
INDUSTRY OVERVIEW

The information in the section below has been partly derived from various government publications and partly from the report dated August 2009 issued by Biao Dian, which has been commissioned by us, for a fee of RMB100,000, to prepare such report on the pharmaceutical industry in the PRC, unless otherwise indicated. Data compiled by Biao Dian is based on the published information and data provided by market participants in the PRC.

We believe that the sources of information of this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Selling Shareholders, the Sole Sponsor, the Sole Lead Manager, the Underwriters or any of their respective affiliates or advisors. We, the Selling Shareholders, the Sole Sponsor, the Sole Lead Manager, the Underwriters and any of their respective affiliates and advisors and any other parties involved in the Share Offer make no representation as to the accuracy or completeness of the information set out in this section.

INTRODUCTION

We commissioned Biao Dian, a market research company to conduct a detailed analysis of and report on the pharmaceutical industry and market share of various products of the Company in the PRC. The BDCL report was prepared based on various data collected by Biao Dian through different means, including (a) existing research with information collected from various government publications; (b) the databases monitored by Biao Dian which contain primary information relating to pharmacies and hospitals at counties, cities and provincial levels obtained by Biao Dian; (c) direct visits and interviews with market participants by their market investigators; and (d) information gathered from published secondary sources such as trade press and national statistics. In preparing the BDCL Report, the methodology employed by Biao Dian included scientific sampling and data deduction model. In addition, Biao Dian has relied on certain assumptions including the assumptions that the information collected from the market participants is true, accurate and complete, the economic development of PRC will be growing and the medical reforms of the PRC will be implemented in accordance with the policies announced by the government of the PRC.

The information and statistics as set forth in this section have been partly derived from the BDCL Report issued by Biao Dian.

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THE GLOBAL HEALTHCARE INDUSTRY

The following table illustrates the per capita total expenditure on health and the total health expenditure as a percentage of GDP of selected countries in 2000 and 2007:

Countries	Total health expenditure % of GDP	Per capita total expenditure on health				CAGR of per capita total expenditure on health from 2000 to 2007
		2000		2007		
		USD	RMB equivalent	USD	RMB equivalent	
United States of America	16.0%	4,704	32,128	7,290	49,791	6.5
Canada	10.1%	2,516	17,184	3,895	26,603	6.4
France	11%	2,542	17,362	3,601	24,595	5.1
Germany	10.4%	2,671	18,243	3,588	24,506	4.3
United Kingdom	8.4%	1,833	12,519	2,992	20,435	7.3
Spain	8.5%	1,536	10,491	2,671	18,243	8.2
Italy	8.7%	2,052	14,015	2,686	18,345	3.9
Mexico	5.9%	508	3,470	823	5,621	7.1
China	4.5%	53	362	125	854	13.2

Source: OECD Health Data 2009 — Frequently Requested Data
World Health Statistics 2009, WHO
Statistic Book 2009, Ministry of Health

Note: Exchange rate USD1 = RMB6.83

In 2007, the total health expenditure represented approximately 4.5% of China's GDP, which was relatively low as compared to approximately 16.0% of USA, approximately 11% of France, approximately 10.4% of Germany, approximately 10.1% of Canada and 8.7% of Italy according to WHO statistics. As a percentage of GDP, China's expenditure on healthcare was also the lowest among the nations listed, amounting to approximately 4.5% in 2007, compared to the second lowest of approximately 5.9% for Mexico and the highest of approximately 16.0% for the United States.

According to OECD Health Data 2009 and MOH, China ranked the lowest in terms of per capita expenditure on healthcare among the top selected OECD nations listed above and 121st among all listed nations in 2007. Per capita total expenditure on healthcare in China grew from approximately USD53 in 2000 to approximately USD125 in 2007, representing a CAGR of approximately 13.1%, which is comparable to the CAGR for per capita GDP in China between 2000 and 2007, which was approximately 13.4%. In terms of growth rate of per capita expenditure on healthcare between 2000 and 2007, China ranked the highest among the nations listed. As the Chinese economy continues to grow and the government continues to improve the quality of healthcare in China, we believe the healthcare market will continue to grow at a robust rate.

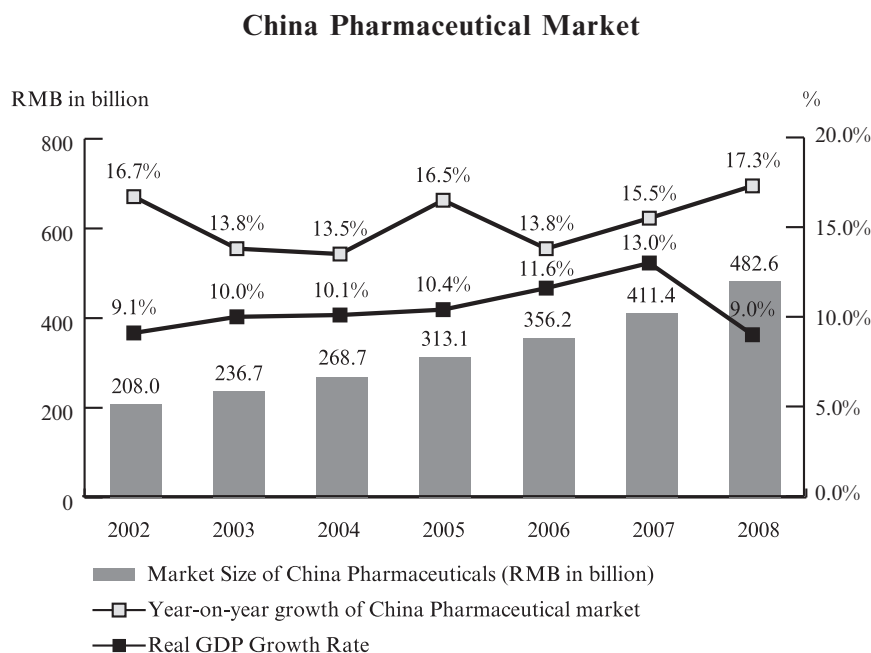
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According to Ministry of Health, from 2002 to 2008, the total expenditure of the Chinese healthcare market has experienced approximately 13.3% CAGR growth in terms of expenditure, China's total healthcare expenditure was estimated to reach RMB1,222 billion (equivalent to approximately USD179 billion) in 2008, representing approximately 4.2% of the nation's total GDP.

PHARMACEUTICAL INDUSTRY IN CHINA

Overview

The pharmaceutical market in China has grown rapidly in recent years. One of the factors that drive the growth is the favorable macro environment in terms of the GDP growth and an increase in healthcare expenditure in China. With the growing economy driving the healthcare expansion, the pharmaceutical industry in China is projected to experience a significant growth in the future. Major changes are underway as China's healthcare expenditure is still far lower than its counterparts. The following chart shows the Chinese pharmaceutical market size from 2002–2008, together with the growth in terms of real GDP in the PRC during the same period.



Source: 廣州標點醫藥信息有限公司 (Guangzhou Biao Dian Medical Data Company Limited)

As compared to a CAGR of approximately 13.3% on China's total healthcare expenditure from 2002–2008, China's pharmaceutical industry has shown a similar growth trend with a CAGR of approximately 15.1% according to the BDCL Report. The graph above illustrates how growth in China pharmaceutical market has outpaced growth of China's real GDP from 2002 to 2008. It also shows that the China pharmaceutical market has continued to increase regardless the decrease in its real GDP from 2007 and 2008. It is, therefore, anticipated that the China pharmaceutical market will keep its rapid growth in the future. It is expected that the pharmaceutical market in China will grow at

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approximately 20.4% CAGR between 2009 to 2010 and approximately 14.2% CAGR between 2011 to 2015, driven by rising disposable incomes and an aging Chinese population.

Driving forces for the pharmaceutical market in China

The principal growth drivers of the pharmaceutical market in China have historically included, and we believe will continue to include (i) increased income and health awareness of the Chinese population; (ii) increasing participation in the State Basic Medical Insurance System; (iii) aging population and prevalence of diseases among the middle and old aged population; and (iv) government initiatives relating to the pharmaceutical industry in China.

(i) Increased income and health awareness of the Chinese population

In addition to the GDP growth, China is experiencing a growth on disposable income. As such, consumers in China have strengthened their awareness of public health, increasing their focus on disease prevention, general wellness, and the early diagnosis of medical conditions. This has led to the demand for pharmaceuticals and healthcare related products, traditional Chinese medicines and herbal products. According to the China Statistical Yearbook 2008, from 2002 to 2008, the average per capita annual disposable income of China's urban residents increased from approximately RMB7,703 to RMB15,781 (equivalent to approximately USD1,128 to USD2,312), representing a CAGR of approximately 12.7%. For rural households, average per capita annual net income increased at a CAGR of approximately 11.5% from approximately RMB2,476 (equivalent to approximately USD363) in 2002 to RMB4,761 (equivalent to approximately USD697) in 2008. Households in both urban and rural areas in China have been spending an increasing proportion of their household expenditure on pharmaceuticals and medical services. According to the China Statistical Yearbook, from 2000 to 2007, the average spending on healthcare and medical services increased from approximately 6.4% to 7.0% of household expenditure for urban households and from approximately 6.8% to 7.6% for rural households. This in part reflects growing health awareness in the PRC. The substantial growth in disposable income of urban residents combined with the increase on awareness of public health and focus on disease prevention and general wellness will lead to greater demand for pharmaceuticals and healthcare related products.

(ii) Increasing participation in the State Basic Medical Insurance System

Participants in the State Basic Medical Insurance System are entitled to reimbursement from the social medical fund for a proportion of the cost of pharmaceuticals included in the Insurance Catalogue in accordance with the relevant regulations of the PRC. Please refer to section headed "Regulation — Insurance Catalogue" of this prospectus. According to the China Statistical Yearbook 2008, between 2000 and 2008, the urban population in China grew from approximately 36.2% to 43.0% of the total population, increasing the number of persons eligible to participate in the State Basic Medical Insurance System. The government expects to insure 390 million urban populations by year end 2009, representing an coverage of approximately 88%. It is believed that the historical increases in the number of

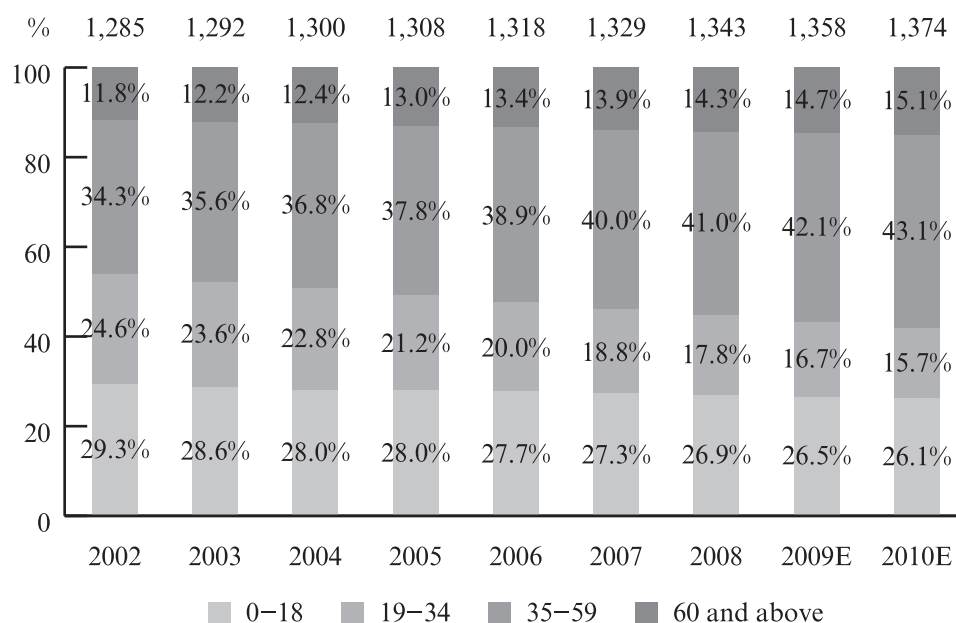
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participants in the State Basic Medical Insurance System have contributed to the continued increase in the consumption of pharmaceuticals in China. This trend is anticipated to continue as the Eleventh Five Year Plan of China projects that the urban population in China will increase from approximately 43% to 47% of the China's total population between 2005 and 2010.

(iii) Aging population and prevalence of disease among the middle-aged and aged population

According to the China Statistical Yearbook, between 2000 and 2008, China's population increased from approximately 1,267 million to 1,328 million. Despite the relatively low growth rate in the total population during the period, China's population has been aging rapidly. The following chart shows the proportion of China's population aged 60 or above between 2002 and 2008 together with the forecast proportion from 2009E to 2010E according to the research report dated 17 December 2008 prepared by the Maxim Group. By 2011, this age group will increase to approximately 215.7 million, accounting for approximately 15.5% of the projected population in China.

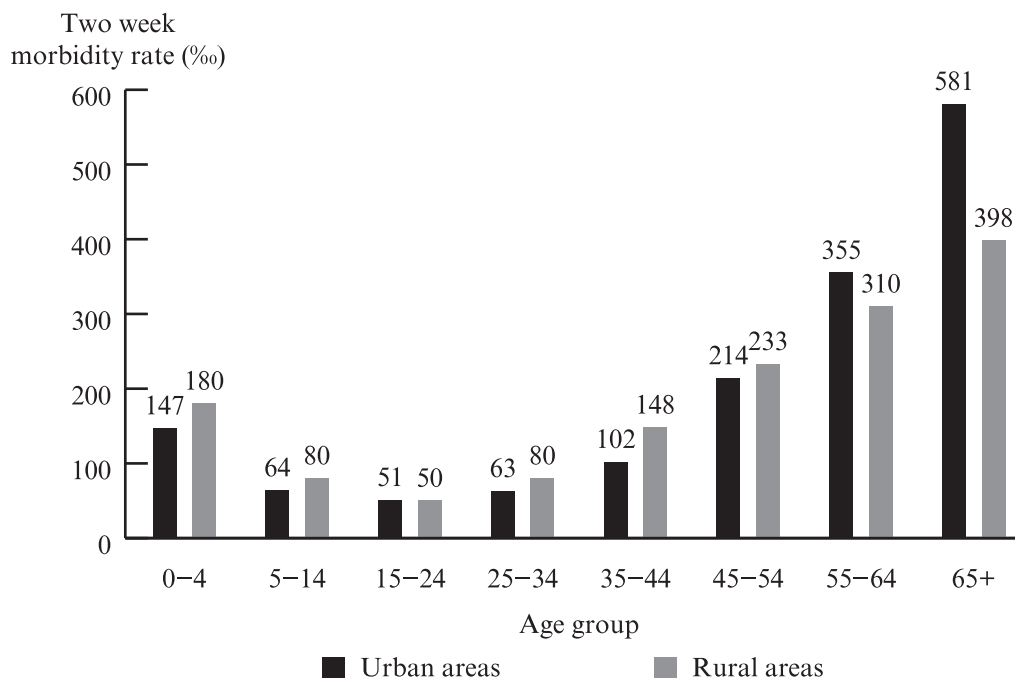
Aging Demographic in China Favors the Healthcare Industry



Source: Maxim Group LLC, Research Division, The China Statistical Yearbooks and Frost & Sullivan

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Prevalence of diseases and ailments requiring medical treatments increased rapidly with age in the PRC. The following chart illustrates the two-week morbidity rate by age group (representing the proportion of patients by age group in a given two-week period) for 2008 in urban and rural areas of the PRC with reference to Ministry of Health 2008 Statistics Book.



Source: *Statistic Book 2008, Ministry of Health*

As shown above, diseases and ailments requiring medical treatments are particularly prevalent among people aged 65 or above; this situation combined with the rapid aging of the PRC population have contributed to the continued increase in pharmaceutical sales in the PRC in recent years.

(iv) Government initiatives relating to the pharmaceutical industry in China

China's National Development and Reform Commission released its national healthcare proposal in October 2008 entitled "Chinese medical reform draft open to public debate" which is a policy guideline for the overall direction of the country's healthcare system over the next 10–20 years. In January 2009, a final draft for the healthcare reform was approved by the central government.

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An estimated RMB850 billion (equivalent to approximately USD124 billion) will be injected by all levels of government over the following three years to achieve these short-term goals.

RMB850 billion government spending on healthcare through 2011

With the continual rise in China's GDP and the increasing purchasing power of the Chinese people, combined with an announced RMB850 billion (equivalent to approximately USD124 billion) government spending on healthcare through 2011, China is identified as the fast emerging market with the greatest growth potential and expected to rise to the 5th largest pharmaceutical market in 2011 according to the research report dated 17 December 2008 prepared by the Maxim Group. The three-year medical reform plan by the China's State Council initiated in 2009 called for acceleration in building basic medical insurance system and essential drug system, and promotion on primary health care facilities and pilot reform of State-run hospitals. 100 State-run hospitals chose from 12 cities will be designated as the pilot hospitals for the reform with number of employees and citizens in urban areas joining basic health insurance to reach 390 million by the end of 2009, an increase of 72 million from 2008. With RMB850 billion (equivalent to approximately USD124 billion) investment, the plan is considered to lay a solid foundation for equitable and universal access to essential health care for all in China by 2020.

Since the implementation of the healthcare reform stimulus package, China has already poured RMB71.6 billion (equivalent to approximately USD10.5 billion) into healthcare when a reform plan started in April, according to the figures provided by the State Council's Office of Health Care Reform. In addition, a list of drugs (the "Essential Drug List"), one of the most imperative components of a new essential drugs system for State-run hospitals is putting into place of an expected 30% rate of adoption by state-owned community health institutes and country-level hospitals.

Pursuant to the RMB850 billion (equivalent to approximately USD124 billion) in the next three years by 2011, the plan has five aspects, according to the Chinese Premier, Wen Jiabao:

- (i) Expand the coverage of medical insurance; increase the amount of rural and urban population covered by the basic medical insurance system or the new rural cooperative medical system to at least 90% by 2011;
- (ii) Build a basic pharmaceutical system that includes a catalogue of drugs that mostly needed by the public;
- (iii) Improve medical service systems, in particular at the grassroots level. Build another 5,000 clinics at the township level, 2,000 hospitals at the county level and 2,400 urban community clinics in three years;
- (iv) Gradually provide equal public health services in both rural and urban areas; and
- (v) Commence to reform public hospitals.

RHEUMATOLOGY MARKET IN CHINA

Overview

According to the BDCL Report, there is approximately 342 million people suffering from arthritis and rheumatoid arthritis worldwide. In Asia, there is one out of six people suffering from arthritis. Currently, people suffering from arthritis amounted to over 100 million in China, representing approximately 29.2% of the total number in the world; while that of the U.S.A represented approximately 11.4%.

Rheumatic disease is a group of chronic diseases with uncommon epidemiology, affecting the joints and connective tissues. However, such group of diseases share two characteristics: they cause chronic pain, and they are difficult to treat. Rheumatoid Arthritis (“RA”), metabolic arthritis and osteoarthritis are the three main commonly diagnosed rheumatic diseases.

Prevalence of chronic diseases and ailments have direct effects towards demand for pharmaceuticals and medical services. The following table shows the prevalence rate of the ten major chronic diseases according to the Ministry of Health 2008 statistics.

Prevalence Rate of ten Major Chronic Disease (‰)

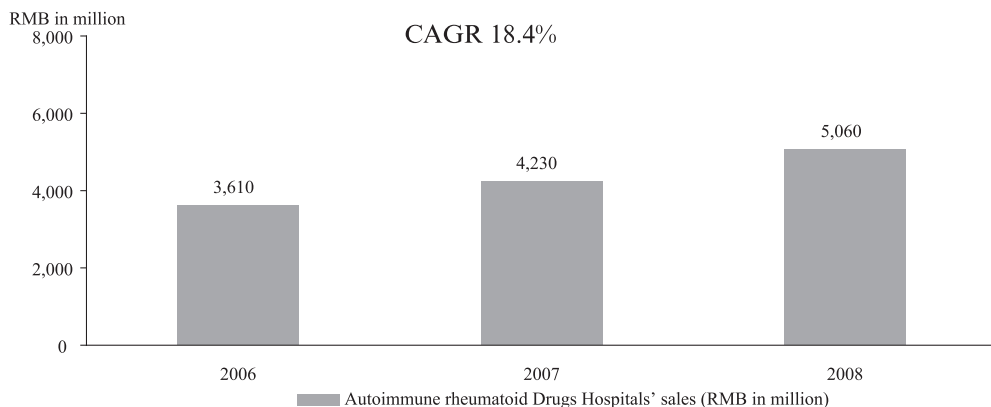
<u>Chronic Disease</u>	<u>Prevalence Rate (‰)</u>
1. Hypertension	54.9
2. Gastroenteritis	10.7
3. Diabetes Mellitus	10.7
4. Rheumatoid Arthritis	10.2
5. Cerebrovascular Disease	9.7
6. Intervertebral disorder	9.5
7. COPD	6.9
8. Ischaemic Heart Disease	6.0
9. Cholelith & Cholecystitis	5.1
10. Peptic Ulcer	3.3

Source: Statistic Book 2008, Ministry of Health

Of the above top ten chronic diseases in 2008 in terms of prevalence rate, rheumatoid arthritis ranks the fourth, which signifies the increasing demand for rheumatic treatment.

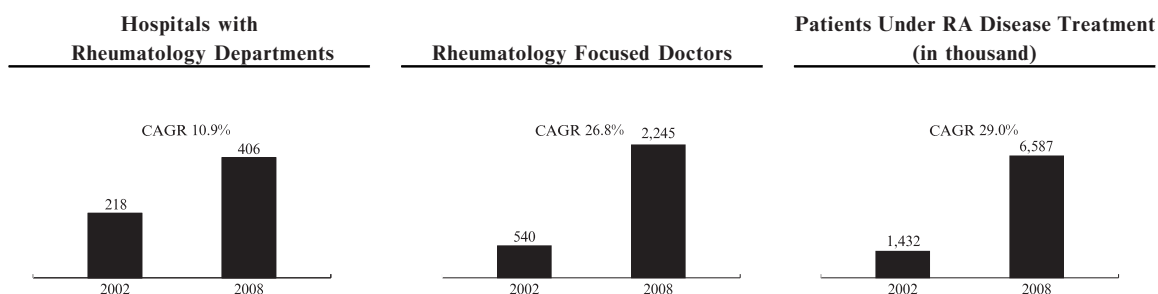
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According to the BDCL Report, increasing usage of drugs to treat autoimmune rheumatic diseases in hospitals has been observed from the year 2006 to 2008, with a CAGR of approximately 18.4%. Sales of drugs to treat autoimmune rheumatic diseases by hospitals amounted to RMB5.1 billion (equivalent to approximately USD747 million) in 2008, representing a year-on-year increase of approximately 19.6% compared to 2007. The higher year-on-year growth rate as compared to the CAGR from 2006–2008 signifies the expanding market in China. The below graph illustrates the increasing usage of drugs to treat autoimmune rheumatic diseases in hospitals for the three years ended 2006, 2007 and 2008.



Source: 廣州標點醫藥信息有限公司 (Guangzhou Biao Dian Medical Data Company Limited)

Medical treatments for rheumatic diseases in China have only started to develop in recent years. With the increasing needs and focus on the treatment of rheumatic diseases, this particular industry has a high growth potential. Since 2002, the number of hospitals with rheumatology departments, rheumatic disease specialists and RA patients under treatment have increased significantly as demonstrated in below:



Source: 廣州標點醫藥信息有限公司 (Guangzhou Biao Dian Medical Data Company Limited)

According to the BDCL Report, while the number of hospitals with rheumatology departments has increased with a CAGR of approximately 10.9%, the number of RA patients under treatment and doctors specialized in rheumatology have grown with a CAGR of approximately 29.0% and 26.8% respectively from 2002–2008. Given the fact that China has one of the most rapidly growing pharmaceutical markets in the world, and a

vast and swiftly expanding prevalent population of rheumatic diseases, the pharmaceutical market and related medical services for the treatment of rheumatic diseases are expected to experience significant growth.

Five common rheumatic diseases

Rheumatoid arthritis

RA is the most common chronic inflammatory joint disease requiring long term and ongoing treatment. The most visible symptoms of RA are swollen joints and crippling stiffness, particularly of the hands and feet; which cause fatigue, fever, loss of appetite and also impedes mobility and quality of life. Currently, combination therapies between DMARDs and NSAIDs are commonly practiced. DMARDs remain as one of the major products in the market to treat RA. According to the Ministry of Health, RA in China has a prevalence rate of approximately 8.6‰ in 2003 and increased to approximately 10.2‰ in 2008. Based on the 1.3 billion Chinese population in 2008, number of RA patients reached about 13.5 million. The statistic recorded that RA ranks the fourth of the top ten major chronic diseases in China. China is experiencing a rising trend of the RA diseases.

Metabolic arthritis (Gout)

Metabolic arthritis, or gout, is a disorder characterized by recurrent acute arthritis, hyperuricemia and deposition of sodium urate in and around joints. There is an increasing trend of incidence of metabolic arthritis with the improvement of living standard of the Chinese population and change in their food intake structure. Metabolic arthritis is a disease hallmarked by elevated levels of uric acid in the bloodstream, where high levels of uric acid in the blood can be caused by foods with high purine content or the body's inability to excrete the uric acid fast enough. With the improvement of living standards, meat products comprise of a larger portion of a diet, which are one of the primary food groups with high purine content. The prevalence rate of metabolic arthritis among all age group is approximately 0.84‰; based on the 1.3 billion Chinese population in 2008, number of metabolic arthritis patients reached approximately 11.2 million. In addition, approximately 5%–12% of patients with high serum uric acid will develop into metabolic arthritis should they not be properly treated.

Osteoarthritis

Osteoarthritis (“OA”) has similar characteristics to rheumatoid arthritis in terms of the need for long term treatment and usage of a range of drugs during the treatment. According to the BDCL Report, the total prevalence rate of osteoarthritis in the PRC was approximately 15%, prevalence rate of the 40-year-old age group was approximately 10% to 17%, prevalence rate of the 60-year-old age group was approximately 50%. For the over 75-year-old age group, approximately 80% are suffering from osteoarthritis.

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Systemic lupus erythematosus, SLE

Systemic lupus erythematosus is an autoimmune chronic disease affecting the connective tissues. SLE is affecting people worldwide with differences across regions. According to the BDCL Report, the prevalence rate in the U.S., United Kingdom, Australia and India is approximately 0.5‰, 0.04‰–0.18‰, 0.5‰ and 0.03‰ respectively. The prevalence rate of SLE in China is approximately 0.7‰; based on the total population of China in 2008, the number SLE patients reached approximately 1.1 million.

Ankylosing spondylitis, AS

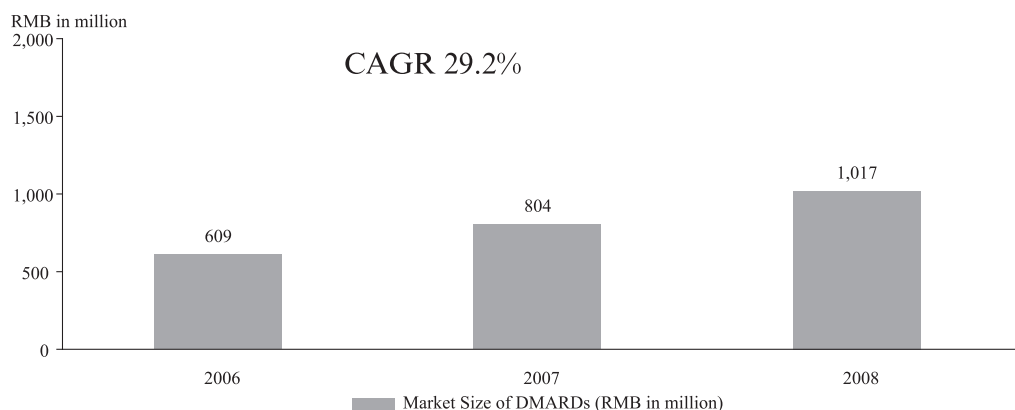
Ankylosing spondylitis is a chronic progressive disease affecting sacroiliac joints, protrusion of spine bone, soft tissues adjacent to the spine and peripheral joints, as well as parts other than the joints in the body. Patients with severe cases could result in deformed spin and rigidity of the joints. The prevalence rate of AS varies across different parts of the world; of which the prevalence rate in the U.S. and Japan is approximately 1.3‰–2.2‰ and 0.5‰–2.0‰ respectively. The prevalence rate of AS in China is approximately 2.6‰; based on the total population of China in 2008, the number AS patients reached approximately 4.1 million.

The therapeutic market

There are various types of pharmaceuticals to treat autoimmune rheumatic diseases namely anti-inflammatory and analgesic drugs, hormones, DMARDs and biological agents. Our Core Business currently focuses on the sale of DMARDs and anti-inflammatory and analgesics drugs.

DMARDs

According to the BDCL Report, the CAGR of the usage of DMARDs was approximately 29.2% from 2006 to 2008, which the sales was RMB1,017 million (equivalent to approximately USD149 million) in 2008. The below chart illustrates the market size:



Source: 廣州標點醫藥信息有限公司 (Guangzhou Biao Dian Medical Data Company Limited)

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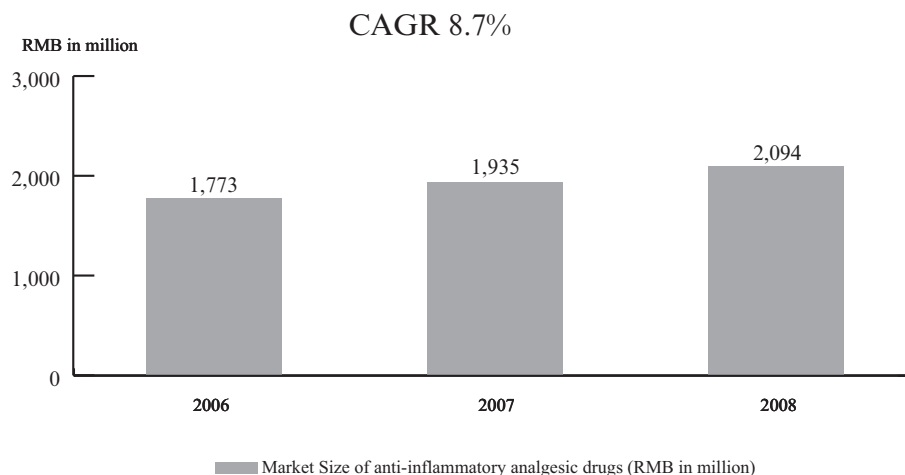
Ningbo Liwah's Pafulin and Tuoshu ranked No. 1 and No. 4 respectively, in terms of sales of DMARDs in 2008. From 2006 to 2008, the sales of Pafulin and Tuoshu have recorded a steady increase and reached RMB162 million (equivalent to approximately USD24 million) and RMB70 million (equivalent to approximately USD10 million) respectively in 2008, representing an annual growth rate of approximately 36.1% and 84.2% respectively as compared to 2007. Tuoshu has recorded a CAGR of approximately 109.2% from 2006 to 2008, which is the highest among the three major leflunomide products in the market. The trend is expected to be positive in the future.

According to BDCL Report, top five suppliers of DMARDs in the PRC in 2008 are as follows:

Product	Market Share		
	2006	2007	2008
Pafulin	14.1%	14.8%	15.9%
Airouhua	11.0%	9.1%	9.0%
Fenle	7.7%	8.2%	8.7%
Tuoshu	2.6%	4.7%	6.9%
Xinshandimingjiaonang	10.5%	7.7%	6.2%

Anti-inflammatory and analgesic drugs

According to the BDCL Report, the top five anti-inflammatory analgesic drugs belong to products of foreign-invested and joint-ventured enterprises. From 2006 to 2008, the CAGR of the use of anti-inflammatory and analgesic drugs was approximately 8.7% and sales was approximately RMB2,094 million (equivalent to approximately USD307 million) in 2008. The below chart illustrates the market size of the anti-inflammatory and analgesic drugs.



Source: 廣州標點醫藥信息有限公司 (Guangzhou Biao Dian Medical Data Company Limited)

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The Group has outperformed the rheumatology market in China, the pharmaceutical industry in China and the Chinese economy. The CAGR of China's real GDP Growth and China pharmaceutical market was approximately 11.9% and 16.4% respectively from 2006 to 2008, while the growth of the usage of drugs to treat autoimmune rheumatic diseases by hospitals in China and the Group's revenue was approximately 18.4% and 53.7% respectively, from 2007 to 2008.

PRICE CONTROL

The prices of certain pharmaceutical products sold in the PRC are subject to the control of the PRC government. In accordance with the existing price control policy in the PRC, pharmaceutical products are classified into two groups: (1) government-pricing pharmaceutical products; and (2) market-pricing pharmaceutical products.

Government-pricing pharmaceutical products comprise pharmaceutical products included in the Insurance Catalogue as well as those special medical products such as certain psychiatric medicines, immune medicines and contraceptive medicines whose production or trading will constitute monopolies. The prices of the government-pricing pharmaceutical products are subject to price control by the PRC government.

The pharmaceutical products which are not subject to price control are classified as market-pricing pharmaceutical products. The prices of those pharmaceutical products are determined at the discretion of the respective pharmaceutical enterprises, in certain cases, subject to reporting to the provincial pricing bureau.

However, sales of pharmaceutical products by pharmaceutical manufacturers in the PRC to overseas markets are not subject to any price control by the PRC government.

COMMERCIAL ANTI-CORRUPTION MEASURES

Most hospitals in China are owned and operated by the PRC Government, and revenue from its hospital pharmacies constitutes 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 pharmaceutical product in their pharmacy based upon a number of factors, including doctors' preferences in prescribing the pharmaceutical product, the cost of the pharmaceutical product, 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.