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## INDUSTRY OVERVIEW

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### SOURCES OF INFORMATION

#### About CCID

CCID is a Chinese consulting firm and an Independent Third Party, which focuses on providing market research and consulting services for sectors including technology, energy, consumer and others. In particular, CCID has been publishing annual China Consumer Health market research reports since 2004. Certain market information in this prospectus has been quoted from its study, commissioned by us for RMB85,000, of the amino acid-based nutritional supplements market and the more general nutritional supplement market in China issued in October 2009. In preparing the study, CCID conducted interviews with a range of industry participants and professionals, including experts from domestic industry associations, academics as well as executives from various manufacturers. CCID also collected data samples from distributors and supermarkets in several major cities in China and conducted a consumer survey with samples taken from 12 major cities in China. With regard to the general information relating to the amino acid-based nutritional supplement market in China, CCID mainly relied on the data published by the National Bureau of Statistics of China and the China Health Care Association. The research reports were drafted based on the information CCID deemed reasonable. CCID also checked with industry representatives to verify industry trend. CCID is listed on the Growth Enterprise Market of the Stock Exchange and has obtained the ISO 9001: 2000 certification.

#### About Euromonitor International

Euromonitor International Plc., founded in 1972, is a private independent provider of business intelligence on industries, countries and consumers. It covers the consumer healthcare industry, among other industries, and regularly publishes reports on this sector. Each Euromonitor International industry report is based on a variety of research techniques, including desk research, site visits and industry interviews. Main research and analysis sources include governmental official sources, inter-governmental bodies and other official international sources, the national and international specialist trade press, national and international trade associations, industry study groups, reports published by major manufacturers, distributors, retailers and suppliers, various online databases, press reports, company annual reports and independent analyst reports. The information disclosed in this prospectus from Euromonitor International is extracted from reports not commissioned by us and was prepared in the ordinary course of business of Euromonitor International.

#### About Datamonitor

Datamonitor is a business information company specialising in industry analysis and an Independent Third Party. Datamonitor provides analysis and forecasts for sectors including healthcare, technology, automotive, energy, consumer markets and financial services. The company also advises

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clients on the impact that new technology and eCommerce will have on their businesses. Datamonitor's analysts base their work on statistics, surveys and interviews. The information disclosed in this prospectus from Datamonitor is extracted from reports not commissioned by us and was prepared in the ordinary course of business of Datamonitor.

### About Business Monitor International

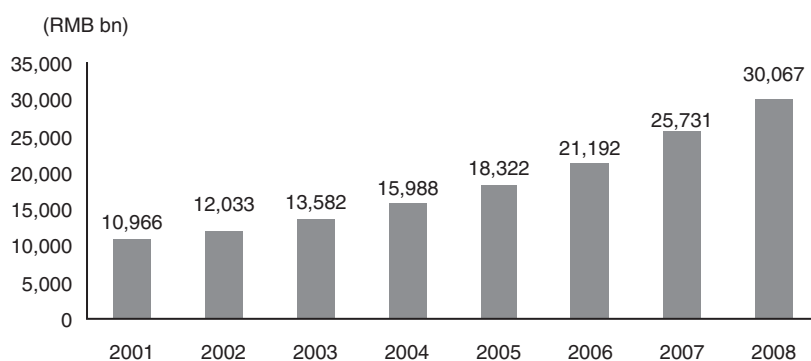
Business Monitor International (BMI) provides data, analysis, ratings and forecasts on country risk and industry research and is an Independent Third Party. BMI's services relating to country risk cover political, economic, business and financial risks, and its industry research includes analysis of 23 industry sectors, including food and drink, automobiles, chemicals and others. BMI assessed the pharmaceutical market by processing the relevant factors through its proprietary country risk rating system, which factors include market expenditure, country structure, population growth, intellectual property laws and policy continuity. The information disclosed in this prospectus from Business Monitor International is extracted from reports not commissioned by us and was prepared in the ordinary course of business of BMI.

## THE PRC ECONOMY

### Strong Growth of the Chinese Economy

The PRC economy has expanded rapidly since the series of reform and market liberalisation policies initiated by the PRC government in the late 1970's. Since then, the PRC government has also implemented policies relating to foreign investment and international trade. From 2001 to 2008, according to the National Bureau of Statistics of China, the PRC's nominal GDP and the nominal GDP per capita grew at a CAGR of approximately 15.5% and 14.8%, respectively. The charts below set out the nominal GDP and the nominal GDP per capita of China between 2001 and 2008.

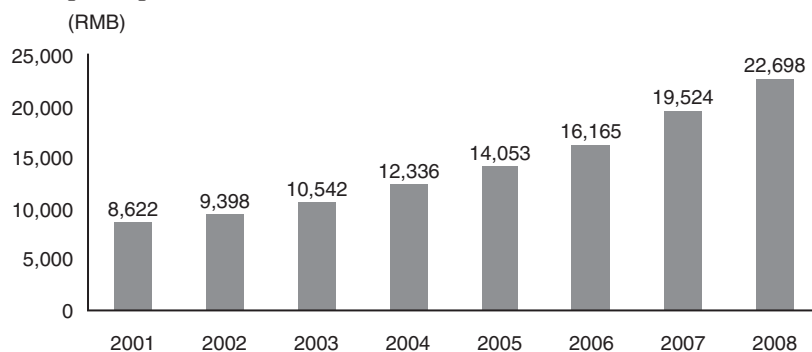
#### China's nominal GDP



Source: National Bureau of Statistics of China

## INDUSTRY OVERVIEW

### China's nominal GDP per capita

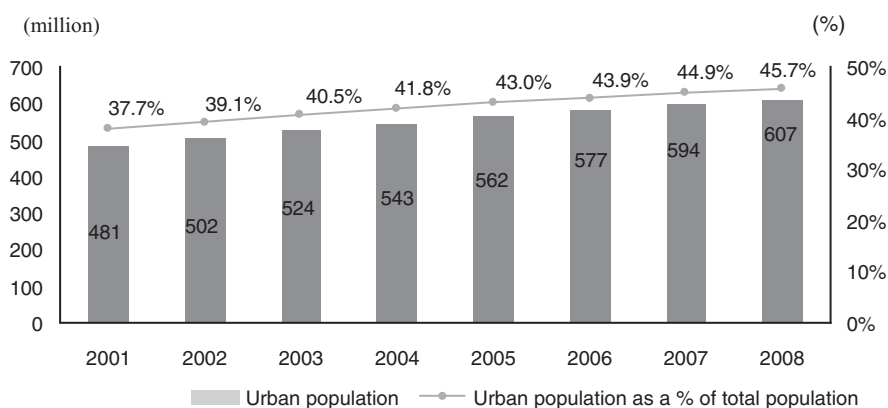


Source: National Bureau of Statistics of China

### Accelerating urbanisation

Urbanisation has accelerated in the PRC as a result of the country's rapid economic growth. Population in urban cities has increased significantly with the influx of people from rural and less developed areas. Between 2001 and 2008, the total urban population in the PRC increased by 126 million or approximately 26.2%. In 2008, the total urban population reached 607 million and accounted for approximately 45.7% of the total population. The chart below shows the growth of the urban population in the PRC from 2001 to 2008.

### China's urban population

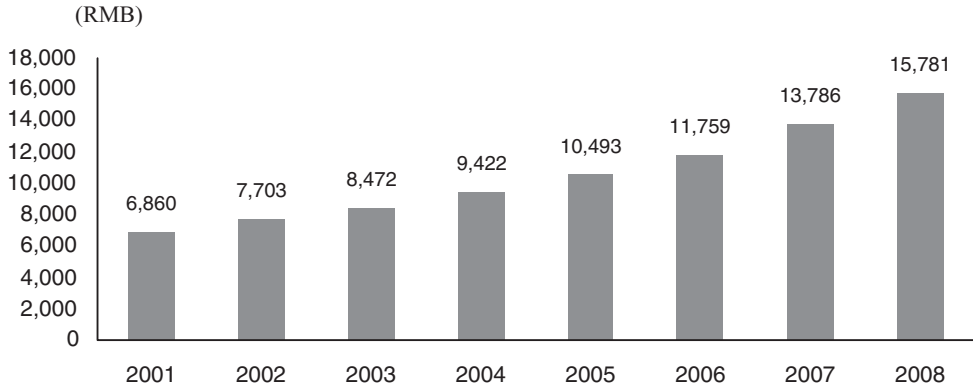


Source: National Bureau of Statistics of China

### Increasingly affluent urban households

With the growth in GDP and the increase in the urban population in China, the increasing affluence of urban households has led to an improvement in living standards. Per capita annual disposable income levels of urban households have increased substantially since 2001. According to the National Bureau of Statistics of China, during the period from 2001 to 2008, the per capita annual disposable income of urban households in China increased from RMB6,860 to RMB15,781, representing a CAGR of 12.6%.

**China's per capita annual disposable income per urban household**

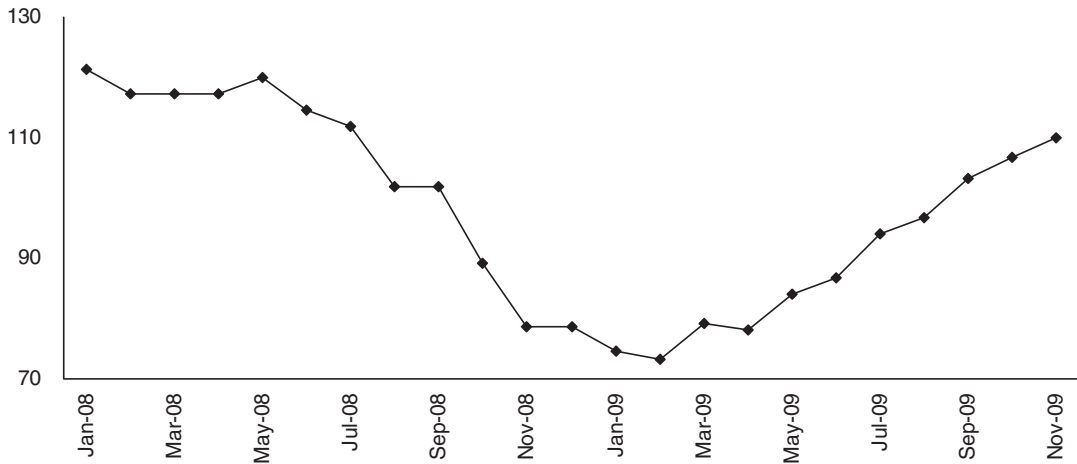


Source: National Bureau of Statistics of China

**Impact of Recent Global Financial Crisis and Economic Downturn**

The recent global financial crisis and economic downturn adversely affected economies and businesses around the world, including in China. According to the National Bureau of Statistics of China, the monitoring signals of China's macro-economic climate index (中國宏觀經濟景氣指數 (預警指數)) decreased by 52.8% from July 2008 to February 2009. China's macro-economic climate index indicates the basic economic trend in China and is calculated based on data regarding industrial production, employment and social demand. During the same period, China's consumer confidence index (中國消費者信心指數) decreased by 8.5% from July 2008 to February 2009. China's consumer confidence index indicates the level of optimism on the state of the economy in China.

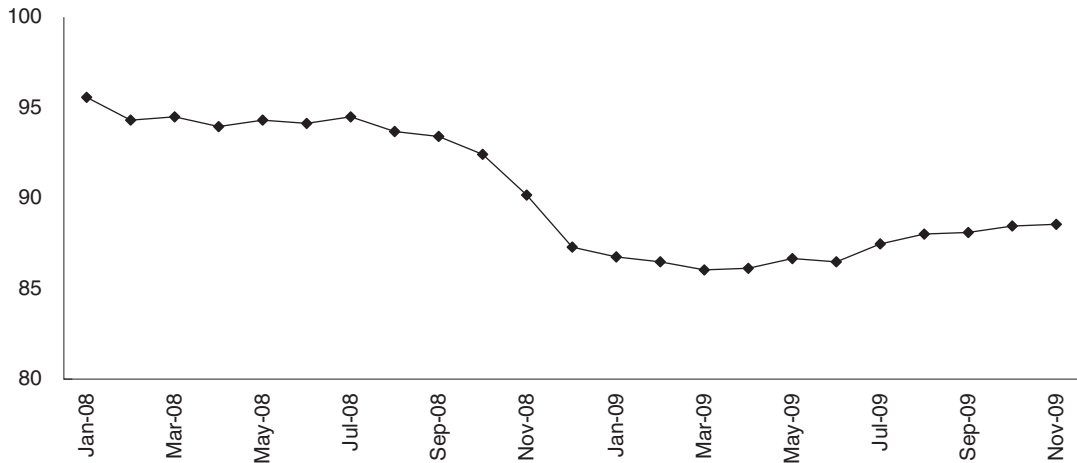
**Monitoring signals of China's macro-economic climate index**



Source: National Bureau of Statistics of China

## INDUSTRY OVERVIEW

### China's consumer confidence index

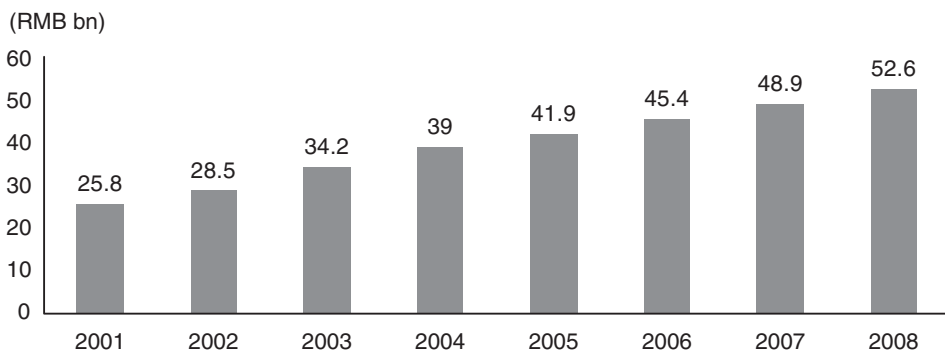


Source: National Bureau of Statistics of China

### NUTRITIONAL SUPPLEMENT MARKET IN CHINA

The nutritional supplement market in China, which primarily consists of vitamin and dietary supplement market, constitutes a portion of the consumer healthcare market, and has grown rapidly in recent years mainly due to enhanced living standards, increased disposable income and rising health consciousness among Chinese consumers. According to Euromonitor International, sales of vitamin and dietary supplements in China grew from RMB25.8 billion in 2001 to RMB52.6 billion in 2008, representing a CAGR of 10.7%. Euromonitor International also estimated sales in the vitamin and dietary supplement market to reach RMB86.1 billion by 2013, representing a CAGR of 10.4% from 2008 to 2013.

### Sales of vitamin and dietary supplements



Source: Euromonitor International, September 2009

### Amino Acids Market Overview

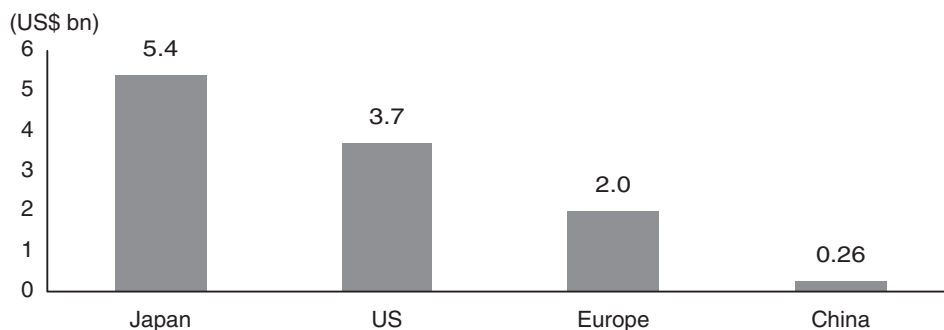
Amino acids are a class of organic compounds and the basic structural unit for all proteins. They are indispensable elements of the human body and play essential roles in body metabolisms, including the formation of muscles, skin, internal organs, enzymes and antibodies. Amino acids have multiple biological functions, such as improving skin condition, protecting the liver from damages caused by alcohol consumption, assisting secretion of growth hormone, enhancing immune system and

improving sleep quality. There are over 20 kinds of amino acids, out of which nine kinds cannot be synthesised by the human body. These nine kinds of amino acids are commonly referred to as essential or indispensable amino acids. The human body continuously demands for essential and non-essential amino acids for protein synthesis and other metabolic functions. Unlike fat or starch, the human body cannot store excess amino acids for later use. As the essential amino acids cannot be synthesised by the human body, the only way to obtain them is through food intake or degradation of body tissues rich in protein such as muscles. Prolonged diet that lacks essential amino acids would force the body to degrade body proteins and could cause health problems such as weakening of the muscles and metabolic disorders.

The primary source of amino acids for human beings is from proteins in the daily diet. Nutritional supplement companies have developed nutritional products that contain single or a mixture of amino acids. Consumers use these products to supplement their diet, improve immunity, boost energy and increase appetite. Consumers also take these products to help build additional muscle mass and improve body fitness. Amino acid-based nutritional supplements primarily come in the form of tablets, oral liquids, powder and capsules.

According to CCID, the largest amino acid-based nutritional supplement market is Japan, with estimated total sales of US\$5.4 billion in 2008. CCID estimated that the market size in 2008 was US\$3.7 billion in the United States, US\$2.0 billion in Europe, and US\$260.0 million in China. The per capita consumption was RMB282.5, RMB86.8, RMB18.6 and RMB1.4 in Japan, United States, Europe and China, respectively, which suggests a great growth potential for the Chinese market.

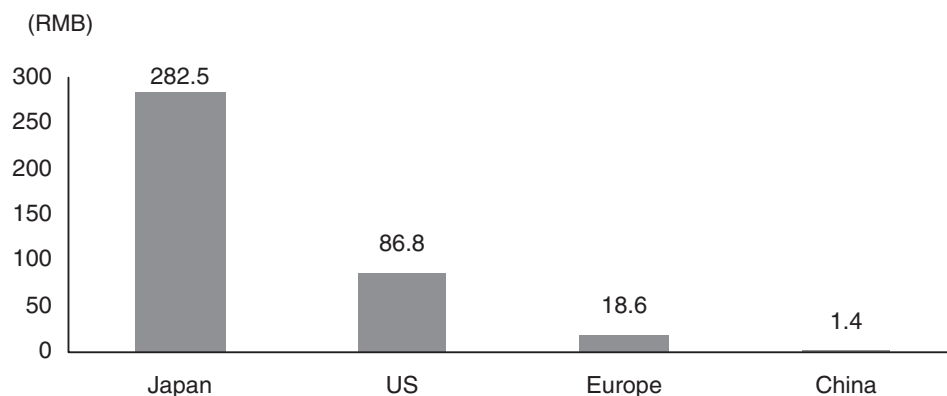
### Amino acid-based nutritional supplements market in 2008



Source: CCID, October 2009

## INDUSTRY OVERVIEW

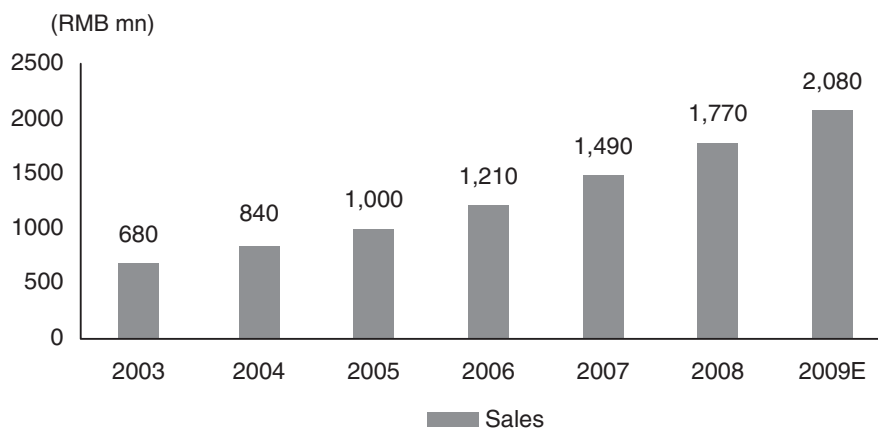
### Amino acid-based nutritional supplements consumed per capita in 2008



Source: CCID, October 2009

Although the size of the amino acid-based nutritional supplement market in terms of sales in China is relatively small, the market has been experiencing solid growth in the past several years. According to CCID, the market size in China has grown from RMB680 million in 2003 to RMB1.8 billion in 2008, representing a CAGR of 21.1%. In addition to the favourable factors for the growth of the Chinese nutritional supplement industry mentioned below in “— Drivers of the Nutritional Supplement Industry in China,” we believe the gradual acceptance of amino acid-based nutritional supplements by consumers has also contributed to the growth of this market and CCID estimated the market size in China reached RMB2.1 billion in 2009.

### China amino acid-based nutritional supplement market

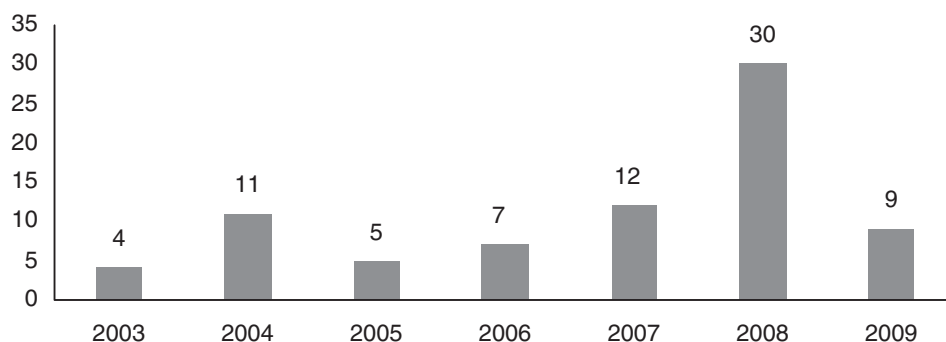


Source: CCID, October 2009

The Chinese amino acid-based nutritional supplement market is a relatively new and fragmented market. According to CCID, there are currently approximately 50 manufacturers of amino acid-based nutritional supplements in China, and less than 80 amino acid-based nutritional supplements have been approved by the SFDA.

## INDUSTRY OVERVIEW

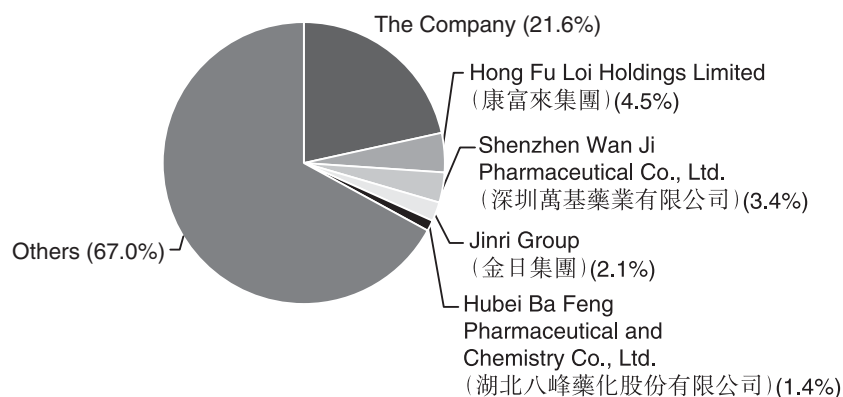
### Number of amino acid-based nutritional supplements approved by the SFDA



Source: SFDA, CCID, October 2009

According to CCID, we are the largest manufacturer of amino acid-based nutritional supplements in China, and we enjoyed a national market share of 21.6% in 2008 based on total sales in Renminbi. The second largest manufacturer had a market share of 4.5% in 2008, and the five largest manufacturers of amino acid-based nutritional supplements, which are all PRC companies, collectively held approximately 33% of the market share. According to CCID, total sales of amino acid-based tablets in China reached RMB1.8 billion in 2008. The total sales, representing the market size, was calculated based on the official statistics released by the China Health Care Association and the SFDA, information obtained from interviews with prominent industry experts and turnover data obtained from selected companies that were listed with the China Health Care Association based on their reputation and production scales.

### Market share of five largest manufacturers of amino acid-based nutritional supplements in China in 2008



Source: CCID, October 2009

### Drivers of the nutritional supplement industry in China

#### *Increasing disposable income*

According to the National Bureau of Statistics of China, per capita annual disposable income of China's urban households increased from approximately RMB6,860 in 2001 to RMB15,781 in 2008, representing a CAGR of approximately 12.6%. For rural households, per capita annual net income increased from RMB2,366 in 2001 to RMB4,761 in 2008, representing a CAGR of approximately 10.5%. With the increased purchasing power, consumers are able to spend more on healthcare products.



### *Rising health consciousness*

With improved living standards, consumers in China are becoming more sophisticated and familiar with the concepts of wellness and holistic health. This trend is particularly pronounced in medium and large cities, where the average disposable income is relatively higher. People are seeking a healthier lifestyle and are therefore willing to spend more on nutritional supplements. The concept of wellness was also in part spurred by the outbreak of SARS in 2003.

### *Expanding user base*

More working professionals in the PRC are buying nutritional supplements for themselves in order to maintain their health, particularly in urban areas. Experiencing higher levels of stress and pressure, this group of people is increasingly drawn to the benefits of nutritional supplements. Hence, according to CCID, there is a shift in consumption of nutritional supplements from women and the elderly towards consumers of both sexes and all age groups. Also according to CCID, 37.8% of the consumers of nutritional supplements in China are between the ages of 30 and 40, 24.4% are between the ages of 40 and 50, 20% are between the ages of 20 and 30, and 17.8% are above 50.

### *Tradition of gift-giving during holiday seasons*

Although more working professionals are buying nutritional supplements for themselves, gift buying is expected to remain a key sales driver in the nutritional supplement industry due to the strong tradition of gift giving in the Chinese culture, according to Euromonitor International. It is customary for people in China to give and receive presents during the Chinese New Year, Mid-Autumn Festival and other holidays, and nutritional supplements are one of the most popular gift choices. Moreover, we believe that with increased health consciousness and higher disposable income, Chinese people are expected to become more willing to purchase nutritional supplements as gifts for their friends and families and to spend more on nutritional supplements. According to CCID, when purchasing nutritional supplements, 40% of consumers are purchasing them for self-use, 26% as gifts, 21% for their parents, and 13% for their children. We believe that as the nutritional supplement industry expands, the self-use and gift-giving segments will continue to represent the two largest segments in the nutritional supplement industry.

### *Aging population*

According to the National Bureau of Statistics of China, as of the end of 2008, China had 110 million citizens aged 65 or over, representing approximately 8.2% of the nation's total population. It is estimated by Euromonitor International that by the end of 2020, the number of citizens aged above 65 will exceed 182 million, or 13.1% of the total population. In addition, the average life expectancy in China is rising, from 68.8 years in 2001 to 70.5 years in 2008 for males, and from 72.1 years in 2001 to 74.3 years in 2008 for females. We believe that the aging population, combined with the tendency of people to be more health conscious as they grow older, creates a growing market for nutritional supplements for the elderly.

### **Recent regulatory and policy developments regarding the Chinese nutritional supplements market**

The nutritional supplement industry in China is subject to extensive government regulation and supervision, including approval, licensing and certification requirements applicable to manufacturers and products under various stages of development. The SFDA is the administrative department in

charge of the overall administration of the nutritional supplement and health food industry, product registration and approval, product safety and legislation. It is also in charge of investigation of safety incidents relating to food and drugs and coordinates with various organisations and government departments when needed. In addition, the processing, formulation, manufacturing, packaging, labelling, advertising, distribution and sale of our products are subject to regulation by several PRC agencies, including the SFDA, the Ministry of Health and the State Administration for Industry and Commerce and their respective local agencies.

As a result of the rapid development of the health food industry, the SFDA issued new regulations for nutritional supplement registration, which became effective as of 1 July 2005. Under the SFDA rules, there are generally 27 benefits or functions that could be claimed by nutritional supplements, including, among others, enhancing the immune system, resisting oxidation, improving memory, lowering blood sugar levels and improving sleep quality. Any claim out of these 27 categories must be supported by testing on animals and/or human consumption.

The current regulatory environment in China for health food products has become more stringent. In 2002, the Chinese government identified four major issues that were eroding consumer confidence in the nutritional supplements industry, which are exaggerated or fraudulent health claim, use of banned chemicals, counterfeits or regular food products promoted as having health benefits, and substandard manufacturing facilities. Since then, stricter requirements for nutritional supplement examinations and approvals have been adopted. For example, new nutritional supplements cannot be granted a licence number until having been verified to have no adverse side effects. The PRC government is also screening the qualification of manufacturers more closely and has mandated all production facilities to become GMP compliant before the end of 2005. In addition, under the PRC Law on Food Safety (中華人民共和國食品安全法), which became effective on 1 June 2009, unsafe food products must be recalled from the market, and their providers may be liable for punitive damages to customers.

All these factors are considered to be favourable for large nutritional supplement enterprises in the long term. At the same time, small- and medium-sized market participants find it increasingly difficult to enter into the market. See “Regulation — Regulatory Framework of the Nutritional Supplement Industry,” “Regulation — Approval and Registration of Nutritional Supplements,” “Regulation — Application of a General Health Food Product as a Nutritional Supplement,” “Regulation — GMP Certification,” “Regulation — Manufacturing of Nutritional Supplements and General Health Food Products” and “Regulation — Advertising” for more detailed introduction of the regulatory framework of the nutritional supplement industry in the PRC.

### **Competitive Landscape of the Nutritional Supplement Industry in China**

The Chinese nutritional supplement market is characterised by the wide range of products offered by a large number of manufacturers. Nutritional supplements differ from each other in terms of, among others, functional claims, raw materials, dosage forms, brands and market positioning. For example, each nutritional supplement is allowed to claim no more than two benefits or functions from a list of 27 claims specified by the SFDA. Raw materials used in nutritional supplements generally include chemicals, biological agents, Chinese herbs and other substances. Dosage forms include tablets, capsules, drinks, oral liquids and powder. As a result of the numerous types of products on the market, a nutritional supplement company typically focuses on a few product segments.

## INDUSTRY OVERVIEW

The nutritional supplement market in China is highly fragmented. According to CCID, there were approximately 3,000 manufacturers of nutritional supplements in China as of the end of 2008. However, the vast majority of these manufacturers are small enterprises. CCID estimated that 79.4% of the nutritional supplement manufacturers had invested capital of less than RMB1.0 million. CCID estimated that the largest player had an 16.5% market share in 2008 in terms of sales, and only a few manufacturers had market shares of over 1%. With a more stringent regulatory environment, smaller companies are expected to be forced out of the market, and market leaders with established brands and proven quality are expected to gradually absorb the smaller companies' market shares.

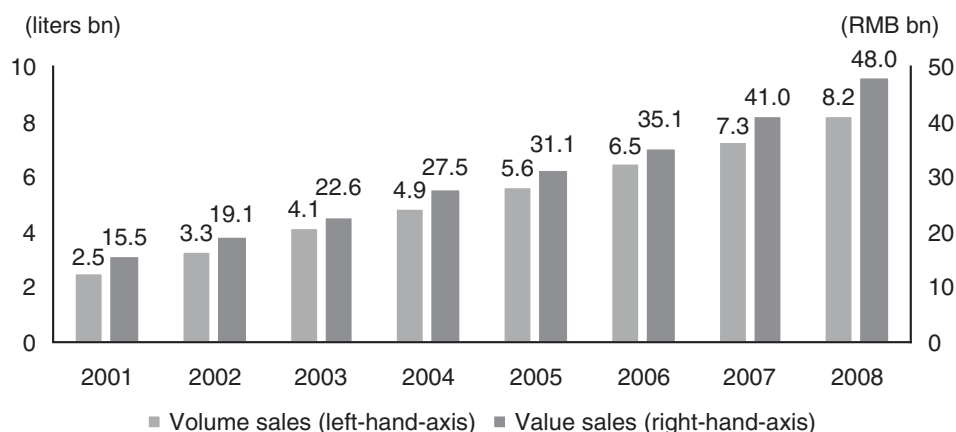
### RTD TEA MARKET IN CHINA

According to a Euromonitor International report released in July 2009, the soft drinks market can be divided into RTD tea (such as RTD green tea, RTD oolong tea and RTD herbal tea), bottled water, carbonated drinks, fruit/vegetable juice, concentrates, RTD coffee and Asia specialties segments. The RTD tea segment can be further divided into still RTD tea and carbonated RTD tea. In 2008, the global market size of RTD tea was approximately US\$29.1 billion, accounting for 7% of the market size of soft drinks. The total sales of RTD tea is expected to reach US\$39.3 billion by 2013, representing a CAGR of 6.2% from 2008 to 2013.

Currently, the RTD tea segment is heavily concentrated among three geographic markets, namely, China, Japan and the United States, which collectively accounted for 70% of the global sales in 2008. In 2008, China and Japan were the largest markets in terms of both volume and sales.

The RTD tea industry in China has experienced significant and rapid growth over the past seven years. The volume of RTD tea sold through distribution channels such as supermarkets and convenient stores, or off-trade sales, has grown from 2,527 million litres in 2001 to 8,178 million litres in 2008, representing a CAGR of 18.3%. Off-trade sales of RTD tea have grown from RMB15.5 billion to RMB48.0 billion during the same period, representing a CAGR of 17.5%. China was the largest market in terms of volume and the second largest market in terms of sales. Euromonitor International estimated that the sales of RTD tea in China would reach 11,985 million litres, or RMB76.2 billion, by 2013.

### Off-trade sales of RTD tea in China



Source: Euromonitor International, May 2009

## INDUSTRY OVERVIEW

Within the RTD tea segment, herbal tea recorded the fastest growth rate of over 40% per annum between 2001 and 2008.

### Drivers of the RTD Tea Market in China

#### *Increasing urbanisation and disposable income*

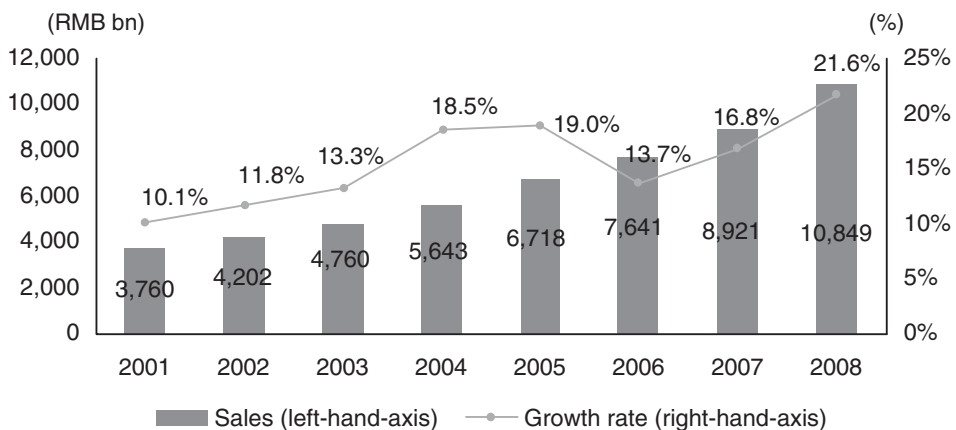
Urbanisation and higher disposable income drive the demand for pre-packaged food items such as RTD tea, as urban consumers lead a fast-paced lifestyle necessitating a convenient form of food and beverage consumption. Since 2000, China has seen an increase in its urban population. According to the National Bureau of Statistics of China, urban population in the PRC accounted for 45.7% of the total population in 2008, compared with 37.7% in 2001. China's urban population grew at a CAGR of 3.4% between 2001 and 2008, outpacing China's population growth at a CAGR of 0.6% during the same period. Euromonitor International estimated that the existing trend of urbanisation will continue, with the urban population reaching 52.7% of the total population by 2020.

According to the National Bureau of Statistics of China, from 2001 to 2008, per capita annual disposal income of urban households in China grew at a CAGR of 12.6% from RMB6,860 to RMB15,781, and per capita annual disposable income of rural households grew at a CAGR of 10.5% from RMB2,366 to RMB4,761 during the same period. Euromonitor International estimated the average per capita annual disposable income of urban households will reach RMB34,579 by 2020.

#### *Strong retail growth*

Rising disposable income has spurred the development of the retail industry in the PRC. From 2001 to 2008, according to the National Bureau of Statistics of China, total retail sales of consumer goods grew from RMB3,760 billion to RMB10,849 billion, representing a CAGR of 16.3%, which outpaced the growth in urban disposable income. The following chart shows the total retail sales of consumer goods and the growth rate for the period indicated.

#### Retail sales of consumer goods in China



Source: National Bureau of Statistics of China

#### *Growing health concerns and changing consumer behaviour*

Due to increased consumer health consciousness, consumers in China increasingly prefer healthier drinks such as herbal tea and fruit juice to address their health concerns regarding carbonated

drinks. In line with this trend, even large carbonated drink producers introduced healthier RTD tea versions, according to Euromonitor International.

With a CAGR of 17.5% from 2001 to 2008, RTD tea registered as one of the fastest growing categories in the soft drinks market, outpacing that of the entire soft drinks market of a CAGR of 14.4% during the same period. In particular, carbonated drinks, which used to be the most popular soft drinks in China in the early 2000's, slowed down and only grew at a CAGR of 8.3% during the same period, which indicates that Chinese consumers have been gradually migrating away from carbonated drinks to healthier products such as RTD tea.

### *Continuing penetration of distribution channels*

Herbal tea products are predominately distributed through traditional distribution channels such as small stores and stalls, as well as modern chains such as supermarkets, hypermarkets and convenience stores. The rapid development and deeper penetration of such retail channels in China have made herbal tea products more accessible to the mass market. In addition, herbal tea has become one of the most popular soft drinks in restaurants, especially in hotpot and barbeque restaurants.

### **Competitive Landscape of the RTD Tea Market in China**

Due to the relatively low entry barrier and strong demand prospects, the RTD tea market has experienced fierce competition. According to Euromonitor International, in 2008, Chinese brands of RTD tea accounted for over 60% of the market size in terms of volume and 65% of the market size in terms of total sales. On the other hand, major international players have made strong investments in RTD tea but seemingly have not received satisfactory results.

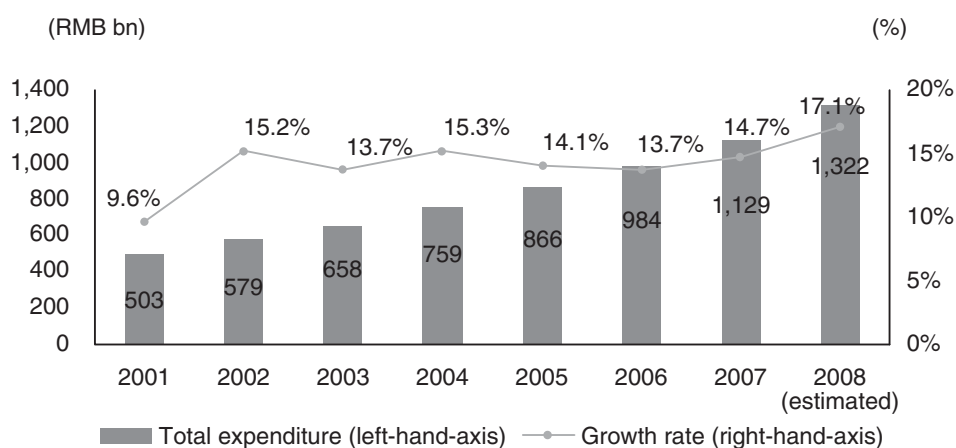
The herbal tea industry is in a nascent stage of development. There is a clear market leader in this category, which, as suggested by trade sources, enjoys over 70% market share of the China herbal tea industry. Moreover, we believe that some second tier players with established brands and effective marketing strategies will capture future growth opportunities and force out small local players.

## INDUSTRY OVERVIEW

### PHARMACEUTICAL MARKET IN CHINA

There has been significant growth in public health expenditure in the PRC in recent years. According to the National Bureau of Statistics of China and the Ministry of Health, the total expenditure on public health in China increased from RMB503 billion in 2001 to RMB1,322 billion in 2008 (estimated), representing a CAGR of 14.8%. The total expenditure on public health accounted for 4.4% of China's total GDP in 2008.

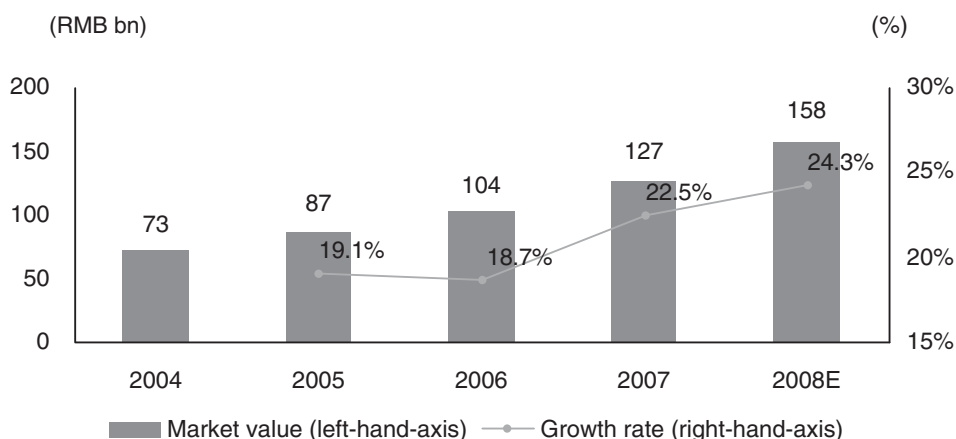
#### Expenditure on public health



Source: National Bureau of Statistics of China, the Ministry of Health of China

According to Datamonitor, the Chinese pharmaceutical market experienced significant growth during the last four years. It generated total sales of RMB158 billion in 2008, representing a CAGR of 21.1% from 2004 to 2008.

#### China's pharmaceutical market



Source: Datamonitor, December 2008

### Anti-cancer Medicine Market in China

Among the ten major diseases, malignant tumours resulted in the highest mortality rate in China. According to the Ministry of Health, the death rate from malignant tumour diseases reached 27.1% and 25.4% for urban and rural residents in 2008, respectively.

#### Death rate of 10 major diseases in China (2008)

| <u>Disease</u>  | <u>Urban</u>        | <u>Rural</u>        |
|---|---------------------|---------------------|
| Malignant tumours . . . . .                           | 27.1%               | 25.4%               |
| Heart diseases . . . . .                              | 19.7%               | 14.1%               |
| Cerebrovascular diseases . . . . .                    | 19.6%               | 21.7%               |
| Diseases of the respiratory system . . . . .          | 11.9%               | 16.9%               |
| Trauma and toxicosis . . . . .                        | 5.1%                | 8.6%                |
| Endocrine, nutritional & metabolic diseases . . . . . | 3.4%                | 1.8%                |
| Diseases of the digestive system . . . . .            | 2.9%                | 2.7%                |
| Diseases of the genitourinary system . . . . .        | 1.1%                | 0.9%                |
| Diseases of the nervous system . . . . .              | 1.0%                | 0.7%                |
| Mental disorders . . . . .                            | 0.6%                | 0.7%                |
| <b>Total</b> . . . . .                                | <b><u>92.4%</u></b> | <b><u>93.5%</u></b> |

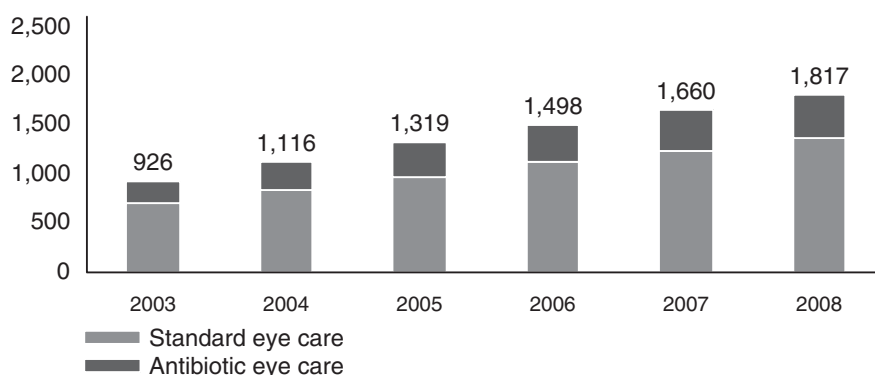
Source: The Ministry of Health of China

### Eye Care Medicine Market in China

Increased life expectancy and people’s increased engagement in eye-straining activities, especially those who spend long hours in front of television and computer screens, underpin the robust growth of the eye care medicine market in China. According to Euromonitor International, the eye care medicine market grew at a CAGR of 14.4% from 2003 to 2008, with sales amounting to RMB1.8 billion in 2008. Euromonitor International estimated the total sales of eye care medicines to reach RMB2.5 billion by 2013.

#### Sales of eye care medicines by product category

(RMB mn)

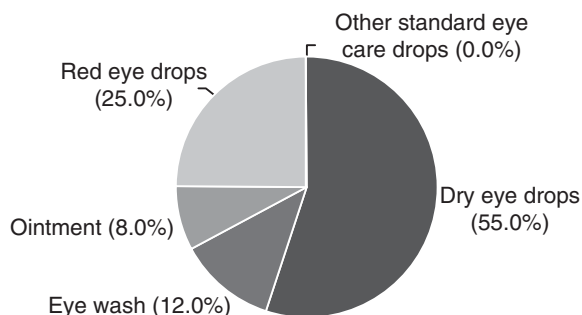


Source: Euromonitor International, September 2009

## INDUSTRY OVERVIEW

Standard eye care medicines dominate the eye care medicine market, accounting for approximately 75% of total sales in 2008. Among standard eye care medicines, eye drops accounted for 80% of total sales in 2008. Dry eye drops and red eye drops accounted for 55% and 25%, respectively, of total eye drop sales in 2008.

### Sales of eye drop medicines by product type (2008)



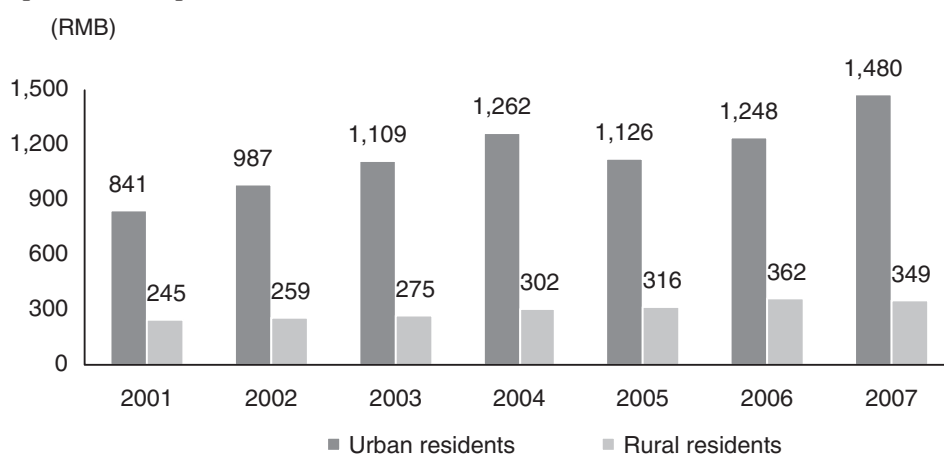
Source: Euromonitor International, September 2009

### Drivers of the Pharmaceutical Industry in China

#### *Increasing disposable income and spending on healthcare*

Along with rising living standards and increasing disposable income, consumers in China have become more health conscious. This has resulted in increased expenditures on healthcare by both urban and rural residents in China. According to the National Bureau of Statistics of China and the Ministry of Health, per capita expenditure on public healthcare in China's urban areas increased from RMB841 in 2001 to RMB1,480 in 2007, representing a CAGR of 9.9%. The per capita expenditure on public healthcare in China's rural areas increased from RMB245 to RMB349 during the same period, representing a CAGR of 6.1%.

#### Per capita expenditure on public healthcare



Source: National Bureau of Statistics of China, the Ministry of Health of China, April 2009

#### *Population growth and increased life expectancy*

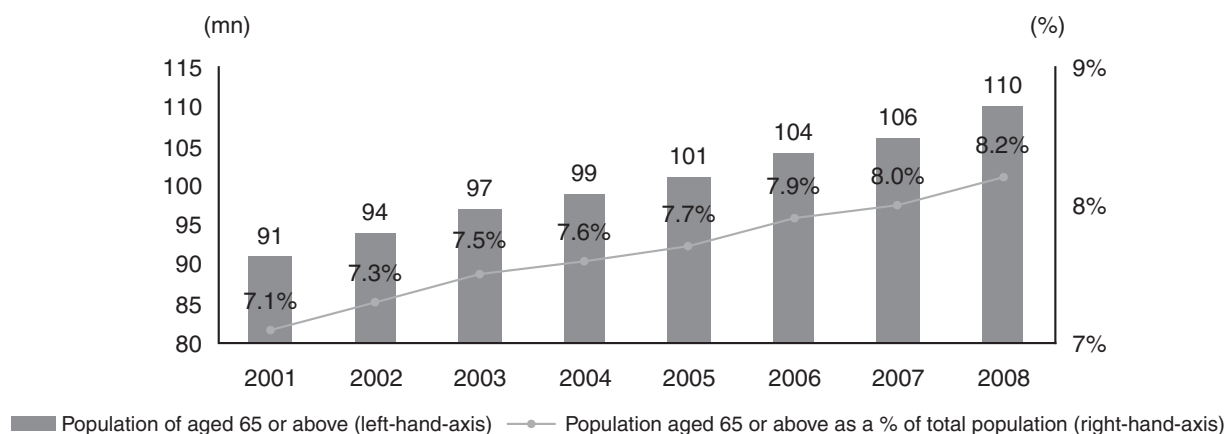
The growth of China's population aged 65 and above is expected to drive demand for healthcare products and services in China. According to the National Bureau of Statistics of China, the



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proportion of the population aged 65 and above in China has increased from 7.1%, or approximately 91 million, in 2001 to 8.2%, or approximately 110 million, in 2008. 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 increasing number of senior citizens in China, who historically spend the most on healthcare among all age groups, will drive the growth of China's pharmaceutical industry. Chronic health problems, such as cancer and eye diseases, are expected to increase with the growth of China's population aged 65 and above.

### Increased life expectancy



Source: National Bureau of Statistics of China, September 2009

### Active government support

The PRC government adopted a number of measures in recent years to encourage and promote the development of the pharmaceutical industry in the PRC. As part of its 11<sup>th</sup> Five-Year Plan (2006-2010), the PRC government has provided a number of incentives and enacting programmes, including increasing funding for building additional hospitals, research centres and other healthcare facilities, enacting healthcare reforms and standards and subsidising healthcare services for its citizens. The PRC government has announced that it will spend an additional RMB850 billion on medical reforms over the three years between 2009 and 2011. The plan incorporates five sub-goals, including an annual per-person subsidy of RMB120 starting from 2010, which we believe will significantly bolster the PRC healthcare and pharmaceutical market.

### Increasing coverage of social medical insurance in China

The National Basic Medical Insurance Programme, which was introduced in 1999, is the largest medical insurance programme in China. The programme was funded with varying levels of contributions from the PRC government, individual programme participants and their employers. The programme was originally launched as the Urban Workers Basic Medical Insurance Programme (城鎮職工基本醫療保險制度), or the Urban Workers Programme, in 1999, which was a mandatory programme covering urban workers and their children under the age of 18. In 2007, a voluntary component called the Urban Resident Basic Medical Insurance Programme (城鎮居民基本醫療保險制度) was further implemented to cover urban residents who had not enjoyed the Urban Workers Programme. The National Basic Medical Insurance Programme provides guidance on which prescribed and over-the-counter medicines are included in the Programme and to what extent the purchases of

these medicines are reimbursable. See “Regulation — Medical Insurance Catalogues” for further information.

According to the Ministry of Human Resources, the total funding under the National Basic Medical Insurance Programme reached RMB304 billion in 2008, representing an increase of 34.7% from 2007. The availability of funding is expected to increase significantly in the near future, primarily as a result of the increased financial and policy support from various levels of the PRC government. See “Regulation — Medical Insurance Catalogues” for more information on the National Basic Medical Insurance Programme.

### **Competitive Landscape of the Pharmaceutical Industry in China**

Most players within the Chinese pharmaceutical market are relatively small domestic companies. According to Datamonitor, this market is highly fragmented with four major companies sharing approximately 10% of the regional market size. The substantial capital required and the stringent regulatory environment to a certain extent limit the growth of some regional manufacturers. Moreover, substantial development costs for a new drug, combined with the existence of competing drugs within a given therapeutic area and the absence of cost reallocation mechanisms, promotes fierce competition within the market. In order to maximise turnover, pharmaceutical manufacturers must invest significantly in sales and marketing activities to establish large sales teams and develop extensive geographical influence.