings. In turn, Fosun International Holdings is the beneficial owner of 100% shareholding in Fosun Holdings. In turn, Fosun Holdings is the beneficial owner of 78.24% shareholding in Fosun Company. In turn, Fosun Company is the beneficial owner of 100% shareholding in Fosun High Technology. In turn, Fosun High Technology is the beneficial owner of 49.03% equity interest in Fosun Pharma. In turn, Fosun Pharma is the beneficial owner of 100% equity interest in Qishen Company. In turn, Qishen Company is the beneficial owner of 49% equity interest in Sinopharm Investment. In turn, Sinopharm Investment is the beneficial owner of 96% shareholding in the Company. Therefore, Guo Guangchang is deemed to be interested in the 96% shareholding held by Sinopharm Investment in the Company for the purposes of the SFO.

Save as disclosed in this document, none of the Directors, Supervisors or chief executive of the Company has any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register of interests referred to in section 352 of the SFO, or which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once the H Shares are listed on the Hong Kong Stock Exchange.

B. Disclaimers

Save as disclosed in this document:

- (i) none of the Directors, Supervisors nor any of the parties listed in paragraph 7I of this appendix is interested, directly or indirectly, in the promotion of, or in any assets which have, within the two years immediately preceding the issue of this document, been acquired or disposed of by or leased to any member of our Company, or are proposed to be acquired or disposed of by or leased to any member of our Company;
- (ii) none of the Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Company;
- (iii) save in connection with the [●], none of the parties listed in paragraph 7I of this appendix:
 - (a) is interested legally or beneficially in any shares in any member of our Company; or
 - (b) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Company;

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- (iv) save as referred to above, there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation) between any member of our Company and any of the Directors or Supervisors; and
- (v) no cash, securities or other benefit has been paid, allotted or given within the two years immediately preceding the date of this document to CNPGC or Sinopharm Investment nor is any such cash, securities or other benefit proposed to be paid, allotted or given.

7. OTHER INFORMATION

A. Tax and estate duty

The Directors have been advised that no material liability for estate duty under the laws of the PRC, where substantially all of the assets and businesses of the Company are situated, would be likely to fall upon the Company or any member of our Company.

Under the Deed of Indemnity, Sinopharm Investment has, among other things, provided an indemnity in favor of the Company for 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.

B. Litigation

Neither the Company nor any of its subsidiaries is engaged in any litigation or claim of material importance, and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company that would have material effect on the Company's results of operations or financial condition.

C. Agency fees or commissions

Save as disclosed in this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of our Company within the two years immediately preceding the issue of this document.

D. Preliminary expenses

The preliminary expenses of the Company are estimated to be about RMB[●] and are payable by the Company.

E. Promoters

CNPGC and Sinopharm Investment are the two promoters of the Company.

G. Compliance Adviser

We have in accordance with Rule 3A.19 of the Hong Kong Listing Rules retained CICC as our compliance adviser.

H. No material adverse change

There has been no material adverse change in the financial or trading position of our Company since 31 May 2009.

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

I. Qualification of experts

The qualifications of the experts who have given opinions in this document are as follows:

Name	Qualification
PricewaterhouseCoopers	Certified public accountants
Chen & Co.	PRC lawyers

J. Exemption from relevant Companies Ordinance provision in relation to the property valuation report

Exemption from Relevant Companies Ordinance Provision

The Company has applied for an exemption from the SFC from strict compliance with paragraph 34 of the Third Schedule to the Companies Ordinance relating to the disclosure of certain particulars of our properties in the valuation report in this document, since the operations of our Company are located in 19 provinces and the total number of properties involved is very large.

The exemption has been [granted] by the SFC under section 342A of the Companies Ordinance, subject to the following conditions:

- a full valuation report in the Chinese language complying with all the applicable requirements of paragraph 34 of the Third Schedule to the Companies Ordinance and the Hong Kong Listing Rules (as the case may be) will be made available for inspection in accordance with Appendix X to this document;
- the valuer's letter and the valuer's certificate containing a summary valuation of all of our property interests, including particulars of occupancy, market values and the title status thereof, based on the full valuation report, will be included in both the Chinese and English versions of this document in the form set out in Appendix V to this document; and
- this document must set out particulars of this exemption.

K. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

L. Miscellaneous

- (a) Save as disclosed in this document:
- (i) within the two years preceding the date of this document, no share or loan capital of any member of our Company has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

APPENDIX IX — STATUTORY AND GENERAL INFORMATION

- (ii) no share or loan capital of any member of our Company is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of its subsidiaries; and
 - (iv) neither the Company nor any of its subsidiaries has issued or agreed to issue any founder shares, management shares or deferred shares.
- (b) The Company currently does not intend to apply for the status of a Sino-foreign investment joint stock limited company and does not expect to be subject to the PRC Sino-foreign Joint Venture Law.
- (c) Save as disclosed in this document, none of the equity and debt securities of our Company is listed or dealt in any other stock exchange or trading system nor is any [●] or permission to deal in such securities being or proposed to be sought.
- (d) No member of our Company has any outstanding debenture or other debt securities.