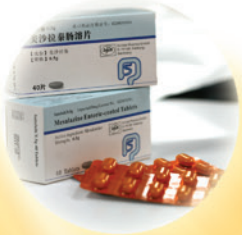
China Medical System Holdings Limited
康哲藥業控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock Code: 867

GLOBAL OFFERING



Sole Global Coordinator, Bookrunner, Lead Manager and Sponsor

UBS

** for identification purpose only*

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

CHINA MEDICAL SYSTEM HOLDINGS LIMITED
康哲藥業控股有限公司*

(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	**:**	**200,000,000 Shares (comprising 170,000,000 new Shares and 30,000,000 Sale Shares, and subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Offer Shares	**:**	**20,000,000 Shares (subject to adjustment)**
Number of International Offer Shares	**:**	**180,000,000 Shares (comprising 150,000,000 new Shares and 30,000,000 Sale Shares, and subject to adjustment and the Over-allotment Option)**
Maximum Offer Price	**:**	**HK$5.06 per Share plus brokerage of 1%, SFC transaction levy of 0.004% and the Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application, subject to refund)**
Nominal value	**:**	**US$0.005 per Share**
Stock code	**:**	**867**

Sole Global Coordinator, Bookrunner, Lead Manager and Sponsor

UBS

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, 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 prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholder) on the Price Determination Date. The Price Determination Date is expected to be on or around Tuesday, 21 September 2010 and, in any event, not later than Sunday, 26 September 2010. The Offer Price will not be more than HK$5.06 and is currently expected to be not less than HK$3.60. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK$5.06 for each Share together with a brokerage of 1%, SFC transaction levy of 0.004% and the Hong Kong Stock Exchange trading fee of 0.005%.

*The Sole Global Coordinator, on behalf of the Underwriters, may reduce the number of Offer Shares and/or the indicative offer price range below that stated in this prospectus (which is HK$3.60 to HK$5.06 per Offer Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such case, notices of the reduction in the number of Offer Shares and/or the indicative offer price range will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offer. Such notice will also be available at the website of the Hong Kong Stock Exchange at **www.hkex.com.hk** and our website at **www.cms.net.cn**. If applications for the Hong Kong Offer Shares have been submitted prior to the last day for lodging applications under the Hong Kong Public Offer, then even if the number of Offer Shares and/or the indicative offer price range is so reduced, such applications cannot be subsequently withdrawn.*

If, for any reason, the Sole Global Coordinator (on behalf of the Underwriters) and we (for ourselves and on behalf of the Selling Shareholder) are unable to reach an agreement on the Offer Price by Sunday, 26 September 2010, the Global Offering will not become unconditional and will lapse immediately.

The Shares have not been and will not be registered under the U.S. Securities Act and, subject to certain exceptions, may not be offered or sold in the United States.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) if certain events shall occur prior to 8:00 a.m. on Tuesday, 28 September 2010. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

** For identification purpose only*

15 September 2010

EXPECTED TIMETABLE[1]

2010

Election Date . . . . . 6 September (London time)

Application lists open[2] . . . . . 11:45 a.m. on Monday, 20 September

Latest time to lodge **WHITE** and **YELLOW** Application Forms . . . . . 12:00 noon on Monday, 20 September

Latest time to give **electronic application instructions** to HKSCC[3] . . . . . 12:00 noon on Monday, 20 September

Latest time to complete electronic applications under **White Form eIPO** service through the designated website at **www.eipo.com.hk**[4] . . . . . 11:30 a.m. on Monday, 20 September

Latest time to complete payment for **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s) . . . . . 12:00 noon on Monday, 20 September

Application lists close . . . . . 12:00 noon on Monday, 20 September

Expected Price Determination Date[5] . . . . . Tuesday, 21 September

Last day for existing Shareholders who have submitted a removal request form to the Jersey Share Registrar on or before the Election Date and wish to collect the share certificates in person to notify Hong Kong Share Registrar by e-mail . . . . . Tuesday, 21 September

Announcement of:

- the Offer Price;
- an indication of level of interest in the International Offering;
- the level of applications in the Hong Kong Public Offer;
- the basis of allocation under the Hong Kong Public Offer;
- the number of Shares that have been or will be registered on the Hong Kong Share Register and will be available for trading on the Hong Kong Stock Exchange on the Listing Date; and
- the previous trading day high, low and closing prices and trading volume of our Shares on AIM,

to be published on the websites of the Company (in English) (**www.cms.net.cn**) and the Hong Kong Stock Exchange (in English) (**www.hkex.com.hk**) and in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before . . . . . Monday, 27 September

Results of allocations in the Hong Kong Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see "How to apply for Hong Kong Offer Shares")[6] . . . . . Monday, 27 September

2010

Results of allocations in the Hong Kong Public Offer will be available at **www.iporesults.com.hk** with a "search by ID" function ..... Monday, 27 September

Despatch of share certificates/White Form e-Refund payment instructions/refund cheques on or before[7] ..... Monday, 27 September

Dealings in the Shares on the Hong Kong Stock Exchange expected to commence at 9:30 a.m. on ..... Tuesday, 28 September

Delisting on AIM expected to become effective on ..... Tuesday, 28 September

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Notes:

(1) All references to time and dates refer to Hong Kong local time and dates. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

(2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12:00 noon on Monday, 20 September 2010, the application lists will not open on that day. Particulars of the arrangements are set out in the section headed "How to Apply for Hong Kong Offer Shares — 9. Effect of bad weather on the opening of the application lists" in this prospectus.

(3) Applicants who wish to apply by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares — 5. Applying by giving electronic application instructions to HKSCC" in this prospectus.

(4) You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(5) The Price Determination Date is expected to be on or around Tuesday, 21 September 2010 and, in any event, not later than Sunday, 26 September 2010. If, for any reason, the Sole Global Coordinator (on behalf of the Underwriters) and we (for ourselves and on behalf of the Selling Shareholder) are unable to reach an agreement on the Offer Price, the Global Offering will not become unconditional and will lapse immediately.

(6) The announcement will be available for viewing on the "Main Board — Allotment of Results" page on the Hong Kong Stock Exchange's website at **www.hkexnews.hk**.

(7) **Share certificates in respect of the Offer Shares will only become valid certificates of title provided that the Hong Kong Public Offer has become unconditional and the Hong Kong Underwriting Agreement has not been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates or before the share certificates becoming valid certificates of title do so entirely at their own risk.**

You should carefully read the sections headed "Underwriting," "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" for details relating to the structure of the Global Offering and how to apply for Hong Kong Offer Shares.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by the Company solely in connection with the Hong Kong Public Offer and the Hong Kong Offer Shares and does not constitute an offer to sell, or a solicitation of an offer to subscribe for or buy, any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell, or a solicitation of an offer to subscribe for or buy, any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares, or the distribution of this prospectus, in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus and the Application Forms must not be relied on by you as having been authorised by us, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, any of their respective directors or any other persons or parties involved in the Global Offering.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

Founded in 1995, we are a leading China-based pharmaceutical services company focusing on the marketing, promotion and sale of prescription drugs of overseas and domestic specialty pharmaceutical companies. We provide exclusive marketing, promotion and sale services that primarily include one-on-one visits to physicians, providing them with professional education specific to therapeutic areas related to our products, educating physicians on the clinical uses, benefits, side effects and other clinical aspects of our in-licensed products, organising medical symposia and sponsoring industry conferences. We also provide other ancillary services needed by our suppliers to bring their products to the market in China, including handling registration for imported drugs new to China, renewal of expiring imported drug registrations, bidding in collective tender processes, customs clearance, coordination for inspection of imported drugs and other managerial aspects of the products. We utilise local distributors' logistics networks to despatch and sell products to hospitals. By accurately positioning the products to target unmet medical needs and raising the awareness of our products among physicians, our services enable pharmaceutical companies lacking an effective commercialisation or promotion capability in China to bring their products to the market efficiently and generate demand for their products. According to the Frost & Sullivan Report, we are the largest pharmaceutical services company focusing on the marketing, promotion and sale prescription drugs in China, accounting for 18% of the market in 2009, and we operate the largest third-party promotion network in China in terms of hospital coverage, therapeutic focus and number of salespeople. As at 31 July 2010, our marketing, promotion and sales team comprised more than 950 professionals, enabling our services to reach close to 6,000 hospitals located across 30 provinces, 97% of the provincial capitals and 86% of prefecture level cities in China. Our hospital network covers 91.5% of class-three hospitals and 34.6% of class-two hospitals in China. Our promotion network has identified over 100,000 target physicians who specialise in different therapeutic areas that are relevant to our product portfolio, including the central nervous system (or CNS), hepatology, gastroenterology, urology, ophthalmology, cardiovascular, oncology and paediatrics, and over 35,000 of them have directly participated in promotion activities that we organised, such as medical symposia, industry conferences and educational seminars. In the seven months ended 31 July 2010, over 40,000 of our target physicians had prescribed our in-licensed products.

Among our eight key in-licensed prescription pharmaceutical products in our current product portfolio, we have two strong in-licensed products, being Deanxit and Ursofalk. During the Track Record Period, a significant portion of our revenue was derived from sales of these two in-licensed products and our key in-licensed products were sourced from seven suppliers. Sales of our top two products, Deanxit and Ursofalk, accounted for approximately 79.0%, 79.6%, 75.5% and 70.2% of our total turnover for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. Further, total sales of the products from our top five suppliers represented approximately 90.9%, 95.1%, 96.2% and 94.0% of our total turnover for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. According to the Frost & Sullivan Report, Deanxit was the second-best selling anti-depressant and Ursofalk was the best selling drug for cholagogue treatment in China in 2009. Sales of Deanxit and Ursofalk, our current best-selling drugs, have grown at CAGRs of 28.8% and 47.6%, respectively, since we obtained the exclusive right to promote and sell these products in 2002.

We are a quality service provider and have stable relationships with our suppliers, as evidenced by the 100% renewal rates for the products that we decided to continue in-licensing. Dr. Falk Pharma GmbH, the manufacturer of Ursofalk has granted us the exclusive promotion and selling right of a second in-licensed product, Salofalk. We believe these facts attest to pharmaceutical companies' satisfaction with our marketing, promotion and sales services and reflect the value we bring to them. As we further expand our product portfolio, we believe our reliance on any single product or supplier will correspondingly reduce.

"Distributor" is a well-defined term in the context of the pharmaceutical industry. Unlike pharmaceutical distributors, whose primary goal is to ensure that pharmaceutical products are promptly and properly delivered to their customers in order to enhance the overall efficiency of the supply chain, our services are focused on the value creation aspects of marketing and promotion, such as elevating product profile, enlarging the pool of prescribing physicians and generating demand for a particular product by educating physicians on the clinical attributes of the product through one-on-one visits, and organising and sponsoring medical symposia, industry conferences, educational seminars and other promotional activities. We are therefore not a distribution service provider in the context of the pharmaceutical industry. We procure the exclusive rights to in-license, promote and sell select pharmaceutical products from overseas and domestic specialty pharmaceutical companies. We secure these exclusive rights by entering into long term supply agreements with our suppliers. Our revenue is primarily derived from the sale of the in-licensed pharmaceutical products that we purchase to our distributors, which then on-sell such products to hospitals. When setting the selling price for each product offered to our distributors, we take into account a number of factors including the bidding price at which the product will be supplied to hospitals and the level of profit margin that we believe is generally acceptable to distributors. Please refer to the section headed "Business — Pharmaceutical marketing, promotion and sales services — Customers" for further information on how we price our products. This business model is different from that in more developed markets, where third-party marketing and promotion service providers normally generate their revenues from sales commission at a pre-agreed percentage of total sales generated, according to the Frost & Sullivan Report. For additional details on the different roles played by promotion service providers and distributors in China's healthcare industry, please refer to the section headed "Industry Overview — Pharmaceutical marketing, promotion and sales services industry in China — The different roles played by promotion service providers and distributors in China's healthcare industry".

We operate in the following two business segments:

- *Marketing, promotion and sale of pharmaceutical products*. This is our principal business. We derive revenue from the marketing, promotion and sale of in-licensed pharmaceutical products in China.
- *Other business*. Our other business comprises the manufacture and sale of a number of prescription drugs.

We provide marketing, promotion and sales services for prescription pharmaceutical products of overseas and domestic specialty pharmaceutical companies. All of our supply agreements (except for that of GanFuLe) grant us the exclusive rights to promote and sell our suppliers' pharmaceutical products in China*, and our supply agreements are generally of a duration of five years or more, with automatic renewal rights provided that certain conditions, principally the agreed minimum order quantities, are met.

Note:

* In the case of GanFuLe, we have the exclusive rights to promote and sell the product in China excluding Heilongjiang, Jilin, Liaoning, Beijing, Inner Mongolia, Tianjin, Hebei, Shanxi, Shaanxi, Gansu, Ningxia, Qinghai and Xinjiang.

We believe that demand for our services will increase as the Chinese pharmaceutical market continues to expand. According to the Frost & Sullivan Report, China's pharmaceutical market grew by 21.9%, as compared to a 5% growth rate in the global pharmaceutical market in 2009, and China's spending on prescription drugs is expected to grow at a CAGR of 20.7% from 2005 to 2016, reaching US$110.7 billion by 2016. Drawn by such rapid growth and significant market potential in China, many overseas pharmaceutical companies are eager to bring their products to the Chinese market, and according to the Frost & Sullivan Report, sales of imported prescription drugs in China grew by 38% in 2009, eclipsing the growth of the overall prescription drugs market in China. This offers a significant growth opportunity for pharmaceutical marketing and promotion service providers which primarily focus on imported prescription drugs in China such as ourselves. According to the Frost & Sullivan Report, China's pharmaceutical marketing, promotion and sales services industry has grown substantially from US$231 million in 2007 to US$542 million in 2009, representing a CAGR of 53.1%. Frost & Sullivan also projects that such services market will further grow and reach US$4.6 billion in 2016. According to the Frost & Sullivan Report, large global pharmaceutical companies generally focus their resources on a limited portfolio of selective higher revenue-generating products and engage third-party service providers to market, promote and sell their other products. Most small and medium size overseas pharmaceutical companies have limited understanding of the Chinese market and culture and do not have the capability, expertise and experience to introduce their products to the Chinese market. These small and medium size overseas pharmaceutical companies also often choose to engage third-party service providers to launch and promote their products in China as a cost-efficient way to enter the market. In addition to these international companies, we anticipate that domestic pharmaceutical companies lacking the relevant marketing, promotion and sales capabilities will continue to rely upon third-party providers for these services. We expect to continue to capture the growth opportunities offered by the increasing demand from these overseas and domestic pharmaceutical companies by leveraging our expertise in providing marketing and promotion services and our broad promotion network in China.

We follow a rigorous product screening process to select products which have distinctive features that cannot be easily imitated and marketed in China, and which we expect will enjoy product exclusivity and a leading market position in the market. Our product exclusivity is reflected in the absence of competing products under the same generic name, based on our research carried out on the website of the SFDA as at the Latest Practicable Date, or reflected in administrative protection in the case of GanFuLe, a traditional Chinese medicine. Our current product portfolio consists of eight key in-licensed prescription pharmaceutical products, six of which are imported:

- Deanxit is one of our top two revenue contributors and was our first in-licensed product. It is the only Flupentixol and Melitracen product in China and is currently the second-best selling anxiolytic anti-depressant in China, after its sales surpassed its competitive product Prozac in 2009.
- Ursofalk dominated the ursodeoxycholic acid (UDCA) market and the overall cholagogue market with a 98.0% and 55.9% share, respectively in 2009.
- Augentropfen Stulln Mono eye-drops, which are used for the treatment of age-related macula degeneration (AMD), are the only imported escuilin and digitalisglycosides eye-drops approved by the SFDA.
- GanFuLe is a traditional Chinese medicine with exclusive formulations used to treat liver cancer, hepatitis B and cirrhosis. It has been granted a seven-year National Second Grade Traditional Chinese Medicine Protection.

- XinHuoSu is a National Class One New Drug and the only rhBNP drug in the Chinese market.
- Cystistat is the only imported sterile hyaluronate solution approved by the SFDA used for interstitial cystitis.
- Salofalk was the fifth best-selling anti-inflammatory agent globally for the 12 months ended 31 March 2010.
- Bioflor is the only saccharomyces boulardii approved by the SFDA in China used to treat acute infectious diarrhoea, antibiotic-associated colitis and diarrhoea (AAD).

Since late 2006, the continuing expansion of our product portfolio has contributed significantly to our growth. Sales of the six key products we newly in-licensed since late 2006 have increased significantly. Such products contributed to approximately 11.9%, 16.3%, 21.9% and 22.9% of our sales of in-licensed products for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively, and their revenue growth contributed about 35.3%, 25.4%, 38.0% and 32.4% of the growth in the revenue of our in-licensed products in the respective period. As our product portfolio expands, we reduce the risks associated with our reliance on a limited number of products, and we expect our expanding portfolio to continue to contribute to our growth. Substantially all of our sales are made to pharmaceutical distributors, which provide logistics services and in turn sell our products to hospitals and other healthcare institutions in China. As at 31 July 2010, we had established an extensive distribution network comprising over 300 distributors selling our products to close to 6,000 hospitals across China.

In addition to providing pharmaceutical marketing, promotion and sales services, a small part of our business consists of the production and sale of prescription drugs in China. We have obtained SFDA approvals to manufacture 17 prescription drugs and we currently produce and sell nine out of these 17 products. Prior to 2010, our businesses also included the research and development of pharmaceutical products and the manufacture of medical devices. These businesses were disposed of when we re-aligned our strategy to focus on providing marketing, promotion and sales services to overseas and domestic specialty pharmaceutical companies. Please refer to the section headed "History and Development — Disposed business operations" in this prospectus for further information on the disposal of our discontinued businesses.

The following table sets out a breakdown of our turnover by product and as a percentage of our total turnover for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	US$ '000	%	US$ '000	%	US$ '000	%	US$ '000 (unaudited)	%	US$ '000	%
Marketing, promotion and sale of pharmaceutical products										
In-licensed products										
Deanxit	26,144	50.5	36,710	50.6	44,468	46.1	22,768	48.7	26,029	42.5
Ursofalk	14,756	28.5	21,074	29.0	28,327	29.4	13,393	28.6	16,937	27.7
Augentropfen Stulln Mono eye-drops	3,011	5.8	4,394	6.1	6,146	6.4	2,817	6.0	3,814	6.2
GanFuLe	2,599	5.0	3,910	5.4	4,780	5.0	2,243	4.8	2,004	3.3
XinHuoSu	—	—	2,839	3.9	7,253	7.5	2,983	6.4	5,697	9.3
Cystistat	—	—	66	0.1	515	0.4	171	0.4	319	0.5
Salofalk	—	—	133	0.2	1,824	1.9	658	1.4	1,684	2.8
Exacin	—	—	—	—	—	—	—	—	3,367	5.5
Bioflor	—	—	—	—	—	—	—	—	282	0.5
Others	503	1.1	469	0.6	439	0.5	155	0.3	256	0.4
	47,013	90.9	69,595	95.9	93,752	97.2	45,188	96.6	60,389	98.7
Other business										
Self-manufactured pharmaceutical products	4,689	9.1	2,950	4.1	2,571	2.7	1,546	3.3	806	1.3
Self-manufactured medical devices	45	—	55	—	131	0.1	41	0.1	—	—
	4,734	9.1	3,005	4.1	2,702	2.8	1,587	3.4	806	1.3
	51,747	100.0	72,600	100.0	96,454	100.0	46,775	100.0	61,195	100.0

We are headquartered in Shenzhen, China and have a manufacturing facility in Hunan province. As at 31 July 2010, we had approximately 1,200 employees. Our shares are listed and have been admitted to trading on AIM (with ticker AIM: CMSH) since 26 June 2007. To lower the trading price per Share quoted on AIM with the aim of improving the liquidity of our Shares, pursuant to an ordinary resolution of our Shareholders passed at a general meeting held on 25 June 2010, each Share of nominal value of US$0.10 in the capital of our Company was sub-divided into 20 Shares of nominal value of US$0.005 each with effect from 28 June 2010.

For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our total turnover was US$51.7 million, US$72.6 million, US$96.5 million and US$61.2 million, respectively, representing a CAGR of 36.5% over the three years from 2007 to 2009 and an increase of 30.8% in the six months ended 30 June 2010 over the same period in 2009. For each of these periods, our gross profit was US$33.6 million, US$44.8 million, US$60.9 million and US$37.2 million, respectively, representing a CAGR of 34.6% over the three years from 2007 to 2009 and an increase of 25.6% in the six months ended 30 June 2010 over the same period in 2009,

and our gross profit margin was 64.9%, 61.7%, 63.1% and 60.8% in the respective period. For each of these periods, our net profit was US$8.7 million, US$15.0 million, US$20.8 million and US$15.3 million, respectively, representing a CAGR of 55.0% over the three years from 2007 to 2009 and an increase of 45.2% in the six months ended 30 June 2010 over the same period in 2009, and our net profit margin was 16.8%, 20.7%, 21.6% and 25.1% in the respective period.

Our business and results of operations during the Track Record Period relied heavily on two in-licensed products and a small number of suppliers. Please refer to the section headed "Risk Factors — Risks relating to our business — We rely on suppliers and other third parties with respect to our in-licensed products. If we cannot maintain our relationships with our suppliers and such other third parties, it may impair our ability to renew the exclusive promotion and selling rights in respect of our existing in-licensed products upon expiry or obtain promotion and selling rights for new products" in this prospectus. As part of our growth strategy, we seek to expand our product portfolio by obtaining exclusive promotion and selling rights from international and domestic pharmaceutical companies for new in-licensed products with high growth potential. We currently aim to add an average of two additional products to our portfolio every year. Since late 2006, we managed to add six new key in-licensed products to our product portfolio. As our product portfolio expands, we reduce the risks associated with our reliance on a limited number of products and the expanding portfolio is expected to continue to contribute to our growth.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths position us well for continued growth:

- We are the largest pharmaceutical service company providing marketing, promotion and sale services in China for specialty pharmaceutical companies, and we benefit from economies of scale.
- We are well positioned to capture opportunities presented by the strong growth of the Chinese pharmaceutical market and, in particular, its imported drug market, and by the increasing demand among specialty pharmaceutical companies for third-party pharmaceutical marketing, promotion and sale services.
- Our proven track record provides us with an advantage when we compete for the exclusive promotion and selling rights for new in-licensed products and from new suppliers.
- We have a highly-qualified and professional marketing, promotion and sales team, which effectively promotes our products to end customers.
- Our successful product selection strategy contributes to our continuing steady growth and high profit margins.
- We have developed in-house an advanced information management system for managing our marketing, promotion and sales network and our overall operations, which allows us to effectively control our promotion and sales activities and operate our business in an efficient and cost-effective manner.
- We have an experienced, dedicated and stable management team.

OUR STRATEGY

Our aim is to consolidate our position as the leading independent pharmaceutical service company providing marketing, promotion and sale services in China. We intend to maximise opportunities available in one of the fastest growing sectors in China to further enhance our profit. To achieve our goal, we plan to implement the following strategies:

- Increase our penetration of the Chinese pharmaceutical market by further expanding our marketing, promotion and sales team, broadening our marketing, promotion and sales network, and increasing our hospital and medical doctor bases.
- Continue to expand our product portfolio and therapeutic focus by obtaining exclusive rights to promote and sell new pharmaceutical products with high growth potential in China through our marketing, promotion and sales platform.
- Increase our product portfolio and market penetration by forming strategic alliances with suitable partners or acquiring suitable pharmaceutical products.
- Continue to invest in our advanced information management system to improve the management of our marketing, promotion and sales network, operating efficiencies and cost effectiveness.
- Continue to invest in training facilities and programmes to help our marketing, promotion and sales employees grow.

RECENT REGULATORY DEVELOPMENT

Four of our key in-licensed products are included in the Insurance Catalogue, namely, Deanxit, Ursofalk, GanFuLe and Salofalk, and are therefore subject to price control in China, which typically involves the imposition of retail price ceilings by the PRC government. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, sales of these four key in-licensed products accounted for approximately 84.1%, 85.2%, 82.3% and 76.2% of our Group's turnover for the respective period. Please refer to the section headed "Regulatory Framework — Legal supervision relating to the pharmaceutical industry in the PRC — Price control" in this prospectus for further details.

During the Track Record Period, the retail price ceiling of Ursofalk was adjusted downwards twice by the PRC government. Similarly, the retail price ceiling of Salofalk also endured PRC government imposed adjustments before we obtained the exclusive rights to promote and sell the product in the PRC in September 2008. Our Group's results of operations during the Track Record Period were not affected by any price adjustments imposed by the PRC government in relation to our products included in the Insurance Catalogue because over that period, we were able to maintain a relatively stable selling price for these products. There was a gap between the retail price ceiling and our Group's selling price for all of our products included in the Insurance Catalogue, which left us with a meaningful room to absorb the price ceiling reductions imposed during the Track Record Period. However, we cannot assure you that the selling prices of our products will not be adversely affected should the PRC government impose any further price control on any of our products, including expanding the list of our products subject to price control and further significantly lowering the retail price ceilings of our products that are included in the Insurance Catalogue. To mitigate the risks associated with any potential price control measures imposed on our products and to lower the resulting potential impact to our business and results of operations, we strive to expand our product portfolio and increase the number of in-licensed products that we promote and sell so that we reduce our reliance on any single or a small group of products.

On 1 June 2010, the NDRC issued the "Consultation Paper in relation to the Administrative Measures on the Prices of Pharmaceutical Products" (《藥品價格管理辦法(徵求意見稿)》) to seek public opinions on new price control measures in respect of pharmaceutical products included in the Insurance Catalogue. The Consultation Paper is still at a preliminary stage and it is uncertain what measures will be adopted by the NDRC eventually. Further, on 17 June 2010, in response to substantial price increases in respect of certain pharmaceutical products immediately prior to or soon after their admission to the Insurance Catalogue in 2009, the NDRC released a news article on its website titled "NDRC commenced appraisal on the pricing of the pharmaceutical products newly admitted to the Insurance Catalogue; investigations into pharmaceutical companies which substantially increased the prices of their pharmaceutical products that have been admitted to the Insurance Catalogue" (《國家發展改革委已啟動新進醫保目錄藥品核價工作,對企業在醫保目錄公佈前後的漲價行為從嚴核查》). We have only one key in-licensed product, Deanxit, which was newly admitted to the Insurance Catalogue in 2009. For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our sales of Deanxit amounted to US$26.1 million, US$36.7 million, US$44.5 million and US$26.0 million, respectively, accounting for 50.5%, 50.6%, 46.1% and 42.5% of our total turnover in the respective periods. We are not aware of any substantial increase in the retail prices of Deanxit in 2009 immediately prior to or soon after its admission to the Insurance Catalogue in 2009. On 2 July 2010, the NDRC issued a press release on its website announcing an investigation into the prices of about 900 types of pharmaceutical products from more than 900 manufacturers, which are either newly admitted to the Insurance Catalogue or are subject to price ceilings. The Drug Price Review Centre of the NDRC published a list of manufacturers and pharmaceutical products subject to price investigations. One of our key in-license products, GanFuLe, and its Hunan-based manufacturer were named on this list. For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our sales of GanFuLe amounted to US$2.6 million, US$3.9 million, US$4.8 million and US$2.0 million, respectively, accounting for 5.0%, 5.4%, 5.0% and 3.3% of our total revenue in the respective periods. The price investigation by the NDRC may not necessarily lead to a lowering of GanFuLe's retail price ceiling. Given GanFuLe's minimal contribution to our total turnover, even if the investigations result in the lowering of GanFuLe's retail price ceiling and our selling price is negatively impacted, we believe that this will not have a material adverse impact on our business and profitability.

Save as disclosed above, as at the Latest Practicable Date, we had not received any notification nor are we aware of any price investigation by the NDRC against any of our key in-licensed products. However, we cannot assure you that we or any of our other key in-licensed products will not be subject to any price investigations or other investigations carried out by any PRC governmental bodies. Please refer to the risk factor headed "Our ability to set or raise the prices of our products which are included in the Insurance Catalogue is limited by price control measures imposed by the PRC government. If any of these measures is further tightened or any retail price ceiling is significantly lowered, our business and profitability may be adversely affected" in the section headed "Risk Factors" in this prospectus for further details.

RISK FACTORS

We believe that there are certain risks involved in our operations. Most of these risks are beyond our control and can be broadly categorised into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting business in China; and (iv) risks relating to the Global Offering. Set forth below is a summary of the risks referred to above. For details, please refer to the section headed "Risk Factors" in this prospectus.

Risks relating to our business

- We rely on suppliers and other third parties with respect to our in-licensed products. If we cannot maintain our relationships with our suppliers and such other third parties, it may impair our ability to renew the exclusive promotion and selling rights in respect of our existing in-licensed products upon expiry or obtain promotion and selling rights for new products.
- Our ability to set or raise the prices of our products which are included in the Insurance Catalogue is limited by price control measures imposed by the PRC government. If any of these measures is further tightened or any retail price ceiling is significantly lowered, our business and profitability may be adversely affected.
- We may experience prolonged delay or significant disruption to the supply of our in-licensed products, or an increase in the purchase prices of such products, which may adversely affect our business, financial condition and results of operations.
- A substantial portion of our revenue is generated from the sale of two in-licensed products. If the market demand for these two products declines in the future due to substitute or replacement products becoming available in the market or for any other reason, our business, financial condition and results of operations could be materially and adversely affected.
- Our business, results of operations and financial condition could be materially and adversely affected if there are complaints, product liability claims or product recalls against our products.
- If we are not successful in winning bids in government-mandated tender processes for the purchase of medicines by state-owned hospitals, our business, financial condition and results of operations could be materially and adversely affected.
- We may not be able to obtain or renew the licences, permits and certifications required for the importation, production and sale of pharmaceutical products in China. Alternatively, the manufacturers of the imported pharmaceutical products we sell may fail to renew their permits or licences, or we may have to take costly measures to comply with changes to the present standards for issuing the required licences, permits and certifications. Any of these events could materially and adversely affect our business, financial condition and results of operations.
- If our existing products do not remain in, or new products in-licensed or developed by us are not admitted to, the Insurance Catalogue, our business and results of operations could be materially and adversely affected.
- We rely on the China market, especially its coastal cities and provinces, for the bulk of our sales. Any adverse change in the economic, political or social conditions in such cities and provinces may materially and adversely affect our business, financial condition and results of operations.
- Non-compliance with our sales guidelines or dissemination of incorrect product information by our employees may adversely affect our business and results of operations.
- If we experience delays in collecting trade receivables from our distributors, or if there is a substantial deterioration in the financial condition of our distributors, our cash flow, working capital, financial condition and results of operations could be adversely affected.
- We may not successfully develop and commercialise CMS024 or obtain all required regulatory approvals and permits to manufacture CMS024, which could adversely affect our business prospects and growth.
- If our competitors or other pharmaceutical manufacturers in-license or manufacture pharmaceutical products substantially similar to ours, our sales, financial condition and results of operations could be materially and adversely affected.
- Any counterfeit pharmaceutical products and any failure of our suppliers to maintain trademark registrations for the relevant products in China may damage the reputation of our products, which could have a material adverse effect on our business, financial condition and results of operations.

- Future movements in foreign exchange rates may adversely affect our financial condition, results of operations and ability to pay our overseas suppliers.
- If we fail to protect our intellectual property rights or if we are presented with intellectual property infringement claims initiated by third parties, our business and results of operations may be adversely affected.
- We depend on our key personnel, and our business and growth may be disrupted if we lose their services.
- We depend on the continued service of, and on the ability to attract, motivate and retain a sufficient number of qualified and professional marketing, promotion and sales staff.
- We rely on information management systems in managing our operations, and any system failure or deficiencies in these systems may have an adverse effect on our business, financial condition and results of operations.
- Our growth relies on the expansion of our portfolio of in-licensed products. If we are unable to successfully add new products or fail to manage an expanding product portfolio, our business and prospects may be adversely affected.
- Our newly launched products may not be well received by the market, which could adversely affect our business prospects and growth.
- We may be unable to manage our future growth efficiently or our cost effectively, which may materially and adversely affect our business prospects.
- We have limited ability to manage the activities of our distributors, and our reputation, sales and business prospects may be adversely affected by actions taken by our distributors.
- 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 corruption in the pharmaceutical industry. Our failure to comply with these measures, or to effectively manage our employees and affiliates, could adversely affect our reputation, results of operations and business prospects.
- Our operations are subject to hazards and natural disasters that may affect our operations and may not be fully covered by our insurance policies.

Risks relating to our industry

- The PRC pharmaceutical industry is highly regulated, and the regulatory framework, requirements and enforcement trends may change from time to time. If we are not able to respond promptly to such changes, our business may be affected.
- Our growth relies in part on the development of the PRC pharmaceutical industry. If the recently announced healthcare reform plan does not bring as much growth within the expected timeframe, our business or growth may be adversely affected.
- Rapid changes in the pharmaceutical industry and products resulting from rapid enhancements in technology and know-how may render our products obsolete.

Risks relating to conducting business in China

- As almost all of our operations are conducted in China, any change in China's political, economic and social conditions, laws, regulations, policies and diplomatic relationships with other countries may have a material adverse effect on us.
- The PRC's legal system embodies uncertainties that could materially and adversely affect our business and results of operations.
- Changes in the PRC government policy in foreign investment in China may adversely affect our business and results of operations.
- Our expansion plan may be affected by PRC regulations relating to acquisitions of domestic companies by foreign entities.

- Changes to the PRC tax law or its implementation could have a material adverse effect on our financial condition and results of operations.
- The outbreak of any severe communicable disease in China, if uncontrolled, may materially and adversely affect our results of operations.
- Our Company is a holding company that relies on dividend payments from our subsidiaries for funding.
- Government control in currency conversion may materially and adversely affect our financial condition, results of operations and ability to meet foreign exchange requirements.

Risks relating to the Global Offering

- Liquidity and market price of our Shares may be volatile.
- We cannot assure you that any amount of dividends we declare in the future will be at a similar level to that declared and paid by us previously.
- You will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.
- Our controlling shareholder has substantial influence over our Company and his interests may not be aligned with the interests of our other Shareholders.
- We are incorporated under Cayman Islands law, and the laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions.
- We cannot guarantee the accuracy of facts and other statistics with respect to certain information obtained from official governmental sources contained in this prospectus.
- You should read the entire prospectus and should not rely on any information contained in press coverage or other media in relation to the Global Offering, our business operations or our Group in connection with a decision to invest in the Shares.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

You should read the summary consolidated financial information set out below in conjunction with our consolidated financial statements included in the accountants' report set out in Appendix I to this prospectus, which have been prepared in accordance with IFRS. The summary consolidated statements of comprehensive income data for the three years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2009 and 2010, and the summary consolidated statements of financial position information as at 31 December 2007, 2008 and 2009 and 30 June 2010 are derived from the accountants' report set out in Appendix I to this prospectus. The basis of presentation is set out in note 1 to the accountants' report.

Summary consolidated statements of comprehensive income data

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	US$ '000	US$ '000	US$ '000	US$ '000 (unaudited)	US$ '000
Turnover	51,747	72,600	96,454	46,775	61,195
Cost of goods sold	(18,149)	(27,835)	(35,596)	(17,139)	(23,970)
Gross profit	33,598	44,765	60,858	29,636	37,225
Other gains and losses	1,280	2,690	662	691	546
Selling expenses	(13,934)	(18,631)	(24,840)	(11,366)	(13,318)
Listing expenses	(2,773)	—	—	—	(1,221)
Administrative expenses	(5,947)	(6,940)	(7,399)	(3,908)	(3,274)
Research and development costs	(1,633)	(2,275)	(2,038)	(1,057)	—
Finance costs	(301)	(226)	(390)	(191)	(336)
Share of results of associates	56	152	30	(26)	42
Share of result of a jointly controlled entity	—	—	43	21	25
Profit before taxation	10,346	19,535	26,926	13,800	19,689
Taxation	(1,672)	(4,487)	(6,096)	(3,243)	(4,355)
Profit for the year/period	8,674	15,048	20,830	10,557	15,334
Other comprehensive income					
Exchange differences from translation	1,639	2,880	70	19	497
Share of changes in reserve of an associate	—	36	(1)	—	(5)
Fair value changes on cash flow hedges	—	—	(145)	—	32
Total comprehensive income for the year/period	10,313	17,964	20,754	10,576	15,858
Profit for the year/period attributable to:					
Owners of the Company	8,685	14,946	20,684	10,448	15,230
Non-controlling interests	(11)	102	146	109	104
	8,674	15,048	20,830	10,557	15,334
Total comprehensive income attributable to:					
Owners of the Company	10,335	17,877	20,608	10,467	15,754
Non-controlling interests	(22)	87	146	109	104
	10,313	17,964	20,754	10,576	15,858

Summary consolidated statements of financial position information

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$ '000	US$ '000	US$ '000	US$ '000
Current assets				
Inventories	10,677	5,945	11,060	17,437
Trade and other receivables	19,305	27,684	32,794	41,485
Amount due from an associate	164	172	—	—
Amount due from a jointly controlled entity	—	—	481	506
Amounts due from directors	20	43	—	—
Held for trading investments	—	—	31	406
Tax recoverable	—	—	—	324
Derivative financial instruments	—	—	—	18
Pledged bank deposits	—	1,060	17,641	17,792
Bank balances and cash	17,601	20,100	15,113	10,340
	47,767	55,004	77,120	88,308
Current liabilities				
Trade and other payables	12,920	9,252	11,062	12,235
Dividends payable	—	5	—	—
Bank borrowings — secured	—	—	16,517	16,346
Deferred consideration payables	—	685	838	811
Derivative financial instruments	—	—	145	131
Tax payable	180	813	1,226	1,848
	13,100	10,755	29,788	31,371
Net current assets	34,667	44,249	47,332	56,937

For additional financial information on the Track Record Period, please refer to the section headed "Financial Information" in this prospectus and the accountants' report as set out in Appendix I to this prospectus.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2010

In the absence of any unforeseen circumstances and on the bases and assumptions set out in the section headed "Profit Forecast" in Appendix III to this prospectus, certain forecasted data for our Group for the year ending 31 December 2010 are set out below:

Forecasted consolidated profit attributable to owners of our Company for the year ending 31 December 2010 *(Note 1)* ..... not less than US$30 million (approximately HK$233 million equivalent)

Unaudited pro forma forecasted earnings per Share for the year ending 31 December 2010 *(Note 2)* ..... not less than US$2.7 cents (approximately HK$20.8 cents equivalent)

Notes:

1. The bases and assumptions on which the forecast consolidated profit attributable to the owners of our Company for the year ending 31 December 2010 has been prepared are summarised in Appendix III to this prospectus. The forecast consolidated profit attributable to the owners of our Company for the year ending 31 December 2010 is based on the audited consolidated results of the Group for the six months ended 30 June 2010, the unaudited management accounts of the Group for the one month ended 31 July 2010 and a forecast of the results of the Group for the remaining five months ending 31 December 2010.

2. The calculation of the unaudited pro forma forecast basic earnings per Share is based on the forecast consolidated profit attributable to the owners of our Company for the year ending 31 December 2010 assuming that the Global Offering had occurred on 1 January 2010 and a total of 1,123,691,440 Shares were in issue, assuming that the Shares to be issued pursuant to the Global Offering had been in issue on 1 January 2010 but does not take into account of any Shares which may be issued or repurchased pursuant to the exercise of the Over-allotment Option, the exercise of the Existing Share Options, the Issuing Mandate or the Repurchase Mandate. The unaudited pro forma forecast earnings per Share is translated at the exchange rate of US$1 to HK$7.77.

GLOBAL OFFERING STATISTICS

	Based on an Offer Price of HK$3.60	Based on an Offer Price of HK$5.06
Market capitalisation of our Shares[(1)]	HK$4,045 million	HK$5,686 million
Unaudited pro forma adjusted net tangible asset per Share[(2)]	HK$0.91 (US$0.12)	HK$1.13 (US$0.15)

Notes:

(1) The calculation of market capitalisation is based on 1,123,691,440 Shares expected to be in issue following completion of the Global Offering, assuming that none of the Existing Share Options and the Over-allotment Option are exercised.

(2) The unaudited pro forma adjusted net tangible asset per Share is calculated after making the adjustments referred to in "Unaudited Pro Forma Financial Information" included in Appendix II to this prospectus and on the basis of a total of 1,123,691,440 Shares expected to be in issue following the completion of the Global Offering. This calculation assumes respective Offer Prices of HK$3.60 and HK$5.06 and that none of the Existing Share Options and the Over-allotment Option are exercised.

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends we declare. For each of the coming years, our Directors currently intend to pay dividends in the amount of 25% to 50% of our net profits for the year. Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, our development pipeline, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our Articles of Association and the Cayman Companies Law. Our Company may in general meeting declare dividends but no dividends shall exceed the amount recommended by our Board. Our Board may also from time to time pay interim dividends as appear to our Board to be justified by the profits of our Company, as well as special dividends on shares of any class of such amounts and on such dates as they think fit. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

As we are a holding company, our ability to declare and pay dividends will depend on the availability of dividends received from our subsidiaries, particularly those in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises, such as all of our subsidiaries in China, to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

During the year ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, we declared and paid an interim dividend of nil, US$2.4 million, US$4.7 million, nil and nil, respectively. For the year ended 31 December 2007, 2008 and 2009, our Directors declared a final dividend of US$3.3 million, US$4.7 million and US$4.7 million, respectively. Further, we declared a special dividend of US$1.4 million in the year ended 31 December 2007.

In December 2009, we also declared a dividend of US$10.7 million, which was paid as to US$8.7 million in the shares of Healthlink and as to US$2.0 million in cash. For further details of the Distribution of Healthlink, please see the section headed "History and Development — Disposed business operations — Distribution of Healthlink" in this prospectus.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to our Company (after deducting underwriting fees and estimated expenses) from the Global Offering, assuming an Offer Price of approximately HK$4.33 per Share, being the mid-point of the indicative range of the Offer Price of HK$3.60 to HK$5.06 per Share, will be approximately HK$693.0 million (assuming that the Over-allotment Option is not exercised) and HK$777.2 million (assuming that the Over-allotment Option is exercised in full), respectively.

We intend to use the net proceeds we receive from the Global Offering as follows:

- approximately 8.3% or approximately HK$57.5 million (equivalent to approximately US$7.4 million) will be used to continue building up our marketing, promotion and sales network by hiring additional qualified and professional staff and expanding our hospital coverage and geographical reach;
- approximately 12.5% or approximately HK$86.6 million (equivalent to approximately US$11.1 million) will be used to construct new training and conference centres to hold physician training, medical conferences and other promotion activities, as well as staff training to enhance the standard and professionalism of our promotion and sale services;
- approximately 8.3% or approximately HK$57.5 million (equivalent to approximately US$7.4 million) will be used to change, improve or upgrade both hardware and software of our information management systems so as to improve our management and control of our promotion network and business operations;
- approximately 33.3% or approximately HK$230.8 million (equivalent to approximately US$29.7 million) will be used to enlarge our product portfolio by acquiring the exclusive in-licence rights to promote and sell pharmaceutical products in China and pursuing merger or acquisition opportunities of suitable pharmaceutical companies. From time to time, we may engage in negotiations with pharmaceutical companies to acquire in-licence rights to pharmaceutical products or to merge with or acquire the company itself if ownership of the company will give us the rights to a suitable product or will position us well to acquire rights in respect of other companies' products. As at the Latest Practicable Date, no such negotiations are close to materialisation;
- following favourable clinical development of CMS024, approximately 16.8% or approximately HK$116.4 million (equivalent to approximately US$15.0 million) will be used to construct a production plant for the manufacture of our in-house produced pharmaceutical products including CMS024. If the clinical development of CMS024 is not favourable, our Directors intend to apply the same amount in the manner and in their respective proportions as discussed in this paragraph;
- approximately 10.8% or approximately HK$74.8 million (equivalent to approximately US$9.6 million) will be used to provide funding for purchasing imported pharmaceutical products from suppliers, in order to fulfill increasing PRC market demand for our in-licensed products; and
- approximately 10.0% or approximately HK$69.3 million (equivalent to approximately US$8.9 million) will be used for our working capital and other general corporate purpose.

To the extent that the net proceeds of the Global Offering we receive are not immediately required for the above purposes, we presently intend that such proceeds be placed in cash and on short-term deposits with licensed banks or financial institutions and/or invested into money market instruments in Hong Kong and/or the PRC.

In the event that the Offer Price is finally determined at the high-end of the indicative offer price range, the estimated net proceeds to our Company from the Global Offering will be approximately HK$813.4 million, assuming that the Over-allotment Option is not exercised, and HK$911.1 million, assuming that the Over-allotment Option is exercised in full. Our Directors intend to apply such additional net proceeds in the same proportions as set out above.

In the event that the Offer Price is finally determined at the low-end of the indicative offer price range, the estimated net proceeds to our Company from the Global Offering will be approximately HK$568.9 million, assuming that the Over-allotment Option is not exercised, and HK$641.6 million, assuming that the Over-allotment Option is exercised in full. Our Directors intend to apply the reduced net proceeds in the same proportions as set out above.

We will not receive any of the proceeds from the sale of Sale Shares by the Selling Shareholder nor sale of Shares by the Selling Shareholder under the Over-allotment Option (if exercised) in the Global Offering. The Selling Shareholder estimates that it will receive net proceeds from the Global Offering of approximately HK$125.2 million, assuming that the Over-allotment Option is not exercised, and of approximately HK$167.1 million, assuming that the Over-allotment Option is exercised in full, after deducting the estimated underwriting commissions and expenses payable by it in the Global Offering and assuming an Offer Price of HK$4.33 per Share, being the midpoint of the indicative range of the Offer Price set out in this prospectus.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed "Glossary of Technical Terms."

"AIM"	the Alternative Investment Market operated by the London Stock Exchange
"AIM Rules"	the rules for AIM companies published by the London Stock Exchange from time to time
"Application Form(s)"	**WHITE** application form(s), **YELLOW** application form(s) and **GREEN** application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offer
"Articles of Association"	the second amended and restated articles of association of our Company, conditionally adopted by a special resolution passed on 20 August 2010 and effective from the Listing
"associates"	has the meaning given to it under the Listing Rules
"Board"	the board of directors of our Company
"Business Day"	a day (other than a Saturday or a Sunday) on which banks in Hong Kong are open for normal banking business
"Business Insights"	a provider of market intelligence across a range of industry sectors
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Cayman Companies Law"	The Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation

"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"CMS024"	a tripeptide compound indicated for the treatment of primary liver carcinoma, being developed by Kangzhe R&D and certain rights of which are owned by our Group. Further information is set out in the section headed "Connected Transactions — Exempt continuing connected transaction — Royalty payments in respect of CMS024 payable to Kangzhe R&D"
"CMS", "Company" or "we"	China Medical System Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability on 18 December 2006
"CMS International"	CMS International Investment Limited, a limited liability company incorporated in the BVI on 17 February 2004 and a wholly-owned subsidiary of our Company
"CMS Pharmaceutical Agency"	CMS Pharmaceutical Agency Company Limited, a limited liability corporation incorporated in Malaysia on 2 July 2008 and a wholly-owned subsidiary of our Company
"CMSERP"	the enterprise resource planning system developed and tailor-made by our Group's in-house information technology team
"Companies Ordinance"	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"connected person"	has the meaning given to it under the Listing Rules
"controlling shareholder"	has the meaning given to it under the Listing Rules and in the context of our Company, means Mr. Lam Kong and Treasure Sea
"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
"Delisting"	the cancellation of admission of our Shares to trading on AIM, which is conditional upon and takes effect from the Listing, and "Delist" shall be construed accordingly
"Directors"	the directors of our Company
"Distribution of Healthlink"	the distribution in specie of the entire issued share capital of Healthlink to our Shareholders effected on 16 December 2009, as further described in the section headed "History and Development — Disposed business operations — Distribution of Healthlink" in this prospectus

"East Kingdom"	East Kingdom International Limited, a company incorporated in Hong Kong with limited liability on 5 December 1995 and held as to 99% by Mr. Lam Kong
"EIT"	the enterprise income tax of the PRC
"EIT Law"	the PRC Enterprise Income Tax Law (《中華人民共和國企業所得税法》) issued on 16 March 2007 and its implementation rules issued on 6 December 2007, both effective from 1 January 2008
"Election Date"	6 September 2010, by which our existing Shareholders who wanted their Shares to be registered on our Hong Kong Share Register on the first day of the Listing should notify our Jersey Share Registrar to remove their Shares from our Jersey Share Register to our Hong Kong Share Register
"Euro" or "€"	the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992)
"Evolution"	Evolution Securities China Limited, an independent third party, the financial adviser and broker retained by our Company in relation to the admission of the Shares to trading on AIM in 2007
"Existing Management Shareholders"	Viewell Limited, Great Creation Holdings Limited, Archiever Development Limited and Wide Harvest Limited, each being a company incorporated in the BVI through which each of Mr. Chen Hongbing, Ms. Chen Yanling, Mr. Hui Ki Fat and Ms. Hou Xiaoxuan holds Shares respectively; each an "Existing Management Shareholder"
"Existing Share Options"	options over Shares held by Mr. Chen Hongbing, a Director, details of which are set out in the section headed "Share Capital — Existing Share Options" in this prospectus
"Existing Ultimate Management Shareholders"	our Directors, Mr. Chen Hongbing, Ms. Chen Yanling, Mr. Hui Ki Fat and Ms. Hou Xiaoxuan; each an "Existing Ultimate Management Shareholder"
"Frost & Sullivan Report"	a report of an independent market research on pharmaceutical marketing, promotion and sale service provider market in China prepared by Frost & Sullivan issued in July 2010
"Fully Profit"	Fully Profit Management (PTC) Limited, a trust company incorporated in the BVI on 29 April 2009 and wholly owned by Mr. Lam Kong

"GBP" or "£"	United Kingdom pound sterling, the lawful currency of the United Kingdom
"GDP"	gross domestic product
"Global Offering"	the Hong Kong Public Offer and the International Offering
"GMP" or "Good Manufacturing Practice"	guidelines and regulations from time to time issued pursuant to the Law of the PRC 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 products subject to those guidelines and regulations are consistently produced and controlled to the quality and standards appropriate for their intended use
"**GREEN** application form(s)"	the application form(s) to be completed by the **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited
"Group"	our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require)
"GSP" or "Good Supply Practice"	Good Supply Practice (藥品經營質量管理規範) is standards laid down by the SFDA to regulate pharmaceutical trading companies to ensure the quality of trading of pharmaceutical in the PRC
"Guangdong Lantai"	Guangdong Lantai Kanghong Pharmaceutical Company Limited (廣東蘭太康虹醫藥有限公司), a company established in the PRC on 19 May 2005 and a 55% indirectly owned subsidiary of our Company and accounted for as a jointly controlled entity in our Group's consolidated accounts as we do not have control over Guangdong Lantai. The remaining 45% of Guangdong Lantai is held by an individual who but for his equity interest and directorship in Guangdong Lantai would have been an independent third party
"Healthlink"	Healthlink Consultancy Inc., a limited liability company incorporated in the BVI and prior to the Distribution of Healthlink effected on 16 December 2009, a wholly-owned subsidiary of our Company. Our Chairman, Mr. Lam Kong, indirectly owns approximately 87.4% of the issued share capital of Healthlink and as a result Healthlink is a connected person of the Company
"HK dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Offer Shares"	the 20,000,000 new Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offer (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus)
"Hong Kong Public Offer"	the offer by our Company of the Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus) for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%), on the terms and subject to conditions set out in this prospectus and the Application Forms
"Hong Kong Share Register"	the share register of our Company in Hong Kong administered by the Hong Kong Share Registrar
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Underwriters"	underwriters of the Hong Kong Public Offer whose names are set out in the section headed "Underwriting — Hong Kong Underwriters" in this prospectus
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 14 September 2010 relating to the Hong Kong Public Offer and entered into by the Sole Global Coordinator, the Hong Kong Underwriters, Treasure Sea, Mr. Lam Kong and us, as further described in the section headed "Underwriting" in this prospectus
"IFRS"	the International Financial Reporting Standards
"IMS Health"	a provider of market intelligence to the pharmaceutical and healthcare industries, and an independent third party
"independent third party"	a party that is not a connected person of our Company
"Insurance Catalogue"	the National Essential Medical Insurance and Work Injury Insurance Catalogue (《國家基本醫療保險和工傷保險藥品目錄》) issued by the PRC Ministry of Human Resources and Social Security (中華人民共和國人力資源和社會保障部). Further information is set out in the paragraph headed "Regulatory Framework — Medical Insurance Catalogue" in this prospectus

"International Offer Shares"	the 180,000,000 Shares (of which 150,000,000 Shares are to be issued by us and 30,000,000 Shares are to be offered for sale by the Selling Shareholder) being initially offered under the International Offering together, where relevant, with any additional Shares issued or sold pursuant to the exercise of the Over-allotment Option, the number of which is further subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus
"International Offering"	the offering of the International Offer Shares at the Offer Price outside the United States in accordance with Regulation S, and in the United States only to QIBs in reliance on Rule 144A or another available exemption from registration requirement of the US Securities Act, as further described in the section headed "Structure of the Global Offering" in this prospectus
"International Purchase Agreement"	the underwriting agreement relating to the International Offering to be entered into on or about 21 September 2010 by the Sole Global Coordinator, the International Underwriters, the Selling Shareholder and us, as further described in the section headed "Structure of the Global Offering — The International Offering" in this prospectus
"International Underwriters"	the underwriters of the International Offering
"Issuing Mandate"	the general unconditional mandate given to the Board by our Shareholders relating to the issue of Shares, particulars of which are set forth in the paragraph headed "A. Further information about our Company — 3. Resolutions of the Shareholders of our Company" in Appendix VI to this prospectus
"Jersey Share Register"	the share register of our Company in Jersey administered by the Jersey Share Registrar
"Jersey Share Registrar"	Computershare Investor Services (Jersey) Limited
"Kangzhe Changde"	Changde Kangzhe Pharmaceutical Company Limited (常德康哲醫藥有限公司), a wholly-owned PRC enterprise established in the PRC on 15 October 2008 and a wholly-owned subsidiary of our Company
"Kangzhe Hunan"	Kangzhe (Hunan) Medical Company Limited (康哲 (湖南) 製藥有限公司), a sino-foreign equity joint venture established in the PRC on 21 May 1996 and a wholly-owned subsidiary of our Company
"Kangzhe Pharmaceutical"	Kangzhe Pharmaceutical Industrial Limited, a limited liability company incorporated in the BVI on 23 March 2004 and a wholly-owned subsidiary of our Company

"Kangzhe Pharmaceutical Technology"	Shenzhen Kangzhe Pharmaceutical Technology Development Company Limited (深圳市康哲醫藥科技開發有限公司, formerly known as Shenzhen Kangzhe Medical Instrument Limited (深圳市康哲醫療器械有限公司)), a wholly-owned PRC enterprise established in the PRC on 1 February 2000 and a wholly-owned subsidiary of our Company
"Kangzhe Shenzhen"	Kangzhe Shenzhen Pharmaceutical Company Limited (深圳市康哲葯業有限公司), a wholly foreign-owned enterprise established in the PRC on 9 October 1985 and a wholly-owned subsidiary of our Company
"Kangzhe R&D"	Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited (康哲醫葯研究(深圳)有限公司), a company established in the PRC on 31 March 2003 and a wholly-owned subsidiary of Healthlink. Our Chairman, Mr. Lam Kong, indirectly owns approximately 87.4% of the issued share capital of Healthlink and as a result Kangzhe R&D is a connected person of the Company
"Key Employee Benefit Scheme"	an employee benefit scheme adopted by our Company on 31 July 2009 to provide benefits to certain key employees of our Group after their retirement. A summary of the principal terms of the Key Employee Benefit Scheme is set out in the section headed "Share Capital — Key Employee Benefit Scheme" in this prospectus
"Latest Practicable Date"	6 September 2010, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
"Listing"	the listing of the Shares on the main board of the Hong Kong Stock Exchange
"Listing Committee"	the Listing Committee of the Hong Kong Stock Exchange
"Listing Date"	the date, expected to be on or around 28 September 2010, from which the Shares are listed and dealings therein are first permitted to take place on the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"London Stock Exchange"	The London Stock Exchange plc
"M&A Rules"	Rules on Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》)
"Macau"	the Macau Special Administrative Region of the PRC

"Memorandum" or "Memorandum of Association"	the second amended and restated memorandum of association of our Company, conditionally adopted by a special resolution passed on 20 August 2010 and effective from the Listing
"Ministry of Health"	the Ministry of Health of the PRC (中華人民共和國衛生部)
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"National List of Essential Drugs"	comprises two catalogues, being the catalogue for the basic healthcare institutions issued by the Ministry of Health and the catalogue for other healthcare institutions to be issued by the Ministry of Health
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"Offer Price"	the final HK dollar price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.004% and the Hong Kong Stock Exchange trading fee of 0.005%) at which the Hong Kong Offer Shares are to be subscribed under the Hong Kong Public Offer and the International Offer Shares are to be offered under the International Offering, to be determined in the manner further described in the section headed "Structure of the Global Offering — Pricing and allocation" in this prospectus
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with additional Shares issued or sold pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option expected to be granted by our Company and the Selling Shareholder to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters under the International Purchase Agreement under which our Company may be required to allot and issue up to 20,000,000 additional Shares and the Selling Shareholder may be required to sell up to 10,000,000 Shares, in each case at the Offer Price, to, among other things, cover over-allocations in the International Offering, if any
"PBOC"	People's Bank of China, the central bank of the PRC
"PRC" or "China"	People's Republic of China and "Chinese" shall be construed accordingly. References in this prospectus to the PRC or China exclude Hong Kong, Macau and Taiwan

"PRC government" or "Chinese government"	central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)
"Price Determination Date"	the date on which the Offer Price is fixed for the purpose of the Global Offering
"Property Valuation Report"	the letter, the summary of valuation and valuation certificates from Vigers Appraisal & Consulting Limited as set out in Appendix IV to this prospectus
"QIB"	a qualified institutional buyer as defined in Rule 144A
"Qingdao League"	Qingdao League Pharmaceutical Co. Ltd. (青島立康醫藥有限公司), a company established in the PRC, in which our Company had a 51% indirect interest between February 2007 and July 2008
"R&D"	research and development
"Regulation S"	Regulation S under the US Securities Act
"Repurchase Mandate"	the general unconditional mandate to repurchase Shares given to the Board by our Shareholders, particulars of which are set forth in the paragraph headed "A. Further information about our Company — 3. Resolutions of the Shareholders of our Company" in Appendix VI to this prospectus
"RMB" or "Renminbi"	Renminbi yuan, the lawful currency of the PRC
"Rule 144A"	Rule 144A under the US Securities Act
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC government authority responsible for matters relating to foreign exchange administration
"Sale Shares"	the 30,000,000 Shares (subject to adjustment) offered for sale by the Selling Shareholder under the International Offering
"SDA"	State Drug Administration of the PRC (中華人民共和國國家藥品監督管理局), the predecessor to the SFDA
"Selling Shareholder"	Treasure Sea
"SFC"	the Securities and Futures Commission of Hong Kong

"SFDA"	State Food and Drug Administration of the PRC (中華人民共和國國家食品藥品監督管理局), the PRC government authority responsible for formulating regulations and policies related to food and drug safety and taking charge of supervising the business players engaging in food and drug business
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Shandong Baolihao"	Boundless Horizon (Shang Dong) Appliances Company Limited (山東寶利好醫療器械有限公司), a company established in the PRC on 4 April 2002 and, prior to December 2009, a wholly-owned subsidiary of our Company
"Shares"	shares with a nominal value of US$0.005 each in the capital of our Company, and where the context requires, the shares with a nominal value of US$0.10 each in the capital of our Company prior to their sub-division which was effective from 28 June 2010
"Shareholder(s)"	holder(s) of Shares
"Shenzhen Shenke"	Shenzhen Shenke Medical Instrument Technological Development Limited (深圳市深科醫療器械技術開發有限公司), an enterprise established in the PRC on 31 May 2004 and, prior to December 2009, owned as to 51% by us
"Sino Talent"	Sino Talent Limited, a company incorporated in Hong Kong on 29 October 2004 and an indirectly wholly-owned subsidiary of our Company
"Sky United"	Sky United Trading Limited, a company incorporated in Hong Kong with limited liability on 1 August 1995 and a wholly-owned subsidiary of our Company
"Sole Global Coordinator", "Sole Bookrunner" or "Sole Lead Manager"	UBS
"Sole Sponsor"	UBS
"State Council"	State Council of the PRC (中華人民共和國國務院)
"Stock Borrowing Agreement"	the stock borrowing agreement expected to be entered into between the Sole Global Coordinator and Treasure Sea on or about the Price Determination Date pursuant to which Treasure Sea will agree to lend in aggregate up to 30,000,000 Shares to the Sole Global Coordinator on the terms set out therein

"substantial shareholder"	has the meaning given to it under the Listing Rules
"Track Record Period"	the period comprising the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010
"Treasure Sea"	Treasure Sea Limited, a company incorporated in the BVI on 9 November 2004 with limited liability and is wholly owned by our Chairman and controlling shareholder, Mr. Lam Kong
"UBS"	UBS AG, Hong Kong Branch, a registered institution under the SFO for Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading activities) and Type 9 (asset management) regulated activities as defined under the SFO
"UK"	United Kingdom
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Purchase Agreement
"US" or "United States"	United States of America, its territories and possessions, any State of the United States and the District of Columbia
"US Securities Act"	United States Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated under it
"USD" or "US$"	United States dollars, the lawful currency of the United States
"**White Form eIPO**"	the application for the Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website at **www.eipo.com.hk**
"**White Form eIPO** Service Provider"	Computershare Hong Kong Investor Services Limited
"**WHO**"	World Health Organisation
"%"	per cent

This glossary contains definitions of certain terms used in this prospectus in connection with our Company and our business. Some of these may not correspond to standard industry definitions.

"acute gastric mucosal lesion"	a syndrome caused by stress response, various drugs, alcohol, severe disease and other incentives, manifesting itself through hemorrhagic changes of the gastric mucosa
"acutely decompensated heart failure" or "ADHF"	acute decompensated heart failure (ADHF) is a common and potentially serious cause of acute respiratory distress. This most commonly results from myocardial infarction (a heart attack), arrhythmias, uncontrolled hypertension, or a patient's failure to maintain a fluid restriction, diet or medication. It is characterised by dyspnea, abdominal swelling, end-organ dysfunction, arrhythmias, and progressive cardiac failure
"adenoma"	a tumor of glandular epithelium which may cause excess secretion by the affected gland
"alimentary tract"	a musculomembranous tube, about nine metres long, extending from the mouth to the anus and lined with mucous membrane. Its various portions are the mouth, pharynx, oesophagus, stomach, small intestine, and large intestine. The tube, which is part of the digestive system, includes numerous accessory organs
"aminoglycoside"	a molecule or a portion of a molecule composed of amino-modified sugars. It is a group of antibiotics derived from various species of streptomyces or produced synthetically
"antibiotic"	a chemical substance produced by a microorganism which has the capacity, in dilute solutions, to inhibit the growth of or to kill other microorganisms. Antibiotics that are sufficiently nontoxic to the host are used as chemotherapeutic agents in the treatment of infections
"anti-depressant"	an agent that prevents or relieves depression, or stimulates the mood of a depressed patient
"antineoplastic"	a substance that inhibits or prevents the development of neoplasms and combats the maturation and proliferation of malignant cancer cells
"anxiolytic"	a drug that reduces anxiety
"bedsonia infection"	also called Chlamydia infection. Chlamydia is a genus of microorganism that live as intracellular parasites, currently classified as specialised bacteria and a major infectious cause of human genital disease. Chlamydia infection is one of the most common sexually transmitted infections

"bile reflux"	a condition that occurs when bile (bitter-tasting, dark green to yellowish brown fluid, produced by the liver) flows upward (refluxes) from the small intestine into the stomach and esophagus
"brucellosis"	a generalised infection caused by species of Brucella, transmitted by contact with the natural animal reservoirs, including cattle, sheep, goats, swine, deer, and rabbits, or their infected products or tissue, characterised by fever, sweating, weakness, malaise, and weight loss
"cancer"	a neoplastic disease, the natural course of which is generally fatal. Cancer cells, unlike benign tumor cells, exhibit the properties of invasion and metastasis and are generally anaplastic
"carcinoma"	a malignant new growth made up of epithelial cells tending to infiltrate surrounding tissues and to give rise to metastases
"cardiovascular disease"	any abnormal condition characterised by dysfunction of the heart and blood vessels. In the United States, cardiovascular disease is the leading cause of death
"cardiovascular system "	the network of anatomic structures, including the heart and blood vessels, that circulate blood throughout the body. The system includes thousands of kilometers of vessels that deliver nutrients and other essential materials to the fluids surrounding the cells and that remove waste products and convey them to excretory organs
"central nervous system" or "CNS"	part of the nervous system consisting of the brain and spinal cord. The brain is the center of higher processes, such as thought and emotion and is responsible for the coordination and control of bodily activities and the interpretation of information from the senses. The spinal cord links the brain to the peripheral nervous system
"cholagogue"	a medicinal agent which promotes the discharge of bile from the system, purging it downward
"cholestatic liver disease"	also known as primary biliary cirrhosis, is an autoimmune disease of the liver marked by the slow progressive destruction of the small bile ducts (bile canaliculi) within the liver. When these ducts are damaged, bile builds up in the liver (cholestasis) and over time damages the tissue. This can lead to scarring, fibrosis and cirrhosis
"chronic bronchitis"	a chronic inflammation of the bronchi (airways) in the lungs. It is defined clinically as a persistent cough that produces sputum (phlegm) and mucus, for at least three months in two consecutive years

"cirrhosis"	a chronic degenerative disease of the liver in which the proper tissue is covered with fibrous tissue similar to scar tissue
"class-one hospitals"	hospitals in China designated as class-one hospitals according to the Ministry of Health
"class-three hospitals"	hospitals in China designated as class-three hospitals according to the Ministry of Health
"class-two hospitals"	hospitals in China designated as class-two hospitals according to the Ministry of Health
"clinical trial"	an experiment performed on human beings in order to evaluate the comparative efficacy of two or more therapies. An experimental design used for testing the effectiveness of a new medication or a new therapeutic procedure. Individuals are assigned randomly to a treatment group (experimental therapy) and a control group (placebo or standard therapy) and the outcomes of the two groups are compared
"Clostridium difficile"	a pathogenic species of anaerobic bacteria that causes pseudomembranous colitis and diarrhoea, particularly after the patient has received antibiotic therapy which is a frequent cause of nosocomial diarrhoea
"colitis"	an inflammatory condition of the colon, part of the large intestine. Inflammatory bowel disease is characterised by severe diarrhoea, bleeding, ulceration of the mucosa of the intestine and pain
"Crohn's disease"	a chronic inflammatory bowel disease of unknown origin, usually affecting the ileum, the colon, or another part of the GI tract
"depression"	a mood disturbance characterised by feelings of sadness, despair, and discouragement resulting from and normally related to some personal loss or tragedy; and an abnormal emotional state characterised by exaggerated feelings of sadness, melancholy, dejection, worthlessness, emptiness, and hopelessness that are inappropriate and out of proportion to reality
"diarrhoea"	having frequent passage of loose, watery stools and abdominal cramps. The stool may contain mucus, pus, blood, or excessive amounts of fat. Untreated, severe diarrhoea may lead to rapid dehydration and electrolyte imbalance

"dyspnea"	a distressful subjective sensation of uncomfortable breathing that may be caused by many disorders, including certain heart and respiratory conditions, strenuous exercise, or anxiety
"emphysema"	a chronic respiratory disease where there is over-inflation of the air sacs (alveoli) in the lungs, causing a decrease in lung function, and often, breathlessness
"esophageal varices bleeding"	very swollen veins in the walls of the lower part of the esophagus that bleed
"esophagus"	the musculomembranous passage extending from the pharynx to the stomach
"fibrosis"	proliferation of fibrous connective tissues that occurs normally in the formation of scar tissues to replace tissues lost through injury or infection. It is an abnormal condition in which fibrous connective tissues spread over or replace normal smooth muscle or other normal organ tissue and is most common in the hearts, lungs, peritoneums and kidneys
"flupentixol"	a typical antipsychotic drug of the thioxanthene class, several derivatives of which are used in the treatment of schizophrenia and other psychoses
"gallstones"	a concretion formed in the gall bladder or bile duct, with its usual composition being cholesterol, a blood pigment liberated by hemolysis or a calcium salt
"gastrinoma"	a tumor that secretes gastrin. Most of such tumours are islet cell tumours of non-beta cells in the pancreas, but some are found at antrum of stomachs, hilus of spleens or regional lymph nodes
"gastritis"	an inflammation of the lining of the stomach that occurs in two forms: acute gastritis and chronic gastritis
"gastroenterology " or "GI"	study of stomachs and intestines and their diseases
"generic name"	the official established nonproprietary name assigned to a drug, under which the drug is licensed. All manufacturers list the drug by its generic name but may market the drug under their own trademarks
"genito-urinary system"	including all of the urinary and genital organs and their associated structures, such as kidneys, ureters, bladders, urethra; ovaries, fallopian tubes, uterus, clitoris, vagina, testes, seminal vesicles, seminal ducts, prostate and penis

"glycosaminoglycan" or "GAG"	any of a group of long chain sugar molecules found throughout the body, often in mucus and in fluid around the joints
"gynecology"	the branch of medicine dealing with the genital and pelvic organs in women
"haemorrhage"	escape of blood from the vessels. Small haemorrhages are classified according to size as petechiae (very small), purpura (up to 1 cm), and ecchymoses (large)
"hepatic"	pertaining to the liver
"hepatitis"	an inflammatory condition of the liver, characterised by jaundice, hepatomegaly, anorexia, abdominal and gastric discomfort and abnormal liver function. The condition may be caused by bacterial or viral infection, parasitic infestation, alcohol, drugs, toxins, or transfusion of incompatible blood
"hepatitis B"	also called serum hepatitis, a viral hepatitis caused by HBV. The virus is transmitted by transfusion of contaminated blood or blood products, by sexual contact with an infected person, or by the use of contaminated needles and instruments. Severe infection may cause prolonged illness destruction of liver cells, cirrhosis, increased risk of liver cancer, or death
"hepatology"	the branch of medicine that is concerned primarily with diseases of the liver
"hypercholesterolemia"	a condition in which greater than normal amounts of cholesterol are present in the blood, which may lead to the development of atherosclerosis. The condition may be reduced or prevented by avoiding saturated fats, which are found in red meats, eggs, and dairy products, or by certain medications. Inherited hypercholesterolemia is caused by a defect in the low-density lipoprotein receptor or apolipoprotein B
"ileum"	the lower-third distal portion of the small intestine. Internally it has a few small circular folds and numerous clusters of lymphatic tissues. It ends in the right iliac fossa, opening into the medial side of the large intestine
"immunology"	the branch of biomedical science concerned with the response of the organism to antigenic challenge, and all the biological, serological, and physical chemical effects of immune phenomena
"immunomodulating agent"	a substance which adjusts the immune response to a desired level

"in-licensed pharmaceutical products"	pharmaceutical products manufactured by overseas or domestic pharmaceutical companies which have granted a licence to a third party, such as our Group, to promote and sell such products in a defined territory and within a time limit
"inflammatory bowel disease"	chronic conditions characterised by periods of diarrhoea, bloating, abdominal cramps, and pain, sometimes accompanied by weight loss and malnutrition because of the inability to absorb nutrients
"infusion pump"	an apparatus designed to deliver measured amounts of a drug or intravenous solution through intravenous injection over time. Some kinds of infusion pumps can be implanted surgically
"infusion supervision system"	a system providing safe, fast, simple and effective transfusion monitoring. It makes infusion and injection more precise by intelligent control, and provides remote monitoring to make infusion and injection easier
"injection pump"	an equipment which provides precise and smooth pulse-free liquid transfer with the principle of driving the syringe through its mechanical device
"interstitial cystitis" or "painful bladder syndrome"	an inflammation of the bladder. The bladder wall becomes inflamed, ulcerated, and scarred, causing frequent painful urination. The condition occurs most often in women
"Kaplan-Meier Survival Curve"	a plot showing the survival analysis. In clinical trials, the investigator is often interested in the time until participants in a study present a specific event or endpoint. This event usually is a clinical outcome such as death or disappearance of a tumour. The participants will be followed beginning at a certain starting-point, and the time needed for the event of interest to occur will be recorded
"lactobacillus rhamnosus "	a probiotic bacterium which inhibits the growth of most harmful bacteria in the intestine. It is used as a natural preservative in yogurt and other dairy products to extend the shelf life
"low density lipoprotein"	a class of plasma lipoproteins that transport cholesterol to extrahepatic tissues. High serum levels have been correlated with premature coronary heart disease
"lyophilise"	to freeze-dry a substance under vacuum conditions
"melitracen"	a tricyclic antidepressant marketed in Europe and Japan by Lundbeck and Takeda, respectively, for the treatment of depression and anxiety

"metastasis"	transfer of disease from one organ or part of the body to another indirectly related part, due either to transfer of pathogenic microorganisms or to transfer of cells. All malignant tumors are capable of metastasisng
"microorganism"	microscopic organisms including bacteria, fungi, and protozoa. Viruses are often included, but are sometimes excluded because they are not cellular and are unable to replicate without a host cell
"mycoplasma infection"	respiratory illness caused by a genus of bacteria of the family Mycoplasmataceae which are made up of round, highly pleomorphic, gram-negative cells that are bounded by a single triple layered membrane and lack a true cell wall
"naloxone hydrochloride"	an opioid antagonist structurally related to oxymorphone, used as an antidote for narcotic overdosage, and as an antagonist for pentazocine overdose
"narcotic analgesic"	narcotic agents are potent analgesics which are effective for the relief of severe pain. Analgesics are selective central nervous system depressants used to relieve pain. But even in therapeutic doses, narcotic analgesics can cause respiratory depression, nausea, and drowsiness
"neurology"	the branch of medicine that deals with the nervous system, both normal and in diseases
"non-invasive cardiac hemodynamic monitoring system"	a system for monitoring hemodynamic parameters, which plays a very important role in early diagnosis and treatment of cardiovascular diseases, intensive care therapy, anesthesia monitoring and the clinical diagnosis and scientific research of cardiovascular disease. The system determines the status of cardiac hemodynamics by monitoring the change of thoracic electrical impedance for every cardiac cycle
"obstetrics"	the branch of medicine concerned with pregnancy and childbirth, including the study of the physiologic and pathologic functions of the female reproductive tracts and the care of the mother and fetus throughout pregnancy, childbirth, and the immediate postpartum period
"ocular asthenopia"	an ophthalmological condition that manifests itself through non-specific symptoms such as fatigue, pain in or around the eyes, blurred vision, headache and occasional double vision
"oncology"	the branch of medicine concerned with the study of malignancy and cancerous growth

"ophthalmology"	the branch of medicine concerned with the study of the physiology, anatomy, and pathology of the eye and the diagnosis and treatment of disorder of the eye
"peptic ulcer"	also known as gastric ulcer, a sharply circumscribed loss of the mucous membrane of the stomach, duodenum, or any other part of the GI system exposed to gastric juices containing acid and pepsin
"peptide"	any of a class of compounds of low molecular weight that yield two or more amino acids on hydrolysis; known as di-, tri-, tetra-, (etc.) peptides, depending on the number of amino acids in the molecule. Peptides form the constituent parts of proteins
"placebo"	any dummy medical treatment; originally, a medicinal preparation having no specific pharmacological activity against the patient's illness or complaint given solely for the psychophysiological effects of the treatment; more recently, a dummy treatment administered to the control group in a controlled clinical trial in order that the specific and non-specific effects of the experimental treatment can be distinguished
"placebo-controlled"	a term used to describe a method of research in which an inactive substance (a placebo) is given to one group of participants, while the treatment (usually a drug or vaccine) being tested is given to another group. The results obtained in the two groups are then compared to see if the investigational treatment is more effective than the placebo
"prednisone"	a synthetic steroid similar to cortisone that is used as an antiallergic, immunosuppressive, and anticancer drug and as an anti-inflammatory agent in the treatment of rheumatoid arthritis
"probiotics"	live microorganisms which when administered in adequate amounts confer a health benefit on the host, commonly consumed as part of fermented foods with specially added active live cultures; such as in yogurt, soy yogurt, or as dietary supplements
"reflux esophagitis"	severe gastroesophageal reflux with damage to the esophageal mucosa, often with erosion and ulceration, and sometimes leading to stricture, scarring, and perforation

"rhBNP" or "Recombinant Human Brain Natriuretic Peptide"	a brain natriuretic peptide artificially synthesised by gene engineering technique which has the same mechanism as the endogenous polypeptide secreted from the ventricular muscle and is mainly used in the treatment for acute heart failure. Brain natriuretic peptides play an important role in the protective compensatory mechanism of the blood volume and pressure regulation
"Rickettsia"	a genus of microorganisms that combines aspects of both bacteria and viruses. They also exist as viruslike intracellular parasites, living in the intestinal tracts of insects such as lice. Thus a human infested with lice is also likely to be infected with a form of typhus transmitted by Rickettsia prowazekii
"saccharomyces boulardii"	a genus of yeast fungi that causes such diseases as bronchitis, moniliasis, and pharyngitis. It was first isolated from lychee and mangosteen fruit in 1923 by French scientist Henri Boulard
"senile macular degeneration" or "age-related macular degeneration (AMD)"	senile, pertaining to or characteristic of old age or the process of ageing. It is an eye disease with its onset usually after age 60 that progressively destroys the macula, the central portion of the retina, impairing central vision. Senile marcular degeneration rarely causes blindness because only the center of vision is affected. However, injury to the macula in the center of the retina can impair the ability to see straight ahead clearly and sometimes make it difficult to read, drive, or perform other daily activities that require fine central vision
"side effect"	any reaction to or consequence of a medication or therapy. This can be an effect carried beyond the desired limit, such as haemorrhaging from an anticoagulant, or a reaction unrelated to the primary object of the therapy such as an anaphylactic reaction to an antibiotic
"sterile hyaluronate solution"	Hyaluronate (also known as hyaluronic acid or hyaluronan), a kind of acid mucopolysaccharide which is widely distributed throughout the human body, and is used as an important raw material for medicine
"T-cells"	a small circulating lymphocyte produced in the bone marrow that matures in the thymus. T cells primarily mediate cellular immune responses such as graft rejection and delayed hypersensitivity
"tablet"	a solid dosage form containing a medicinal substance with or without a suitable diluent
"toxicity"	the quality of being poisonous, especially the degree of virulence of a toxic microbe or of a poison

"tripeptide"	a peptide consisting of three amino acids joined by peptide bonds, and peptides are short polymers formed from the linking, in a defined order, of α-amino acids
"tumour"	swelling, one of the cardinal signs of inflammation and morbid enlargement, and a new growth of tissue in which cell multiplication is uncontrolled and progressive
"tyroserleutide"	an active, low-molecular-weight polypeptide, comprised of three amino acids, that has shown antitumor effects on human hepatocarcinoma BEL-7402 in vitro and in vivo
"ulcer"	a circumscribed, craterlike lesion of the skin or mucous membrane resulting from necrosis that accompanies some inflammatory, infectious, or malignant processes
"ulcerative colitis"	a chronic, episodic, inflammatory disease of the large intestine and rectum, which is characterised by profuse watery diarrhoea containing varying amounts of blood, mucus and pus. Some of the many systemic complications of ulcerative colitis include peripheral arthritis, kidney and liver disease, and inflammation of the eyes, skin, and mouth
"urology"	the branch of medicine concerned with the study of the anatomy, physiology, and pathology of the urinary tracts and the male genital tracts
"ursodeoxycholic acid" or "UDCA"	a secondary bile salt. It is used in vivo to dissolve cholesterol gallstones
"venereal"	pertaining to or caused by sexual intercourse or genital contact

You should carefully read and consider all of the risks and uncertainties described below before deciding to make any investment in our Shares. Our business, financial condition or results of operations could be materially adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties. As a result you may lose part or all of your investment.

RISKS RELATING TO OUR BUSINESS

We rely on suppliers and other third parties with respect to our in-licensed products. If we cannot maintain our relationships with our suppliers and such other third parties, it may impair our ability to renew the exclusive promotion and selling rights in respect of our existing in-licensed products upon expiry or obtain promotion and selling rights for new products.

We depend on our relationships with our suppliers for a steady supply of in-licensed products. Total sales of the products from our top five suppliers represented approximately 90.9%, 95.1%, 96.2% and 94.0% of our total turnover in the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. In particular, total sales of the products imported from our two largest suppliers, Lundbeck Export A/S and Dr. Falk Pharma GmbH, accounted for approximately 79.0%, 79.8%, 77.4% and 73.0% of our total turnover in the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively.

We typically enter into exclusive supply agreements with our suppliers for a fixed term of five years or more. Most of these agreements renew automatically provided that certain conditions, principally the agreed minimum order quantities, are met. In the last 10 years, none of our supply agreements has been terminated by our suppliers for failure to reach the minimum order quantity or otherwise. However, demand for our in-licensed products is subject to change due to a number of factors beyond our control, such as the emergence of competitive or counterfeit products and changes in incidence rates of the diseases which our products are used to treat. We therefore cannot assure you that we will be able to meet our minimum order commitment for each of our in-licensed products, or comply with other conditions in the relevant agreements, and hence renew our supply agreements automatically in the future. Further, for various reasons our supply agreements may be terminated pursuant to the terms of the respective agreements or some of their terms may be held unenforceable under applicable laws and regulations.

We have also historically depended, and expect to continue to depend on third parties to assist us in sourcing and procuring promotion and selling rights for new in-licensed products. Such third parties may have relationships with the ultimate supplier of such products and hold other interests in the chain of distribution. For example, among our in-licensed products, the exclusive rights to promote and sell Ursofalk, Salofalk and Augentropfen Stulln Mono eye-drops in China were introduced to us by Synda Limited, an independent third party. Synda Limited is also a shareholder of Ophol Limited in which we have a 24.5% interest. Consequently, we also are dependent on such third-parties' ability to maintain their relationships with suppliers and on any interests they may hold in the chain of distribution not conflicting with our interests or those of the suppliers. If such third parties were to fail to maintain such relationships, whether as a result of conflict or interests or otherwise, we may not be able to renew the exclusive promotion and selling rights for our existing in-licensed products and our ability to source selling rights for new in-licensed products could be impaired.

We cannot assure you that we will be able to maintain our relationships with our suppliers or the third parties through whom we source and procure promotion and selling rights or that we will be able to renew our existing supply agreements when they expire. Additionally, we cannot assure that

the third parties through whom we source promotion and selling rights will be able to maintain their relationships with suppliers of products. Our failure to maintain such relationships, obtain such renewals or the failure of such third parties to maintain their relationships with our suppliers could materially and adversely affect our business, financial condition and results of operations.

Our ability to set or raise the prices of our products which are included in the Insurance Catalogue is limited by price control measures imposed by the PRC government. If any of these measures is further tightened or any retail price ceiling is significantly lowered, our business and profitability may be adversely affected.

Our ability to set or raise the prices of our products which are included in the Insurance Catalogue is limited by price control measures imposed by the PRC government, which typically takes the form of a retail price ceiling. Four of our key in-licensed products are included in the Insurance Catalogue, namely, Deanxit, Ursofalk, GanFuLe and Salofalk, and are therefore subject to price control in China. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, sales of these four key in-licensed products accounted for approximately 84.1%, 85.2%, 82.3% and 76.2% of our Group's turnover for the respective period. Please refer to the section headed "Regulatory Framework — Legal supervision relating to the pharmaceutical industry in the PRC — Price control" in this prospectus for further details.

During the Track Record Period, the retail price ceiling of Salofalk was adjusted by the PRC government before we obtained the exclusive rights to promote and sell the product in the PRC in September 2008. In addition, the retail price ceiling of Ursofalk was adjusted downwards twice by the PRC government during the Track Record Period although our selling price remained stable. However, we cannot assure you that the PRC government will not further lower the retail price ceilings of our products that are included in the Insurance Catalogue and further expand the list of our products subject to price control.

On 1 June 2010, the NDRC issued the "Consultation Paper in relation to the Administrative Measures on the Prices of Pharmaceutical Products" (《藥品價格管理辦法(徵求意見稿)》) to seek public opinions on new price control measures in respect of pharmaceutical products included in the Insurance Catalogue. The Consultation Paper is still at a preliminary stage and it is uncertain what measures will be adopted by the NDRC eventually. We cannot assure you that any measures under the Consultation Paper when finally determined and implemented will not have any significant effect on our business and results of operations nor can we assure you that the PRC government will not further strengthen the existing price control measures in any other ways. On 2 July 2010, the NDRC issued a press release on its website announcing an investigation into the prices of about 900 types of pharmaceutical products from more than 900 manufacturers, which are either newly admitted to the Insurance Catalogue or are subject to price ceilings. The Drug Price Review Centre of the NDRC published a list of manufacturers and pharmaceutical products subject to price investigations. One of our key in-license products, GanFuLe, and its Hunan-based manufacturer were named on this list. For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our sales of GanFuLe amounted to US$2.6 million, US$3.9 million, US$4.8 million and US$2.0 million, respectively, accounting for 5.0%, 5.4%, 5.0% and 3.3% of our total revenue in the respective periods. We cannot assure you that the current retail price ceiling of GanFuLe will not be lowered after the NDRC completes the price investigation.

In addition, after a product is newly admitted to the Insurance Catalogue, it usually takes some time before the NDRC can complete its investigation of the production costs of such product and determine its retail price ceiling. Until the NDRC determines the retail price ceiling, such product can be sold at its prevailing market price. As Deanxit was newly admitted to the Insurance Catalogue in 2009, we cannot assure you that the current retail price ceiling of Deanxit will not be lowered after the NDRC completes its usual course of investigation.

Should the PRC government significantly reduce the retail price ceilings of our products that are included in the Insurance Catalogue, we cannot assure you that the price at which we sell our products will not also have to be reduced. If that occurs, our business, results of operations and financial condition may be materially and adversely affected.

We may experience prolonged delay or significant disruption to the supply of our in-licensed products, or an increase in the purchase prices of such products, which may adversely affect our business, financial condition and results of operations.

We depend on five overseas pharmaceutical companies and two domestic pharmaceutical companies to supply all of our key in-licensed products currently in our product portfolio. We may experience unexpected interruption in the supply of such products for a number of reasons, such as changes to regulatory requirements, imposition of import restrictions, loss of or failure to renew certifications or licences, interruptions to or breakdowns of the manufacturing operations of our suppliers, disruptions in logistics or delivery of products to us, natural disasters (including but not limited to flooding, typhoons, earthquakes, blizzard and snow storm), acts of terror or other third party interference.

In addition, our suppliers may adjust the prices of our in-licensed products when they renew their supply agreements with us or otherwise in accordance with the terms of the supply agreements, resulting in an increase in our costs. Because of market factors or price controls established by the PRC government, we may be unable to entirely offset increased costs by increasing the prices of our products. Any disruption to the supply of our in-licensed products, or any increase in the purchase prices of such products, could have a material adverse effect on our business, financial condition and results of operations.

A substantial portion of our revenue is generated from the sale of two in-licensed products. If the market demand for these two products declines in the future due to substitute or replacement products becoming available in the market or for any other reason, our business, financial condition and results of operations could be materially and adversely affected.

A substantial portion of our revenue is generated from the sale of two products, namely Deanxit and Ursofalk. For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, sales from Deanxit and Ursofalk in aggregate amounted to US$40.9 million, US$57.8 million, US$72.8 million and US$43.0 million, respectively, accounting for 79.0%, 79.6%, 75.5% and 70.2% of our total turnover in the respective periods. If the market demand for Deanxit and Ursofalk declines in the future because, for example, substitute or replacement products at more favourable prices or with better quality become available in the market or we fail to sustain the popularity of such products, our business, financial condition and results of operations may be materially and adversely affected.

Our business, results of operations and financial condition could be materially and adversely affected if there are complaints, product liability claims or product recalls against our products.

Our business operations are exposed to risks inherent in the marketing, promotion, sale and manufacture of pharmaceutical products. Under PRC law, we may be liable to product liability claims from the end users of our products. Customers may complain about the products that we sell or even initiate product liability claims against us. In the event that any of our products are alleged or proved to be harmful, demand for and sales of our products would decline significantly, and we may be required to recall such products from the market. Any such claims or product recalls, with or without merit and regardless of whether such claims are made against us, could materially and adversely affect our business, results of operations and financial condition, as sales of the product in question may be required to be suspended or terminated indefinitely. If we are required to defend

any litigation related to product liability claims or product recalls, it would materially strain our financial resources, in addition to consuming the time and attention of our management. Where we are not the cause of the relevant defect of our in-licensed product subject to the claim but are nonetheless held by relevant PRC authorities to be responsible for such claim, we may seek compensation from the relevant supplier of the product if the supplier is at fault. However, any indemnity which we may have from the suppliers of our in-licensed products under applicable PRC law or contracts may not effectively and fully cover the damages we suffer. Further, we do not currently carry any product liability insurance as the PRC product liability insurance market for pharmaceutical products is not mature and we are not aware of any product liability insurance suitable for us. The Group will consider buying appropriate product liability insurance if and when it learns of a suitable insurance policy.

If we are not successful in winning bids in government-mandated tender processes for the purchase of medicines by state-owned hospitals, our business, financial condition and results of operations could be materially and adversely affected.

Substantially all of our sales are made to state-owned hospitals in China through our distributors. In general, these hospitals must participate in collective tender processes organised by provincial or municipal governments for the purchase of medicines listed in the Insurance Catalogue and medicines that are consumed in large volume and commonly prescribed for clinical use. These hospitals are generally only allowed to purchase pharmaceutical products that are the subjects of winning bids in the collective tender processes except as otherwise approved by the Provincial Collective Tender Administration Department (省級藥品集中采購工作管理機構). For further information on the hospital tender process, please see the section headed "Regulatory Framework — Centralised tendering system for drug purchases by medical organisations" in this prospectus. After the tendering process, we sell the products that are the subject of winning bids to the hospitals through our distributors. If we are not successful in winning bids in the tendering process in any province or city, we will lose the revenue associated with the sales of the affected pharmaceutical products to the hospitals in the relevant province or city, which would have a material and adverse effect on our business, financial condition and results of operations.

We may not be able to obtain or renew the licences, permits and certifications required for the importation, production and sale of pharmaceutical products in China. Alternatively, the manufacturers of the imported pharmaceutical products we sell may fail to renew their permits or licences, or we may have to take costly measures to comply with changes to the present standards for issuing the required licences, permits and certifications. Any of these events could materially and adversely affect our business, financial condition and results of operations.

According to the Pharmaceutical Administration Law of the PRC and measures for Administration of Drug Registration (the "Measures") of the PRC and relevant administrative regulations promulgated by the SFDA, all pharmaceutical enterprises are required to obtain various licences, permits and certifications from competent government authorities before engaging in the importation, manufacture and sale of pharmaceutical products in China. To import drugs into China, imported drug licences are required. In addition, prior to the commencement of production, pharmaceutical manufacturers are required to register with the SFDA each of the products they propose to produce. We have in the past obtained all licences, permits and certifications required for the importation, manufacture and sale of our pharmaceutical products. However, these licences, permits and certifications have fixed validity periods and are subject to periodic renewal. Currently, the imported drug licence issued by the SFDA and which is usually valid for a maximum period of five years in respect of one of our eight key in-licensed products, namely, Bioflor, has expired. We secured the exclusive right to promote and sell Bioflor in China in early 2010. The SFDA accepted the application for renewal of imported drug licence for Bioflor in June 2009. We cannot assure you,

however, that when we require further supplies of Bioflor prior to the renewal of the relevant imported drug licence, we will be permitted to import a shipment of the product. For details of our imported drug licences, please refer to the section headed "B. Further Information about our business — 4. Imported drug licences" in Appendix VI to this prospectus.

Renewal applications and ad hoc approvals are assessed by the relevant authorities, and the standards required may be amended from time to time. There can be no assurance that all permits and licences currently held by us or in respect of our in-licensed products can or will be renewed. In addition, the manufacturers of our imported pharmaceutical products may fail to renew their permits or licences, which is beyond our control. We may not be able to carry on our business without such licences, permits and certifications. Compliance with any subsequent modifications of, or additions to, or new restrictions imposed under, the present compliance standards could be costly. Such changes could impose additional burdens on us, which could materially and adversely affect our business, financial condition and results of operations.

If our existing products do not remain in, or new products in-licensed or developed by us are not admitted to, the Insurance Catalogue, our business and results of operations could be materially and adversely affected.

The PRC Ministry of Human Resources and Social Security published the Insurance Catalogue in September 2004. Patients purchasing pharmaceutical products included in the Insurance Catalogue are entitled to reimbursement of the whole of or a portion of their purchase costs from the work injury insurance fund or the basic medical insurance fund. Four of our key in-licensed products are included in the Insurance Catalogue, namely Deanxit, Ursofalk, GanFuLe and Salofalk. Pharmaceutical products which are included in the Insurance Catalogue are more economical for consumers compared to those which are not included. Whether a pharmaceutical product is admitted to the Insurance Catalogue may therefore affect the sales of such product.

The pharmaceutical products admitted to the Insurance Catalogue are determined by the PRC Ministry of Human Resources and Social Security and other government departments of the PRC from time to time. We cannot assure you that our existing products currently included in the Insurance Catalogue will remain in the Insurance Catalogue. The removal or exclusion of any of our products from the Insurance Catalogue may adversely affect sales of the relevant product. Further, new products in-licensed or developed by us may not be admitted to the Insurance Catalogue. If any of the above occurs, our business and results of operations could be materially and adversely affected.

We rely on the China market, especially its coastal cities and provinces, for the bulk of our sales. Any adverse change in the economic, political or social conditions in such cities and provinces may materially and adversely affect our business, financial condition and results of operations.

During the Track Record Period, we generated all of our sales in China, which will remain our target market in the future. In particular, a significant proportion of our revenue was generated from sales in major cities and provinces of China, which tend to have higher urbanisation rates and be more economically developed. During the year ended 31 December 2009, the top five cities and provinces contributing to our revenue were Zhejiang province, Guangdong province, Shanghai, Beijing and Jiangsu province. Our sales made in these cities and provinces in the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 accounted for approximately 59.3%, 54.2%, 50.2%, and 45.9% of our total turnover for the respective periods. Our business, financial condition and results of operations could be materially and adversely affected if there is any adverse change in the economic, political or social conditions in China, and in particular, the above-mentioned cities and provinces.

Non-compliance with our sales guidelines or dissemination of incorrect product information by our employees may adversely affect our business and results of operations.

Our Directors believe that our business is dependent to a large extent on the maintenance of our products' reputation, which in turn is dependent on the safety and perceived effectiveness of the products when used in the treatment of patients' symptoms. It is therefore important that when we promote our products, their therapeutic application, usage and target treatments are clearly conveyed to doctors. However, we have limited ability to control the activities of our marketing, promotion and sales employees when they promote our products to hospitals or doctors. When our employees engage in marketing, promotion or sales activities, they may not fully comply with our relevant guidelines, or may provide inaccurate, misleading or incomplete information about our products which is contrary to the product descriptions and information provided to them by us. Any of these events may expose us or our products to negative publicity and unfavourable consumer perception, or may result in misunderstanding, inaccurate knowledge or even wrong usage of our products by hospitals, doctors or consumers. Any adverse impact on our products' reputation in the market could materially and adversely affect our business and results of operations.

If we experience delays in collecting trade receivables from our distributors, or if there is a substantial deterioration in the financial condition of our distributors, our cash flow, working capital, financial condition and results of operations could be adversely affected.

We typically extend credit to our distributors for 0 to 90 days. As at 31 December 2007, 2008 and 2009 and 30 June 2010, our net trade receivables due from our distributors were US$14.5 million, US$17.2 million, US$20.7 million and US$28.9 million, respectively, accounting for 26.4%, 24.4%, 22.9% and 27.9% of our total assets as at the respective dates. The average turnover of our trade receivables for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 was 86 days, 81 days, 73 days and 75 days, respectively. Disruptions in the global financial markets and other macroeconomic challenges currently affecting the PRC economy and the global economic outlook could adversely impact our distributors in a number of ways, including a deterioration in their financial condition leading to their bankruptcy, insolvency or other credit failure, which could in turn adversely affect us. If our distributors' cash flow or operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, they may be unable to pay, or may delay payment of, trade receivables owed to us. Any substantial defaults or delays may materially and adversely affect our cash flow, working capital, financial condition and results of operations.

We may not successfully develop and commercialise CMS024 or obtain all required regulatory approvals and permits to manufacture CMS024, which could adversely affect our business prospects and growth.

We acquired the production, marketing and sales rights and the related patents of CMS024 from Kangzhe R&D, a subsidiary of Healthlink, in 2004. CMS024 had been the core R&D project of Kangzhe R&D (and of us prior to the Distribution of Healthlink). CMS024, with the generic name of Tyroserleutide, is a tripeptide compound indicated for the treatment of primary liver carcinoma. On 9 June 2005, we submitted a new drug application for CMS024 to the SFDA for marketing approval based on the phase IIb clinical trial results, and at the end of 2007, we had received an assessment notice from the SFDA, in which the SFDA requested us to further enlarge the patient sample size of the treatment group in the next clinical trial in order to provide better proof of the drug's clinical efficacy. We will initiate an expanded, randomised, double-blind, multi-centre clinical trial including at least 300 patients in the treatment group in the second half of 2010, which we expect to complete in 2015. We aim to submit the new drug application to the SFDA and obtain the approval for production of CMS024 in 2016.

However, we cannot assure you that we will successfully develop and commercialise CMS024 within the anticipated time frame or budget or that we will obtain all of the regulatory approvals and permits required for the production of CMS024. Even if we are able to produce and begin selling CMS024, there is no guarantee that it will be accepted by the market as anticipated. Any failure to successfully launch and commercialise CMS024 in the market could adversely affect our business prospects and growth.

If our competitors or other pharmaceutical manufacturers in-license or manufacture pharmaceutical products substantially similar to ours, our sales, financial condition and results of operations could be materially and adversely affected.

Our business and prospects partly depend upon our ability to maintain or increase the market share of our products. All of our in-licensed products and in-house manufactured products are generic pharmaceutical products based upon commonly known ingredients or formulae. Such ingredients and formulae do not constitute confidential information and are not protected by intellectual property law in the PRC. Consequently, other pharmaceutical distribution companies may introduce similar in-licensed products from overseas pharmaceutical manufacturers which are comparable to our existing products. Further, if other manufacturers in China obtain the required approvals from the SFDA, they may produce similar pharmaceutical products using the same ingredients, formulae and production techniques. If the same products, or products substantially similar to ours, are introduced, we will face greater competitive pressure in the market, and our sales, financial condition and results of operations may be adversely affected.

Any counterfeit pharmaceutical products and any failure of our suppliers to maintain trademark registrations for the relevant products in China may damage the reputation of our products, which could have a material adverse effect on our business, financial condition and results of operations.

We cannot assure you that there will be no individual or entity which has the capability and determination to manufacture counterfeit products imitating our products. Counterfeit pharmaceutical products may or may not have the same chemical content as their authentic counterparts. The counterfeit pharmaceutical product control and enforcement system in China may be unable to completely eliminate the production and sale of counterfeit pharmaceutical products imitating our products. Further, failure of our suppliers to maintain valid trademark registrations for the relevant products in China may hinder the effectiveness of any legal action which may be brought against counterfeiters. Any illegal sale of counterfeit pharmaceuticals by others under the brand names of any of our in-licensed or in-house manufactured products, 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. In addition, consumers may buy counterfeit pharmaceuticals that are in direct competition with our in-licensed or in-house manufactured products. As a result of these factors, the proliferation of counterfeit pharmaceutical products in China could adversely affect our products' reputation and in turn could have a material adverse effect on our business, financial condition and results of operations.

Future movements in foreign exchange rates may adversely affect our financial condition, results of operations and ability to pay our overseas suppliers.

We are exposed to foreign exchange risk because we are required to pay our overseas suppliers in US dollars or in Euros (as applicable) under our supply agreements while all of our sales are generated in China and hence denominated in Renminbi. The exchange rates between Renminbi and foreign currencies at the time we place our orders with our overseas suppliers may be substantially different from those at the time that we are required to pay our suppliers. In most of our supply agreements with our overseas suppliers, the relevant suppliers have agreed to compensate a certain portion of our foreign exchange loss due to any movements, or any movements over a certain percentage (which can range from 2% to 10%), in the value of Renminbi from the specified foreign

exchange rate. In exchange, we are obliged to share a portion of our foreign exchange gains if Renminbi appreciates against the relevant foreign currency. As a result, we are exposed to foreign exchange fluctuations and movements in the exchange rate of Renminbi, which could adversely affect our financial condition and results of operations.

We recorded foreign exchange gain/(loss) of approximately US$0.7 million, US$0.7 million, (US$0.4 million) and (US$0.1 million) for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. Although we have entered into forward foreign exchange contracts and may, as we deem appropriate, enter into further such contracts to hedge against fluctuations in foreign exchange rates, we cannot assure you that we will not suffer any loss due to future fluctuations in foreign exchange rates. In the event that Renminbi depreciates against the relevant foreign currency, we may incur foreign exchange loss, and our ability to pay our overseas suppliers could be adversely affected. For further details relating to our foreign currency exposure, please refer to the risk factor headed "Risk Factors — Risks relating to conducting business in China - Government control in currency conversion may materially and adversely affect our financial condition, results of operations and ability to meet foreign exchange requirements" in this prospectus.

If we fail to protect our intellectual property rights or if we are presented with intellectual property infringement claims initiated by third parties, our business and results of operations may be adversely affected.

We rely on a combination of trademark and trade secret laws, administrative protection, non-disclosure agreements and other methods to protect our intellectual property rights. We are not aware of any material infringement of our intellectual property rights or other forms of legal protection. However, we cannot assure you that our intellectual property or other rights available under PRC law are not being misappropriated or infringed or will not be misappropriated or infringed in the future. In the event that any misappropriation or infringement occurs, we may need to protect our intellectual property or other ownership rights through litigation, which could result in substantial costs and the diversion of resources and management attention and could harm our business.

Third parties, including our competitors, may make claims or initiate litigation against us seeking to establish their patent, trademark, copyright and other intellectual property rights in products, technologies, trade names and company 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 portfolio. 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. 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 licences from, or pay compensation to, the claimants, or discontinue production or distribution of the relevant products.

We depend on our key personnel, and our business and growth may be disrupted if we lose their services.

Our business and growth depends upon the continued service of our key executives and other senior managers. In particular, we are highly dependent on our executive Directors and senior management team to manage our business and operations. Our executive Directors and senior management have worked with us for many years. If we lose the services of any member of our senior management, we may be unable to locate a suitable or qualified replacement and may incur additional expense to recruit and train new personnel, which could disrupt our business and growth. Furthermore, as we expect to continue expanding our operations and market new products, we will need to continue

attracting and retaining experienced management personnel. Competition for experienced personnel in the pharmaceutical field is intense, and the availability of suitable and qualified candidates in China is limited. Competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, which would increase our operating costs. We may be unable to attract or retain the personnel required to achieve our business objectives, and failure to do so could disrupt our business and growth.

We depend on the continued service of, and on the ability to attract, motivate and retain a sufficient number of qualified and professional, marketing, promotion and sales staff.

Our ability to continue expanding our pharmaceutical marketing, promotion and sales business and deliver high quality customer service depends on our ability to attract and retain qualified and professional employees in our marketing, and promotion and sales team. Our Directors attribute a significant portion of the success of our Group to our experienced and highly qualified marketing, promotion and sales team, over 70% of whom have an educational background in medicine or pharmacology, who are able to communicate effectively with doctors and other medical professionals. However, we cannot assure you that we will be able to attract, hire and retain a sufficient number of qualified and professional marketing, promotion and sales personnel to continue to develop and grow our business. The inability to attract and retain a sufficient number of such professional personnel could limit our ability to develop our business, increase our sales 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 would increase our operational costs.

We rely on information management systems in managing our operations, and any system failure or deficiencies in these systems may have an adverse effect on our business, financial condition and results of operations.

We rely on computerised information management systems to obtain, rapidly process, analyse and manage data. In our pharmaceutical promotion and manufacturing businesses, we rely on these systems to, among other things:

- facilitate the purchase of raw materials and replenish inventory for in-licensed products and transportation of products to distributors across China;
- monitor and record daily activities of our promotion and sales team;
- monitor the daily operations of our distribution network and supply chain;
- receive and process orders on a timely basis; and
- manage quality control and logistics for our operations.

We rely on our information management system to monitor the daily operation of our businesses and to maintain accurate and up-to-date operating and financial data for compilation of management information. We also rely on our computer hardware and network for the storage, delivery and transmission of the data of our supply, manufacturing and promotion activities and distribution systems. Any damage by unforeseen events or system failure which causes interruptions to the input, retrieval or transmission of data, or an increase in the service time, could disrupt our normal operations. We cannot assure you that we will be able to carry out effectively 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, even though these information systems are developed and maintained by us, we may not be able to upgrade these systems in a timely manner to meet the evolving needs of our expanding operations.

Our growth relies on the expansion of our portfolio of in-licensed products. If we are unable to successfully add new products or fail to manage an expanding product portfolio, our business and prospects may be adversely affected.

The continued expansion of our business operations is dependent in part on our ability to continue to expand our product portfolio by obtaining exclusive rights to market and sell new pharmaceutical products in China. The expansion of our product portfolio involves a number of risks and uncertainties, including but not limited to:

- our inability to identify suitable products and obtain exclusive promotion and selling rights from manufacturers on terms acceptable to us;
- failure to achieve the intended objectives or benefits, or to generate sufficient revenue to recover the costs and expenses, of an expanding product portfolio;
- the diversion of resources and management attention from our existing products to new in-licensed products;
- the costs of and difficulties in managing a larger product portfolio; and
- difficulties in upgrading or adjusting our information management systems to cater for our scope of operations resulting from the enlarged product portfolio.

In particular, if any new in-licensed products are very different from our existing products in their therapeutic areas, target market segment or other aspects, the foregoing risks may increase because of the limited experience of our Group and of our marketing, promotion and sales team in marketing and selling such products. Our failure to address these risks successfully may have a material adverse effect on our financial condition and results of operations.

Our newly launched products may not be well received by the market, which could adversely affect our business prospects and growth.

Our growth depends, to a large extent, on whether the products we introduce to the market are well received. The primary factors which may affect the acceptance of our products by the market include efficacy, quality and price of our products and the purchasing trends of our distributors and their customers. If any new product is not well received by the market because it is not as effective as competitive products or is too expensive compared to other substitutes, or for any other reason, we may not be able to recoup the investment we have made in developing such products, in which case our business, financial condition and results of operations may be materially and adversely affected.

We may be unable to manage our future growth efficiently or our cost effectively, which may materially and adversely affect our business prospects.

During the Track Record Period, we grew rapidly. Our turnover grew from US$51.7 million in the year ended 31 December 2007 to US$96.5 million in the year ended 31 December 2009, representing a CAGR of approximately 36.5%. Our current growth strategy involves further expanding our product portfolio by introducing new self-manufactured as well as in-licensed pharmaceutical products. As we continue to grow, our management, customer support, marketing and administrative and technological resources might become overstretched. As a result, we may not be able to manage our growth efficiently or our cost effectively, which could jeopardise our ability to grow continuously and thus adversely affect our business prospects.

We have limited ability to manage the activities of our distributors, and our reputation, sales and business prospects may be adversely affected by actions taken by our distributors.

We have limited ability to manage the activities of our distributors, which are independent of us. Our distributors may sell products sourced from other suppliers that compete with our products, fail to maintain the requisite licences or otherwise fail to comply with applicable regulatory requirements when selling our products. Our limited ability to manage the activities of our distributors, or non-compliance by distributors with our supply agreements, could harm our reputation and disrupt our sales. If our distributors engage in illegal practices with respect to their sales of our products, the products involved may be seized, any of which could adversely affect our reputation, sales and business prospects.

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 corruption in the pharmaceutical industry. Our failure to comply with these measures, or to effectively manage our employees and affiliates, could adversely affect our reputation, results of operations and business prospects.

In our business operations, we are subject to PRC laws and regulations relating to fraud and corruption that expose us to risks in relation to actions taken by us and our employees and affiliates. Our failure to comply with these measures, or to 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 other things, acceptance of kickbacks, bribes or other illegal gain or benefits by hospitals or medical practitioners from pharmaceutical products manufacturers or distributors in connection with the prescription or use of certain pharmaceutical products. If we, our employees or affiliates violate these laws, rules or regulations, we may be required to pay damages or fines, the products involved may be seized and our operations may be suspended, any of which could materially and adversely affect our business, financial condition and results of operations. Our reputation and our sales could be adversely affected if we become the target of any negative publicity as a result of actions taken by us or our employees or affiliates.

Our operations are subject to hazards and natural disasters that may affect our operations and may not be fully covered by our insurance policies.

Our offices, warehousing facilities, marketing, promotion and sales network, and sources of supplies face a risk of operational breakdowns and interruptions resulting from external factors beyond our control, such as natural disasters (including but not limited to flooding, typhoons, earthquakes, blizzards and snow storms) and acts of terror or other third-party interference. We cannot assure you that all claims made by us under our insurance policies will be honoured fully or on time. We do not carry 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 those arising 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 financial loss and damage to our reputation and could lose all or a portion of future revenue 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.

RISKS RELATING TO OUR INDUSTRY

The PRC pharmaceutical industry is highly regulated, and the regulatory framework, requirements and enforcement trends may change from time to time. If we are not able to respond promptly to such changes, our business may be affected.

The pharmaceutical industry in China is highly regulated. We are governed by various local, regional and national regulatory regimes in all aspects of our operations, including manufacturing, importing and distributing pharmaceutical products and environmental protection. We cannot assure you that the legal framework, licensing and certification requirements and enforcement trends in the pharmaceutical 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. In particular, although there are currently no direct laws and regulations governing marketing and promotion activities directed at hospitals and doctors, or doctors' participation in medical education events or conferences sponsored by pharmaceutical manufacturers, distributors or service providers like ourselves, we cannot assure you that such laws and regulations will not be implemented in the future. Any such new laws and regulations and any changes to existing laws and regulations may materially and adversely affect our business. All pharmaceutical distribution, wholesale, retail and manufacturing companies in China are required to obtain permits and licences from various PRC governmental authorities, including GMP certifications for manufacturing operations and GSP certifications for wholesale and retail distribution operations. We have obtained the permits, licences and GMP certifications required for the manufacture of our pharmaceutical products. In addition, we have obtained GSP certifications for the distribution of our products. These permits and licences are generally valid for a maximum period of five years and are subject to periodic renewal and reassessment by the relevant PRC governmental authorities, and the standards of such renewal or reassessment may change from time to time. We intend to apply for the renewal of these certifications when required by applicable laws and regulations. Any failure by us to obtain and maintain all licences, 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.

Any inability to renew these permits, licences 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 licences, permits and certifications, as well as any enactment of new regulations that may restrict the conduct of our business, may also decrease our revenue or increase our costs, and materially reduce our profitability and prospects. Further, if the interpretation or implementation of existing laws and regulations changes, or if new regulations come into effect requiring us to obtain any additional permits, licences or certifications that were previously not required to operate our existing businesses, we cannot assure you that we will obtain the required permits, licences or certifications.

We are subject to regular inspections, examinations, inquiries and audits by regulatory departments as part of the process of maintaining or renewing the various permits, licences and certifications required for the manufacture and distribution of pharmaceutical products. In the event that any of our products or facilities fails such inspections, our business, profitability and reputation would be adversely affected.

Our growth relies in part on the development of the PRC pharmaceutical industry. If the recently announced healthcare reform plan does not bring as much growth within the expected timeframe, our business or growth may be adversely affected.

The healthcare system in China has undergone, and evolved over various stages of, reform since the PRC was established in 1949 and is still in the process of reform. On 18 March 2009, the Chinese government announced that it expected to spend RMB850 billion (equivalent to approximately US$124 billion) on healthcare reform in China in the following three years and highlighted several areas of focus, including:

- expanding the coverage of the basic healthcare insurance programmes to 90% of urban and rural residents by 2011, and increasing the government contribution to rural residents and urban residents to RMB120 (equivalent to approximately US$18) per person;
- establishing the National List of Essential Drugs, and more importantly, an implementation system will ensure the supply of essential drugs at an affordable price to the public;
- improving the basic medical infrastructure with an emphasis on class-one hospitals, township medical centres, remote area village clinics and low-income community medical centres; and
- reforming public hospitals.

While such reform is expected to bring positive effects to the PRC pharmaceutical industry, there may be negative effects, such as:

- execution risk: the anticipated spending may be slower and the reform process may be more time consuming and require a larger amount of funding than was announced;
- sufficiency of funding: 61% of the planned spending of RMB850 billion is required to be financed by local government, which may not have sufficient funds to allocate to the healthcare reform; and
- reduction in prices: centralised procurement through the adoption of the National List of Essential Drugs may lead to a reduction in the selling prices of our products if they are included in the list.

Our growth relies in part on the development of the PRC pharmaceutical industry. Although the healthcare reform plan is expected to benefit our business, the full effect of the healthcare reform plan on our operations is unclear, and our business may not benefit as much as we expect.

Rapid changes in the pharmaceutical industry and products resulting from rapid enhancements in technology and know-how may render our products obsolete.

The pharmaceutical industry is characterised by rapid changes in technology, constant enhancement of industrial know-how, and the frequent emergence or development of new products. Future technological improvements, enhancement of industrial know-how and continual product developments in the pharmaceutical market may render our existing products obsolete or may affect our viability and competitiveness. Therefore, our future success will largely depend on our ability to diversify our product portfolio and market new and competitively priced products which meet the requirements of the constantly changing market and are effective in treating new diseases or illnesses. If we fail to respond to emerging diseases or illnesses and frequent technological advances by marketing new products in a timely fashion, or if these products do not achieve a desirable level of efficacy or market acceptance, our business, financial condition and results of operations may be adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

As almost all of our operations are conducted in China, any change in China's political, economic and social conditions, laws, regulations, policies and diplomatic relationships with other countries may have a material adverse effect on us.

The economy of China differs from the economies of most developed countries in many respects, including but not limited to:

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

The PRC economy has been in transition from a planned economy to a more market-oriented economy. The PRC government has implemented economic reform measures emphasising responsiveness to market forces in the development of the PRC economy. Yet, the PRC government continues to play a highly significant role in regulating industries by imposing industrial policies. Further, a number of our in-licensed products are imported from overseas including Denmark, Germany and France. Any deterioration of China's diplomatic relationships with such countries may have an adverse effect on our business. Despite the implementation of such reforms, we cannot predict whether changes in the China's political and social conditions, laws, regulations, policies and diplomatic relationships with other countries will have any adverse effect on our current or future business, results of operations or financial condition.

The PRC's legal system embodies uncertainties that could adversely affect our business and results of operations.

Almost all of our operations are conducted in the PRC and most of our employees are PRC citizens. Our operations are therefore generally affected by and subject to the PRC legal system and PRC laws and regulations. Since the late 1970s, many new laws and regulations covering general economic matters have been promulgated in China. Despite these new interventions to develop the legal system, China's system of laws is not yet complete. Even where adequate law exists in China, the enforcement of laws may be uncertain, and it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction. The PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited for reference but have limited weight as precedents. The relative inexperience of China's judiciary in some cases may create additional uncertainty as to the outcome of some litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes.

Changes in the PRC government policy in foreign investment in China may adversely affect our business and results of operations.

According to the latest version of the Guidance Catalogue of Foreign Investment Industries (2007 Edition) (《外商投資產業指導目錄(2007年修訂)》), or the Foreign Investment Catalogue, which became effective on 1 December 2007, our business does not belong to the prohibited or the restricted category. As the Foreign Investment Catalogue is updated every few years, there can be no assurance that the PRC government will not change its policies in a manner that would render part or all of our businesses to fall within the restricted or prohibited categories. If we cannot obtain approval from relevant approval authorities to engage in businesses which become prohibited or

restricted for foreign investors, we may be forced to sell or restructure our businesses which have become restricted or prohibited for foreign investment. If we are forced to adjust our corporate structure or business line as a result of changes in government policy on foreign investment, our business, financial condition and results of operations may be materially adversely affected.

Our expansion plan may be affected by PRC regulations relating to acquisitions of domestic companies by foreign entities.

Effective as of 8 September 2006, foreign investors must comply with M&A Rules should they seek to purchase the equity of a domestic non-foreign invested company and thus change the company into a foreign-invested enterprise. According to the M&A Rules, which provide the procedures for the approval of foreign investment projects in China, the business scope of such foreign-invested enterprise must conform to the Foreign Investment Catalogue (《外商投資產業指導目錄》).

We cannot assure you that we or the owners of any domestic company that we may seek to purchase in the future will be successful in obtaining all necessary approvals and completing all the relevant procedures under the M&A Rules. In the event that the acquisition of domestic companies cannot be completed as part of our expansion plan, our business and future plan may be adversely affected.

Changes to the PRC tax law or its implementation could have a material adverse effect on our financial condition and results of operations.

Under the EIT Law, which came into effect on 1 January 2008, the exemption from the withholding tax on dividends distributed by foreign-invested enterprises to their foreign investors under the previous tax laws is no longer available. Foreign investors who are established in Hong Kong and are considered non-resident enterprises by the PRC tax authority are subject to a PRC withholding tax at a rate of 5%. In addition, the new tax law deems an enterprise established offshore but with "de facto management bodies" in the PRC as a "resident enterprise" which is subject to the PRC EIT on its global income excluding dividends received from its PRC subsidiaries. Since some of the members of our management team are located in China, the non-PRC members of our Group may be considered as PRC resident enterprises even though we believe the non-PRC members of our Group have real operations outside the PRC. If the PRC tax authorities subsequently determine that we should be classified as a resident enterprise, our global income, excluding dividends received from Kangzhe Shenzhen, will be subject to PRC income tax at a tax rate of 25%. As the EIT Law has only been implemented in less than three years, PRC tax authorities in different districts may have different approaches in classifying resident enterprises and non-resident enterprises. As at the Latest Practicable Date, the relevant PRC tax authorities have not certified us as a resident enterprise under the EIT Law. Either the imposition of withholding tax on dividends payable from Kangzhe Shenzhen to us or the imposition of PRC tax on our global income as a "resident enterprise" under the EIT Law could have a material adverse effect on our financial condition and results of operations.

The outbreak of any severe communicable disease in China, if uncontrolled, may materially and adversely affect our results of operations.

The outbreak of any severe communicable disease in China, if uncontrolled, could have an adverse effect on the overall business sentiment and environment in China, which in turn may have an adverse impact on domestic consumption and, possibly, on the overall GDP growth of China. As all of our revenue is derived from sales in China, any contraction or slowdown in the growth of domestic consumption or slowdown in the growth of GDP of China may materially and adversely

affect our financial condition, results of operations and future growth. In addition, if our employees are affected by a severe communicable disease, we may be required to institute measures to prevent the spread of the disease, which may materially and adversely affect or disrupt our operations, resulting in an adverse effect on our results of operations. The spread of any severe communicable disease in China may also affect the operations of our customers and suppliers, which again, may have a potentially adverse effect on our financial condition and results of operations.

Our Company is a holding company that relies on dividend payments from our subsidiaries for funding.

Our Company is a holding company incorporated in the Cayman Islands and our operations are conducted through our subsidiaries, a number of which are in the PRC. Therefore, the availability of funds to pay dividends to our Shareholders and to service our indebtedness depends on dividends received from these subsidiaries. If our subsidiaries incur any debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends or other distributions and to service our indebtedness will be restricted.

PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises, such as our subsidiaries in China, to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends.

Government control in currency conversion may materially and adversely affect our financial condition, results of operations and ability to meet foreign exchange requirements.

Renminbi is not a freely convertible currency. We receive all of our revenue in RMB and will need to convert RMB into foreign currencies including US dollars and Euros for payment to our overseas suppliers and dividends to our Shareholders. The exchange rates of the RMB against the US dollar, Euro and other foreign currencies fluctuate and are affected by, among other things, the policies of the PRC government and changes in China's and international political and economic conditions. Since 1994, the conversion of RMB into foreign currencies, including US dollars and Euros, has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to 20 July 2005, the official exchange rates for the conversion of RMB to US dollars and Euros were generally stable. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB 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 value of RMB appreciated by approximately 2% against the US dollar and depreciated by approximately 1.2% against Euro. The PRC government has since made, and in the future may make, further adjustments to the exchange rate system. From 21 July 2005 to 31 July 2010, according to the SAFE official website, the value of RMB has appreciated by approximately 18.1% against the US dollar and appreciated by approximately 11.5% against Euro. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which, together with domestic policy considerations, could result in a further and more significant appreciation of RMB against the US dollar, Euro, the Hong Kong dollar or other foreign currencies. If the appreciation of RMB continues, and as we need to convert the proceeds from the Global Offering and future financing into RMB for our operations, appreciation of RMB against the relevant foreign currencies would reduce the RMB amount we would receive from the conversion. On the other hand, our overseas suppliers and dividends on our Shares, if any, are paid in foreign currencies, any devaluation of RMB against the relevant foreign currencies could adversely affect our results of operations and financial condition, and could reduce the amount of any cash dividends on our Shares in terms of such other relevant foreign currencies.

In addition, the conversion of RMB into other currencies is subject to a number of foreign exchange control rules, regulations and notices issued by the PRC government. In general, foreign investment enterprises are permitted to convert RMB to foreign currencies for current account transactions (including, for example, distribution of profits and payment of dividends to foreign investors) through designated foreign exchange banks following prescribed procedural requirements. Control over conversion of RMB to foreign currencies for capital account transactions (including, for example, direct investment, loan and investment in securities) is more stringent and such conversion is subject to a number of limitations. Our obligation to pay our overseas suppliers in foreign currencies and the requirement for us to pay dividends in a currency other than RMB to our Shareholders may expose us to foreign exchange risk. Under the current foreign exchange control system, there is no assurance that we will be able to obtain sufficient foreign currency to pay dividends or satisfy other foreign exchange requirements in the future.

RISKS RELATING TO THE GLOBAL OFFERING

Liquidity and market price of the Offer Shares may be volatile.

Our Shares are listed and have been admitted to trading on AIM since 26 June 2007. We notified the London Stock Exchange of the proposed Delisting and our Shareholders passed a resolution to approve the Delisting at the extraordinary general meeting held on 20 August 2010. Conditional upon the Listing, the cancellation of the admission of our Shares to trading on AIM will be effective on the Listing Date. Historical prices of our Shares traded on AIM may not be indicative of the performance of our Shares after the Listing.

The initial issue price range for the Offer Shares was the result of negotiations between us (for ourselves and on behalf of the Selling Shareholder) and the Sole Global Coordinator on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for the Offer Shares following the Global Offering. Furthermore, there is no guarantee that an active trading market for the Shares will develop, or if it does develop, will be sustained following the Global Offering or that the market price of the Shares will not decline following the Global Offering. Furthermore, the price and trading volume of the Shares may be volatile.

The following factors could cause the market price of the Offer Shares following the Global Offering to vary significantly from the Offer Price:

- variation in our turnover, earnings and cash flow;
- liability claims brought against us based on, for example, safety-related regulatory actions;
- interruptions to our supplier arrangements;
- our failure to execute our strategy;
- any major changes in our key personnel or senior management;
- our ability to obtain, maintain or renew regulatory approvals, licenses, permits or certifications for our products; and
- political, economic, financial and social developments.

We cannot assure you that any amount of dividends we declare in the future will be at a similar level to that declared and paid by us previously.

During the year ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, we declared and paid an interim dividend of nil, US$2.4 million, US$4.7 million, nil and nil, respectively. For the year ended 31 December 2007, 2008 and 2009, our Directors declared a final dividend of US$3.3 million, US$4.7 million, US$4.7 million, respectively. Further, we declared a special dividend US$1.4 million in the year ended 31 December 2007. In December 2009, we also

declared a dividend of US$10.7 million, which was paid as to US$8.7 million in the shares of Healthlink and as to US$2.0 million in cash. For further details of the Distribution of Healthlink, please see the section headed "History and Development — Disposed Business Operations — Distribution of Healthlink" in this prospectus.

In the future, the amount of dividends that we may declare and pay will be subject to, among other things, the full discretion of our Directors by reference to our dividend policy, and would depend on our future operations and earnings, our development pipeline, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Accordingly, our historical dividend distributions are not indicative of our future dividend policy and potential investors should be aware that the amount of dividends paid previously should not be used as a reference or basis upon which our future dividends are determined.

You will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The Offer Price of the Offer Shares is higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, purchasers of the Offer Shares in the Global Offering will experience an immediate dilution in unaudited pro forma consolidated net tangible asset value to HK$1.02 per Share, based on the mid-point of the indicative Offer Price range of HK$4.33, assuming the Existing Share Options and the Over-allotment Option are not exercised. There is no assurance that if we were to immediately liquidate after the Global Offering, any assets will be distributed to Shareholders after the creditors' claims. In order to expand our business, we may consider offering and issuing additional Shares in the future. We may also issue additional Shares pursuant to the Existing Share Options. Purchasers of the Offer Shares may experience dilution in the net tangible asset value per share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time.

Our controlling shareholder has substantial influence over our Company and his 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. Our controlling shareholder, Mr. Lam Kong, is our Chairman, Chief Executive Officer and a Director. Immediately following completion of the Global Offering and assuming that no further Shares will be issued or sold under the Existing Share Options, the Over-allotment Option or otherwise, Mr. Lam Kong, through Treasure Sea, will hold 650,000,000 Shares representing approximately 57.8% of the issued share capital of our Company. 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 events may occur 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 his 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.

We are incorporated under Cayman Islands law, and the laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions.

Our corporate affairs are governed by our Articles of Association, the Cayman Companies Law and the common law of Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong and other jurisdictions. These differences may mean that our Company's minority Shareholders may have different remedies than they would have under the laws of Hong Kong or other jurisdictions. See "Constitution of the Company and a summary of Cayman Islands law and taxation" in Appendix V to this prospectus. Potential investors should be aware that there is a risk that the provisions of the Cayman Companies Law may not offer the same protection as the Companies Ordinance and the SFO and should consider obtaining independent legal advice on the implications of investing in foreign-incorporated companies.

We cannot guarantee the accuracy of facts and other statistics with respect to certain information obtained from official governmental sources contained in this prospectus.

Statistical and forecast information relating to China and the pharmaceuticals and healthcare industry contained in this prospectus has been compiled from various publicly available official governmental sources. Statistics derived from such sources may not be prepared on a comparable basis. None of the Sole Sponsor, the Underwriters nor any of their respective affiliates or advisers, nor we or any of our affiliates or advisers, have verified the accuracy of the information derived from official sources. Therefore, we make no representation as to the accuracy of such information and the investors should not place undue reliance on such information as a basis for making the investment for the Shares.

You should read the entire prospectus and should not rely on any information contained in press coverage or other media in relation to the Global Offering, our business operations or our Group in connection with a decision to invest in the Shares.

Prior to the publication of this prospectus, there was press and media coverage regarding us and the Global Offering, included, but not limited to the statements that appeared in the Hong Kong Economic Times on 31 August 2010 and in Ming Pao Daily News and The Sun on 9 September 2010 which included, among others, certain financial information, projections, valuations and other information about our Group and the Global Offering and a reference to a statement made by our Chairman that percentage sales contribution of our top two selling products Deanxit and Ursofalk will reduce to 50% in the next few years (the "Statement"). We have not authorised the disclosure of any such information in the press or media and we do not accept any responsibility for the accuracy or completeness of press coverage or other media reports that have not been prepared or approved by us in advance of publication. The Statement was misquoted by the media. Our Chairman was merely stating that it is his wish that sales contribution by Deanxit and Ursofalk would reach a more balanced level. We make no representation or warranty as to the appropriateness, accuracy, completeness or reliability or any such report, projection, valuation or forward-looking information about us, or any of the assumptions underlying such information. We disclaim statements in the press or other media that are inconsistent or conflict with the information contained in this prospectus. Accordingly, you should rely only on the information that is included in this prospectus in connection with your investment decision.

This prospectus contains forward-looking statements that state our intentions, beliefs, expectations or predictions for the future that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our operations and business prospects;
- our strategies, plans, objectives and goals;
- future developments, trends and conditions in the pharmaceutical industry in China;
- general economic conditions of China;
- the industry regulatory environment as well as the industry outlook in general;
- our dividend policy;
- our future capital needs and capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- volumes, operations, margins, overall market trends, risk management and exchange rates.

The words "anticipate," "believe," "could," "expect," "going forward," "intend," "may," "plan," "seek," "will," "would" and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our results of operations and financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realised.

The following waivers have been applied for and granted by the Hong Kong Stock Exchange.

DEALING IN SHARES BY POTENTIAL SUBSTANTIAL SHAREHOLDERS

Pursuant to Rule 9.09 of the Listing Rules, there must be no dealings in the securities for which listing is sought by any connected person of the new applicant from four clear business days before the expected hearing date until listing is granted. Our Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from the strict application of Rule 9.09 of the Listing Rules in relation to our new substantial shareholders and their respective associates.

Our Company has applied to the Hong Kong Stock Exchange for a waiver from the strict application of Rule 9.09 of the Listing Rules in relation to our new substantial shareholders and their respective associates for the following reasons:

- as our Shares are currently listed and admitted to trading on AIM, our Company has no control over the investment decisions of our Shareholders (other than the Directors, including Mr. Lam Kong who is also our chief executive officer and controlling shareholder, directors of our Company's subsidiaries, and their respective associates) and the investing public in the United Kingdom;
- at the Latest Practicable Date, approximately 15.2% of our issued share capital is held by the public (within the meaning as defined under Rule 8.24 of the Listing Rules);
- our Company currently has one substantial shareholder, being Treasure Sea, which is wholly owned by our Chairman and chief executive officer, Mr. Lam Kong. There may be investors or Shareholders currently holding less than 10% of our issued share capital ("New Substantial Shareholders") who, as a result of Shares purchases on AIM, may also become our substantial shareholders and therefore connected persons, during the period between the fourth clear business days before the hearing date and the date when Listing is granted; and
- whilst we and our advisers have implemented procedures to ensure that our connected persons (including all directors, the chief executive of our Company and our subsidiaries and their respective associates) do not deal in our securities (other than the sale of the Sale Shares by Treasure Sea, being the Selling Shareholder, under the International Offering) starting from four clear business days before the hearing date until Listing, our Company cannot prevent a New Substantial Shareholder from emerging and dealing in our Shares prior to Listing.

The Hong Kong Stock Exchange has granted a waiver from the strict application of Rule 9.09 of the Listing Rules to us in relation to New Substantial Shareholders and their respective associates on the following conditions:

- New Substantial Shareholders have not been and will not be involved in the management and operation of our Group and the flotation exercise prior to the Listing;
- the directors and substantial shareholders of our Company and of our subsidiaries and their respective associates have not dealt in and will not deal in the Shares (other than the sale of the Sale Shares by Treasure Sea under the International Offering) from four clear business days before the hearing date until Listing is granted;
- our Company shall notify the Hong Kong Stock Exchange of any dealing or suspected dealing by any connected persons of our Company when it becomes aware of; and
- our Company undertakes that it will release price sensitive information to the public as required by relevant laws, rules and regulations applicable to our Company so that anyone who may deal in Shares as a result of this waiver will not be in possession of non-public price sensitive information.

SUBSCRIPTION FOR SHARES BY EXISTING SHAREHOLDERS WHO ARE NOT OUR CONNECTED PERSONS

Pursuant to Rule 10.04 of the Listing Rules, existing shareholders may only subscribe for securities provided that no securities will be offered to them on a preferential basis and no preferential treatment will be given to them in the allocation of the securities. Our Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 10.04 of the Listing Rules to the extent necessary to include existing Shareholders in the "book-building" process described in the section headed "Structure of the Global Offering" in this prospectus.

Our Company has applied to the Hong Kong Stock Exchange for a waiver from the strict application of Rule 10.04 of the Listing Rules for the following reasons:

- the Global Offering comprises the Hong Kong Public Offer and the International Offering. The International Underwriters will solicit indications of interest from prospective investors in the book-building phase of the International Offering as further described in the section "Structure of the Global Offering" in this prospectus;
- as a publicly traded company, our Company has a wide shareholder base. As at the Latest Practicable Date, approximately 15.2% of our issued share capital is held by the public. Some of our public Shareholders are long term investors with a deep understanding of our Company and our business. We intend to include our existing Shareholders in the book-building process to the extent necessary. We believe the inclusion of certain existing Shareholders in the International Offering would promote the establishment of a solid shareholder base and operate to satisfy the requirements of an open market in Rule 8.08 of the Listing Rules; and
- it is not intended that our connected persons shall participate in the International Offering, or otherwise subscribe for or purchase our Shares under the Global Offering. For the avoidance of doubt, such connected persons include our controlling shareholders, being Mr. Lam Kong and Treasure Sea, Fully Profit, the directors and the chief executive officer of our Company and our subsidiaries, and their respective associates. However, we do not intend to exclude a person who is not our connected person from participating in the International Offering.

The Hong Kong Stock Exchange has granted a waiver from the strict application of Rule 10.04 of the Listing Rules to us on the following conditions:

- our Company and the Sole Sponsor have obtained confirmation from each of the directors of our Company and our subsidiaries, Mr. Lam Kong, Treasure Sea and Fully Profit that he or it will not subscribe for or purchase the Shares in the Global Offering in his or its own name, or through his or its nominee, and will provide to the Hong Kong Stock Exchange a list of the institutions through which they hold Shares;
- existing Shareholders subscribing for the Offer Shares in the International Offering will confirm to our Company and the Sole Sponsor that (x) they are not our connected persons and are not accustomed to take instructions from a connected person in relation to the acquisition, disposal, voting or other disposition of Shares held or to be allotted to them, (y) they are not persons who will become our connected persons immediately upon completion of the Global Offering and (z) their subscription for Shares is not being financed by or being made on the instruction of our connected persons;

- our Company and the Sole Sponsor have confirmed that none of our existing Shareholders subscribing for the Offer Shares in the International Offering have influence over the share allocation process or any representation at the Board; and
- our Company and the Sole Sponsor have confirmed that no preferential treatment will be given to our existing Shareholders subscribing for the Offer Shares in the International Offering in the allocation process.

Our Company has also applied for, and the Hong Kong Stock Exchange has granted, a consent under paragraph 5(2) of Appendix 6 to the Listing Rules which states that no allocations will be permitted to be made to existing shareholders of a listing applicant or their associates.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Selling Shareholder, the Sole Sponsor, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in "Structure of the Global Offering," and the procedures for applying for Hong Kong Offer Shares are set out in "How to Apply for Hong Kong Offer Shares" and in the relevant Application Forms.

SELLING RESTRICTIONS

Hong Kong

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offer will be required to, or be deemed by his, her or its acquisition of Offer Shares to, confirm that he, she or it is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus, and the offering and sale of the Offer Shares, in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

United States

The Offer Shares have not been and will not be registered under the Securities Act or the securities laws of any state of the United States and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions in accordance with Regulation S, and in the United States to qualified institutional buyers in reliance on Rule 144A or another available exemption from registration under the Securities Act. In addition, until 40 days after the commencement of the Global Offering, an offer or sale of the Offer Shares within the United States by a dealer, whether or not participating in the Global Offering, may violate the registration requirements of the Securities Act if such offer or sale is made other than pursuant to Rule 144A, or another available exemption from the registration requirements of the Securities Act.

The Offer Shares have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Global Offering or the accuracy or adequacy of this offering circular relating to the International Offering. Any representation to the contrary is a criminal offence in the United States.

APPLICATIONS FOR LISTING ON THE HONG KONG STOCK EXCHANGE AND DELISTING FROM AIM

We have applied to the listing committee of the Hong Kong Stock Exchange for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, including the Offer Shares, any Shares to be issued pursuant to the exercise of the Over-allotment Option or the Existing Share Options.

Our Shares are listed and have been admitted to trading on AIM since 26 June 2007. We notified the London Stock Exchange of the proposed Delisting and our Shareholders passed a resolution to approve the Delisting at the extraordinary general meeting held on 20 August 2010. Conditional upon the Listing, the cancellation of the admission of our Shares to trading on AIM will be effective on the Listing Date.

REGISTERS AND HONG KONG STAMP DUTY

Our Company currently maintains a Hong Kong Share Register and a Jersey Share Register. Our Jersey Share Register will be closed following the Listing and all Shares remain registered on the Jersey Share Register then will be removed to the Hong Kong Share Register.

Under the Global Offering, our Company offers to issue 170,000,000 new Shares (assuming that the Over-allotment Option is not exercised) and the Selling Shareholder offers 30,000,000 Shares for sale under the International Offering, representing approximately 15.1% and 2.7%, respectively, of our enlarged issued share capital (assuming that the Over-allotment Option and the Existing Share Options are not exercised). All new Shares issued under the Global Offering and the Sale Shares will be registered on our Hong Kong Share Register and will be available for trading on the Hong Kong Stock Exchange on the Listing Date. Our Company have provided arrangements to our existing Shareholders, so that the Shares of our Shareholders who have elected on or before the Election Date to remove their Shares from the Jersey Share Register to the Hong Kong Share Register will be registered on our Hong Kong Share Register no later than the first day of the Listing. As advised by the Jersey Share Registrar, there were 871,632,124 Shares in respect of which notices had been received from our existing Shareholders for removal of the Shares from the Jersey Share Register to the Hong Kong Share Register as at the Election Date. Subsequent to the Election Date, we received a further removal request from a broker in respect of 11,123,800 Shares. The delay in the submission of the request was due to the inadvertent mistake of the broker. Our Board has exercised its discretion to accept the removal. In addition to the above, we will remove 60,000,000 Shares held by the Selling Shareholder currently registered on the Jersey Share Register, representing in aggregate the 30,000,000 Sale Shares and the maximum number of Shares that may be lent by the Selling Shareholder to UBS under the Stock Borrowing Agreement, to the Hong Kong Share Register before the Listing. The aggregate of 882,755,924 Shares in respect of which we have received and accepted removal requests, together with the Selling Shareholder's 60,000,000 Shares which will be removed to Hong Kong before the Listing Date represent approximately 98.9% of our total issued share capital as at the date of this prospectus. Our Board, if considers appropriate, may approve further removal of Shares before the Listing Date. All remaining Shares registered on the Jersey Share Register on the Listing Date, including those Shares held by our existing Shareholders who took no action prior to the Election Date, will be automatically removed from the Jersey Share Register to the Hong Kong Share Register as soon as practicable after the Listing Date. It may take up to ten business days to complete the removal of Shares.

On the Business Day immediately prior to the Listing Date, we will make an announcement regarding, among other matters, (i) the number of Shares that have been or will be registered on our Hong Kong Share Register and will be available for trading on the Hong Kong Stock Exchange on the Listing Date, and (ii) the previous trading day high, low and closing prices and trading volume of our Shares on AIM.

Dealings in Shares registered on our Hong Kong Share Register will be subject to Hong Kong stamp duty. Unless we determine otherwise, dividends will be declared in US dollars, with Shareholders registered on the Hong Kong Share Register subsequently receiving cash dividends in Hong Kong dollars or US dollars. An exchange mechanism will be adopted for such dividend payments. Dividends will, unless we determine otherwise, be sent by ordinary post at the Shareholders' risk to the registered address of each Shareholder or, in the case of joint holders, the first-named holder.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in the Offer Shares (or exercising rights attached to them). None of us, the Selling Shareholder, the Sole Sponsor, the Underwriters, any of our or their respective directors, agents, employees or advisers or any other party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, the Offer Shares.

EXCHANGE RATE CONVERSION

Unless otherwise specified and save for the translations set out in Appendix I to this prospectus, this prospectus contains certain translations for the convenience of the reader at the following rates: Renminbi into HK dollars at the rate of RMB0.8730 to HK$1.00; Renminbi into US dollars at the rate of RMB6.7838 to US$1.00; GBP into Hong Kong dollars at the rate of GBP0.0837 to HK$1.00; and GBP into US dollars at the rate of GBP0.6496 to US$1.00. These are the rates quoted by the PBOC and Bloomberg respectively on the Latest Practicable Date. These translations are provided for reference and convenience only, and no representation is made, and no representation should be construed as being made, that any amounts in RMB, US$, GBP or HK$ can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

TRANSLATION

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities included in this prospectus for which no official English translation exists are unofficial translations for reference only.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. LAM Kong	Flat B, 5/F Kin Ming Court 2A-2B Kam Hong Street North Point Hong Kong	Chinese
Mr. CHEN Hongbing	Room 2002, Building 7 Zhong Xin Hong Shu Wan Hua Cheng II Shenzhen PRC	Chinese
Ms. CHEN Yanling	16-8C Haiyi Dongfang Garden Gao Xin Nan Shi Road Nanshan District Shenzhen PRC	Chinese
Mr. HUI Ki Fat	Flat C, 37/F, Block 1 The Zenith 3 Wan Chai Road Wan Chai Hong Kong	Chinese
Non-executive Director		
Ms. HOU Xiaoxuan	319-5777 Birney Avenue Vancouver BC V6S 0A4 Canada	Chinese
Independent non-executive Directors		
Mr. CHEUNG Kam Shing, Terry	Flat 9B, Block 4 Cavendish Heights 33 Perkins Road Jardines Lookout Hong Kong	Chinese
Dr. PENG Huaizheng	146 Maylands Drive Sidcup Kent DA14 4RL United Kingdom	British
Mr. WU Chi Keung	Flat A, 9/F Block 2, 17 Braemar Hill Road North Point Hong Kong	Chinese

PARTIES INVOLVED

Sole Global Coordinator, Bookrunner and Lead Manager	UBS AG, Hong Kong Branch 52/F, Two International Finance Centre 8 Finance Street Central Hong Kong
Sponsor	UBS AG, Hong Kong Branch 52/F, Two International Finance Centre 8 Finance Street Central Hong Kong
Hong Kong Underwriters	UBS AG, Hong Kong Branch 52/F, Two International Finance Centre 8 Finance Street Central Hong Kong China Everbright Securities (HK) Limited 36/F Far East Finance Centre 16 Harcourt Road Hong Kong Guotai Junan Securities (Hong Kong) Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong Kingsway Financial Services Group Limited 5/F, Hutchison House 10 Harcourt Road Central Hong Kong
Auditors and reporting accountants	Deloitte Touche Tohmatsu *Certified Public Accountants* 35/F, One Pacific Place 88 Queensway Hong Kong
Legal advisers to the Company	*as to Hong Kong law:* Jackson Woo & Associates in association with Ashurst Hong Kong 16/F, ICBC Tower 3 Garden Road Central Hong Kong

as to United States and English laws:

Ashurst Hong Kong
16/F, ICBC Tower
3 Garden Road
Central
Hong Kong

as to PRC law:

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Shenzhen 518026
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Legal advisers to the Underwriters

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as to United States law:

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USA

as to PRC law:

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Chaoyang District
Beijing 100022
PRC

Property valuer	Vigers Appraisal & Consulting Limited 10/F, The Grande Building 398 Kwun Tong Road Kowloon Hong Kong
Receiving bankers	Standard Chartered Bank (Hong Kong) Limited 15/F, Standard Chartered Tower 388 Kwun Tong Road Kowloon Hong Kong The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central Hong Kong
Selling Shareholder	Treasure Sea Limited c/o ATC Trustees (BVI) Limited 2/F, Abbott Building Road Town, Tortola British Virgin Islands

Registered office	Maples Corporate Services Limited PO Box 309 Ugland House Grand Cayman, KY1-1104 Cayman Islands
Headquarters	6/F, 8/F, Building A Tongfang Information Harbour No. 11 Langshan Road Shenzhen Hi-tech Industry Park Nanshan District Shenzhen 518057 PRC
Principal place of business in Hong Kong	Unit 2106, 21/F Island Place Tower 510 King's Road North Point Hong Kong
Company's website	http://www.cms.net.cn
Company secretary	Mr. HUI Vincent Wing Sin, *HKICPA*
Authorised representatives	Mr. HUI Vincent Wing Sin Flat H2, 21/F Block H, Beverly Hill 6 Broadwood Road Happy Valley Hong Kong Mr. LAM Kong Flat B, 5/F Kin Ming Court 2A-2B Kam Hong Street North Point Hong Kong
Audit committee members	Mr. WU Chi Keung (Chairman) Mr. CHEUNG Kam Shing, Terry Dr. PENG Huaizheng
Remuneration committee members	Dr. PENG Huaizheng (Chairman) Mr. CHEUNG Kam Shing, Terry Mr. WU Chi Keung
Nomination committee members	Mr. CHEUNG Kam Shing, Terry (Chairman) Mr. LAM Kong Dr. PENG Huaizheng Mr. WU Chi Keung

Compliance adviser

CMB International Capital Limited
Units 1803-4 18/F, Bank of America Tower
12 Harcourt Road
Hong Kong

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17/F, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Principal bankers

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Central
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Industrial and Commercial Bank of China, Shenzhen Branch
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Shenzhen 518057
PRC

Hongkong and Shanghai Banking Corporation Limited
Level 6, HSBC Main Building
1 Queen's Road Central
Hong Kong

LEGAL SUPERVISION RELATING TO THE PHARMACEUTICAL INDUSTRY IN THE PRC

Regulatory framework

The "Drug Administration Law of the People's Republic of China" (《中華人民共和國藥品管理法》) was promulgated on 20 September 1984 by the Standing Committee of the National People's Congress and amended on 28 February 2001 and effective as of 1 December 2001. It sets out the basic legal framework for the administration of the production and sale of pharmaceuticals in the PRC and covers areas including the manufacture, distribution, packaging, pricing and advertising of pharmaceutical products in the PRC. The "Regulations for Implementation of the Drug Administration Law of the People's Republic of China" (《中華人民共和國藥品管理法實施條例》) was promulgated on 4 August 2002, and came into effect subsequently on 15 September 2002 to set out the detailed implementation rules with respect to the administration of pharmaceuticals in the PRC.

The following are other major laws and regulations applicable to the pharmaceutical industry in the PRC:

- Regulations for the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》)
- Regulations on the management of narcotics and drugs for the treatment of mental diseases (《麻醉藥品和精神藥品管理條例》)
- Provisions for Supervision of Drug Distribution (《藥品流通監督管理辦法》)

The following are the major administrative authorities governing the pharmaceutical industry in the PRC:

- The SFDA. The SFDA is a successor to the SDA. The SDA was established in 1998 to assume the supervisory and administrative functions then carried out by the Ministry of Health and the State Administration Bureau for Pharmaceuticals. The SFDA was established in March 2003 to assume the powers and duties of the SFDA in matters concerning the pharmaceutical industry and to regulate food, healthcare and cosmetic products and protection of traditional Chinese medicine.
- Ministry of Health, or MOH. MOH is a ministry under the direct supervision of the State Council. Prior to the formation of the SFDA, the MOH also had the responsibility to monitor and supervise matters in the pharmaceutical industry and to promulgate rules and formulate policies in such matters. The MOH performs a variety of regulatory roles, including the establishment of healthcare institutions and acting as a conduit to facilitate communications between foreign healthcare companies and the PRC government.

Manufacturing of pharmaceuticals

Manufacturing licence and approval

Each pharmaceutical manufacturing enterprise is required to obtain a Pharmaceutical Manufacturing Permit (藥品生產許可證) issued by the relevant provincial SFDA authority where the pharmaceutical manufacturing enterprise is located. The permit is issued only after the relevant production facilities have been inspected and their sanitary conditions, quality assurance systems, management structure and equipment standards have been found to fulfil the required standards. The Pharmaceutical Manufacturing Permit is valid for a period of five years. Pharmaceutical manufacturing enterprises should apply for renewal of their Pharmaceutical Manufacturing Permits not later than six months prior to the date of expiration subject to reassessment by the relevant authority.

After the Pharmaceutical Manufacturing Permit has been obtained, the pharmaceutical manufacturing company also has to obtain a business licence from the relevant administrative bureau of industry and commence its business.

In addition to obtaining a Pharmaceutical Manufacturing Permit, for the production of any drug, pharmaceutical manufacturing enterprises also have to obtain a specific approval for the production of such medicine from the SFDA (藥品生產批件) before commencing production.

GMP standards

GMP standards were laid down by the SDA to regulate the manufacture of medicines in the PRC. The revised GMP standards (1998 revised edition), which were passed by the SDA and came into effect on 1 August 1999, require pharmaceutical manufacturing enterprises in the PRC to implement strict controls on the production of medicines in respect of, among others, staff qualifications, production premises and facilities, equipment, raw materials, hygiene environment, production management, quality control and dealing with customer complaints, in order to obtain GMP certification to carry out the production of medicines in the PRC. As indicated in the "Notice on the Implementation of Good Manufacturing Practice" (關於實施《藥品生產質量管理規範》有關規定的通知) issued on 24 August 1999, the SDA commenced the gradual implementation of the certification work for GMP compliance and required pharmaceutical manufacturing enterprises producing powder for injection (including lyophilized powder for injection) products and large volume injection products to comply with GMP standards and pass GMP inspection by the end of 2000, while pharmaceutical manufacturing enterprises producing small volume injection products were required to comply with such standards and pass GMP inspection by the end of 2002. As further announced in the "Notice on the Acceleration of the Supervision and Implementation of Good Manufacturing Practice" (《關於全面加快監督實施藥品GMP工作進度的通知》) issued on 12 October 2001, the SDA accelerated the implementation of compliance with GMP standards and required all pharmaceutical manufacturing enterprises to comply with GMP standards by 30 June 2004 and obtain GMP certification.

Pharmaceutical manufacturing enterprises which fail to obtain GMP certification for their specific product forms by the deadlines stipulated in the notices of the SDA cannot continue to carry out production of medicines in the PRC.

The GMP certificate is valid for five years, except in the case of a newly established pharmaceutical manufacturing enterprise, the GMP certification of which is only valid for one year. Pharmaceutical manufacturing enterprises should apply for renewal of their GMP certificates not later than six months (and in the case of a newly established pharmaceutical manufacturing enterprise, three months) prior to the date of expiration subject to reassessment by the relevant authority.

Registration of pharmaceutical products

The "Measures on Registration Administration of Medicines" (《藥品註冊管理辦法》) were promulgated on 10 July 2007 by the SFDA and became effective on 1 October 2007. Pursuant to the regulation, medicine registration refers to the process of systematic assessment of the safety, effectiveness and quality control of medicines and approval of the related pharmaceutical clinical testing, manufacture or import of medicines, and it is stipulated that the SFDA took charge of medicine registration in the PRC.

Registration of new pharmaceutical products

Application for the registration of new pharmaceutical products refers to application for registration of those pharmaceutical products which have not previously been marketed in the PRC, including those pharmaceutical products taking different dosage forms or having curative effects for additional diseases.

All new pharmaceutical products must undergo clinical trials. There are up to four phases of clinical trials: phase I clinical trials (preliminary pharmacology and human safety trials), phase II clinical trials, phase III clinical trials and phase IV clinical trials. After the product launch, phase IV clinical trial is conducted so that the product's efficacy and potential adverse drug reaction can be further monitored.

Registration of generic pharmaceutical products

Application for registration of generic pharmaceutical products with national standards refers to application for the registration of those medicines for which the PRC government has already set standards in respect of the technical requirements as to their quality and examination method.

To apply for approval to manufacture generic pharmaceutical products with national standards, the applicant should submit, among other things, relevant information and drug samples prepared in accordance with the relevant national standards to the provincial level drug administration authority. The provincial level drug administration authority will then review the applicant's submission and conduct site visits to the applicant's production workshop. Three consecutive production batches of drug samples will be collected from the applicant's production workshop for examination by the drug examination laboratory appointed by the State. After their investigation and assessment of the application, the provincial level drug administration authority and the examination laboratory appointed by the State will report to the SFDA, which will conduct a final assessment of the application to consider approving the registration of the pharmaceutical products. If the SFDA is satisfied with its final assessment of the application, the applicant will be granted a production approval.

In accordance with the Notice of Certain Matters Related to the Acceptance of Application of Re-registration of Drugs (No. Shi Yao Jian Ban[2007]42) (關於開展藥品再註冊受理工作有關事宜的通知(食藥監辦[2007]42號)) issued by the SFDA on 9 March 2007, an expired drug production approval will remain valid during the period of re-registration of the approval provided that the application for the re-registration of the approval has been officially accepted by the relevant food and drug administration departments.

Registration of imported pharmaceutical products

Application for the registration of imported pharmaceutical products produced by foreign manufacturers is allowed only if such medicines have already been approved to be sold in the manufacturer's home country unless the relevant medicine is considered by the SFDA to be safe, effective and under high clinical demand. Imported medicines must also comply with the relevant requirements of the GMP standards adopted by the manufacturer's home country as well as those required in the PRC.

The registration of imported pharmaceutical products requires the support of clinical research and the applicant should apply for approval from the SFDA to conduct clinical research for the pharmaceutical product which it proposes to import. After the completion of clinical research, application may be made for approval to import the proposed pharmaceutical product by submitting, among other things, relevant clinical research information and drug samples to the SFDA. The drug examination laboratory appointed by the State will examine the drug samples and report the results to the SFDA. The SFDA will then conduct a final assessment of the application to consider approving the registration of the pharmaceutical product proposed to be imported. If the SFDA is satisfied with its final assessment of the application, the applicant will be granted an imported drug licence (進口藥品註冊證).

In accordance with the Notice of Certain Matters Related to Re-registration of Imported Drugs (No. Guo Shi Yao Jian Zhu[2009]18) (關於進口藥品再註冊有關事項的公告》(國食藥監注[2009]18號)) and the Regulation of Administration on Temporary Import of and Repackaging Imported Drugs during the Period of Reregistration of Imported Drugs (進口藥品再註冊期間臨時進口和分包裝管理規定) issued by the SFDA on 7 January 2009, enterprises engaging in imported drug business are allowed to apply for the imported drug approval (進口藥品批件) for the purpose of importing drugs during the period of re-registration of imported drugs and the imported drug approval is valid for less than six months and is not renewable.

Supplemental application

Where changes or modifications are proposed to a registered pharmaceutical product in respect of, among other things, its drug standard, curative effects or production technology, the pharmaceutical enterprise which is the applicant or holder of the relevant registration certificate for such pharmaceutical product should apply to the provincial level drug administration authority.

Manufacturing of medical devices

Under the Regulations for the Supervision and Administration of Medical Devices (醫療器械監督管理條例) (Order 276) promulgated by the State Council on 28 December 1999 and effective as of 1 April 2000, medical devices are classified in three categories as follows:

- category I — medical devices whose safety and effectiveness can be ensured through routine administration;
- category II — medical devices for which further control is required to ensure their safety and effectiveness; and
- category III — medical devices that are implanted into the human body, or used for life support or sustenance, or pose potential risk to the human body and whose safety and effectiveness must be strictly controlled.

On applying for a medical device enterprise permit, the enterprise shall satisfy the following criteria:

- having quality control personnel relevant to the scale and scope of operations and the quality control personnel shall hold state-recognised professional qualifications or titles;
- possessing relatively independent business premises relevant to the scale and scope of operations;
- maintaining the necessary storage conditions including storage facilities and equipment for special characteristics of medical device products;
- maintaining a proper product quality control system which includes procurement, inspection of goods received, warehousing, counter-check upon warehouse inventory withdrawal, quality monitoring system and reporting of adverse events; and
- acquiring relevant technical training and after-sales service capabilities.

Product liability

The Tort Law of the PRC (《中華人民共和國侵權責任法》) was adopted by the Standing Committee of the National People's Congress on December 26, 2009 and will become effective on July 1, 2010. According to the Tort Law and the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》), product liability claims may be brought against either the manufacturer or the seller of the defective products. In case of defective medical products, such as drugs and medical devices, damages can also be sought against healthcare institutions that provide such products.

With no definition of the term "defective" under the Tort Law, and by referring to Article 46 of the Product Liability Law, "defective products" shall mean those products that may impose unreasonable danger and cause personal injury or property damage; in particular, if there are any applicable national standards or standards in the industry for protection of health, personal and property safety, failure to comply with such standards would constitute "defective".

Manufacturers and sellers are obligated to take mitigating actions, such as warning or recall, for their products that are already put in the market and found defective. Failure to timely or to effectively take mitigating actions may subject the manufacturers or the sellers to liability for damages, to the extent they are at fault. Manufacturers or sellers will be held liable for punitive damages if they have knowingly produced or sold defective products which have caused human injury or death. However, the Tort Law does not have any criteria as to how the punitive damages are to be calculated.

The Tort Law has a separate chapter addressing "medical liability", which defines the liabilities of healthcare institutions and healthcare professionals for damages caused by their fault. In general, healthcare professionals and healthcare institutions are at fault if they fail to exercise reasonable care comparable with the then prevailing medical standards; and they can be presumed "at fault" in the event that they (i) violate law, administrative regulations or relevant practice guidelines, (ii) conceal or refuse to provide relevant medical records, or (iii) forge, falsify or destroy medical records.

Protection of pharmaceutical products in the PRC

Protection under patent law

According to the PRC Patent Law last amended on 27 December 2008, patent protection is divided into three categories: invention patent, utility patent and design patent. Invention patent is intended to protect new technology or measures for a product, method or its improvement. Utility patent is intended to protect new technology or measures to increase the utility of a product shape, structure or its combination. Design patent is intended to protect new designs by combination of product shape, graphic or colour with aesthetic and industrial application value.

Administration protection for pharmaceutical products

The Regulations on Administrative Protection of Pharmaceuticals (藥品行政保護條例) and its implementation rules are enforced on 1 January 1993 and 24 October 2000 respectively, which stipulate the requirements and procedure in relation to the application for administrative protection for pharmaceuticals to the competent authorities in charge of granting administrative protection to the pharmaceuticals which conform with the provisions of those regulations, and issuing the Certificate for Administrative Protection for Pharmaceuticals (藥品行政保護證書) to the applicants.

The term of administrative protection begins from the date on which the Certificate for Administrative Protection for Pharmaceuticals is issued and remains in force for seven years and six months. The owner of the exclusive right of a foreign pharmaceutical shall pay an annual fee beginning with the year in which the Certificate for Administrative Protection for Pharmaceuticals is issued.

In any of the following cases, Administrative Protection shall cease before the expiration of its duration:

- where the exclusive right of a pharmaceutical had been invalid or had lost efficacy in the country to which the applicant belongs;
- where the owner of the exclusive right of a pharmaceutical does not pay an annual fee as prescribed;

- where the owner of the exclusive right of a pharmaceutical abandons the administrative protection by a written declaration;
- where the owner of the exclusive right of a pharmaceutical does not apply to the SFDA for going through the procedures of approval for manufacture or marketing of this pharmaceutical in PRC within a year from the date on which the Certificate for Administrative Protection for Pharmaceuticals is issued.

Protection of traditional Chinese medicine

In line with the government policy to protect traditional Chinese medicine, the State Council promulgated the Regulations on the Protection of Traditional Chinese Medicine (《中藥品種保護條例》) on 14 October 1992 which came into effect on 1 January 1993. The SFDA also promulgated a series of regulations in relation to the protection of traditional Chinese medicine.

Traditional Chinese medicine eligible for state protection is divided into two categories: category I relates to traditional Chinese medicine which (i) has efficacy for a certain disease; (ii) is the artificial compound of wild traditional Chinese medicine materials entitled to category I protection; and (iii) is used to prevent or treat a certain disease; and category II relates to traditional Chinese medicine which (i) has obvious efficacy for a certain disease; (ii) uses the Chinese herbs listed in Article 6 of the Regulations on the Protection of Traditional Chinese Medicine; and (iii) special dosage using active ingredients extracted from natural traditional Chinese medicine materials. The term of protection for category I products is 30 years, 20 years or 10 years. Such protection period may be repeatedly renewed for a period determined by the SFDA but not exceeding the original protection period. For category II products, the protection period is seven years, which may only be renewed once for another seven years.

During the protection period, only holders of the Certificate of State Protected Traditional Chinese Medicine are entitled to produce the traditional Chinese medicine covered by the protection. Manufacturers who were already producing the relevant medicine at the time the medicine was recognised as a State Protected Traditional Chinese Medicine without having obtained such Certificate may apply for it within six months from the date such medicine was announced to be a State Protected Traditional Chinese Medicine. If the application is successful, a Certificate of State Protected Traditional Chinese Medicine will be issued and the manufacturer will be permitted to continue production of such product. If the application is unsuccessful, the production approval number for the relevant product will be cancelled and the manufacturer may no longer continue to produce the protected medicine. In the event that the supply of such traditional Chinese medicine is insufficient to meet the demand for clinical use, the SFDA has the right to approve the production of such traditional Chinese medicine by other manufacturers upon payment of licensing fees to the manufacturer which has obtained the Certificate of State Protected Traditional Chinese Medicine for the product.

Pharmaceutical trading companies

Permits and licenses

A PRC pharmaceutical trading company must obtain a Pharmaceutical Operating Permit (藥品經營許可證) issued by the relevant provincial or designated municipal or prefecture level the SFDA where the pharmaceutical trading company is located. The grant of such permit is subject to an inspection of the pharmaceutical trading company's premises and facilities, warehouse, hygiene environment, quality control systems, personnel and equipment. The Pharmaceutical Operating Permit is valid for five years. Pharmaceutical trading companies should apply for renewal of their Pharmaceutical Operating Permit not later than six months prior to the date of expiration subject to reassessment by the relevant authority.

In addition to obtaining a Pharmaceutical Operating Permit, the pharmaceutical trading company also has to obtain a business licence from the relevant administrative bureau of industry and commerce to commence its business.

GSP standards

Good Supply Practice (藥品經營質量管理規範) (GSP) standards were promulgated by the SDA on 30 April 2000 to regulate pharmaceutical trading companies to ensure the quality of pharmaceutical products trading in the PRC. Each pharmaceutical trading company is required to obtain a GSP licence. GSP is a set of quality guidelines on the trading of pharmaceutical products. The licence is issued to the pharmaceutical trading company only after inspection of its operation by the relevant administrative authorities. Each GSP licence is valid for five years. The licence holder must apply for a renewal three months prior to the licence's expiration and such renewal is only granted after re-evaluation by the relevant authority.

Prescription medicines and over-the-counter medicines

In order to promote safety, efficacy and convenience in the use of medicines, the SDA published "Trial Administrative Measures regarding the Classification of Prescription Medicines and OTC Medicines" (《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 medicines according to medicine type, specification, the relevant disease or ailment which they are designed to treat, dosage and method of administration. Over-the-counter medicines are further subdivided into type A and type B and administered by the State separately. Prescription medicines must be dispensed, purchased and taken under the prescription by practising doctors or assistant doctors. OTC medicines can be dispensed, purchased and taken by users without the need for a doctor's prescription. The SFDA is responsible for the selection, approval, publication, and revision of the State Non-Prescription Medicine Catalogue (國家非處方藥目錄) issued by the SFDA.

Price control

Certain pharmaceutical products sold in the PRC, primarily including those pharmaceutical products included in the Insurance Catalogue and those drugs the production or trading of which will constitute monopolies, are subject to price control by the PRC government. The maximum retail prices of such pharmaceutical products are published by the State and provincial price administration authorities from time to time. The prices of other pharmaceutical products not subject to price control by the PRC government are determined freely at the discretion of the respective pharmaceutical enterprises, subject, in certain cases, to notification to the provincial pricing authorities.

The upper limit of the prices of those pharmaceutical products subject to price control are set by the relevant price administration authorities to entitle a reasonable profit margin to pharmaceutical enterprises, after taking into account, among other things, the type and quality of the products, their production costs, the prices of substitute products and the extent of the manufacturer's compliance with the GMP standards. Pharmaceutical enterprises can adjust the actual selling prices of the pharmaceutical products at their discretion provided that such selling prices do not exceed the upper limit set by the price administration authorities. Manufacturers of pharmaceutical products which are outstanding in terms of curative effectiveness, safety and cost may apply to relevant governmental authorities for approval to increase the price of its product above the ceiling set by PRC pricing authorities.

Four of our key in-licensed products are included in the Insurance Catalogue, namely, Deanxit, Ursofalk, GanFuLe and Salofalk, and are therefore subject to price control.

Centralised tendering system for drug purchases by medical organisations

According to the "Notice on Issuing Certain Regulations on the Trial Implementation of Centralised Tender Purchase of Drugs by Medical Organisations" (《關於印發醫療機構藥品集中招標採購試點工作若干規定的通知》) promulgated on 7 July 2000 and the "Notice on Further Improvement on the Implementation of Centralised Tender Purchase of Drugs by Medical Organisations" (《關於進一步做好醫療機構藥品集中招標採購工作的通知》) promulgated on 23 July 2001, non-profitable medical organisations established by prefecture or higher level government in the PRC are required to implement collective tender processes for the purchase of drugs. In principle, medical organisations are required to join together to organise tenders to purchase drugs in bulk volume. The bids are to be assessed by a committee formed by pharmaceutical experts who are recognised by the relevant authorities, with reference to, most importantly, drug quality, as well as other criteria including price, service and quality of the drug manufacturers. For the same type of drugs, two to three products under different brands may be selected. Any reduction in drug purchase price by medical organisations as a result of competitive bidding by suppliers under the tender system is intended to bring about a corresponding reduction in the retail price for the benefit of patients.

Medical Insurance Catalogue

Pursuant to the "Decision of the State Council on the Establishment of the State 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》) and the "Trail Implementation Measures for the Administration of the Scope of Medical Insurance Coverage for Pharmaceuticals for Urban Employees" (《城鎮職工基本醫療保險用藥範圍管理暫行辦法》), the Ministry of Human Resources and Social Security in the PRC established the Insurance Catalogue. The Insurance Catalogue is divided into two parts, Part A and Part B. The medicines to be included in Part A of the Insurance Catalogue are determined by the PRC government for general application and local authorities may not adjust the content of that Part. Although the medicines to be included in Part B of the Insurance Catalogue are determined by the PRC government authorities in the first instance, provincial level authorities may make limited changes to the medicines included in that Part, resulting in some regional variations in medicines included in the Insurance Catalogue in effect in the relevant region. Patients purchasing medicines included in Part A of the Insurance Catalogue are entitled to reimbursement of the costs of such medicines from the social medical fund in accordance with relevant regulations of the PRC. Patients purchasing medicines included in Part B of the Insurance Catalogue applicable in the relevant area are required to pay a predetermined portion of the costs of such medicines, before payment from the social medical fund in accordance with relevant regulations of the PRC. The products admitted to the Insurance Catalogue are selected by the PRC government based on factors including treatment requirements, frequency of use, effectiveness and price. The content of the Insurance Catalogue is subject to change by the PRC Ministry of Human Resources and Social Security, though new medicines may be added to the Insurance Catalogue by provincial level authorities as part of their limited authority to change medicines in Part B of the Insurance Catalogue within the relevant province or municipal city. Products included in the Insurance Catalogue are subject to price control by the PRC government.

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)) (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), (the "Essential Drugs Guidelines"), which aim to secure the supplies of essential medicines to the general public and promote essential medicines sold to the general public 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 and contains the three parts of chemical medicine and biological, Chinese patent drug and traditional Chinese medicines prepared in ready-to-use forms. The Medicine Catalog for the National Basic Medical Insurance, Industrial Injury Insurance and Maternity Insurance(2009) (國家基本醫療保險、工傷保險和生育保險藥品目錄(2009)) contains the medicines included in the Notional list of Essential Drugs.

Restrictions on advertising

An enterprise seeking to advertise its pharmaceutical products must apply for an advertising approval code. The code is issued by the relevant local administrative authority. Prescription drug may only be advertised in medical or pharmaceutical publications approved by both the Ministry of Health and the relevant department of the State Council. Prescription drugs may not be advertised in the mass media or promoted to the public by any means.

The laws related to commercial bribe in the pharmaceutical industry

According to the Drug Administration Law of the PRC, pharmaceutical manufacturers or trading enterprises or other medical institutions are prohibited to secretively give or receive commissions or other benefits during the purchase or sale of pharmaceutical products. Further, pharmaceutical manufacturers or trading enterprises or their agents are prohibited to give any property or other benefits under any name to the persons-in-charge, procurers, physicians and other relevant persons in the medical institutions where their pharmaceutical products are used. If any of the above restrictions is breached, a fine may be imposed and the unlawful benefits gained may be confiscated by the administrative bureau of industry and commerce. If the breach is considered to be serious, the administrative bureau of industry and commerce may revoke the business license of the pharmaceutical manufacturer or trading enterprise (as the case may be) and may notify the administrative bureau of SFDA which may revoke the Pharmaceutical Manufacturing Permit or Pharmaceutical Trading Permit (as the case may be). If persons-in-charge or procurers of pharmaceutical manufacturers or trading enterprises receive any property or other benefits from other pharmaceutical manufacturers or trading enterprises or their agents during the purchase or sale of pharmaceutical products, they will be punished according to relevant laws and regulations and their unlawful benefits gained may be confiscated.

MAJOR LAWS AND REGULATIONS GOVERNING FOREIGN INVESTMENT

Foreign investment in the PRC

The foreign investments are basically divided into direct investment and other means of investment. The direct investment, which is widely adopted, includes Sino-foreign joint ventures, Sino-foreign cooperative joint ventures and wholly foreign-owned enterprises.

Sino-foreign joint ventures

Sino-foreign joint ventures are also known as share-holding corporations. According to the Law of the PRC on Sino-foreign joint ventures (《中華人民共和國中外合資經營企業法》) and its implementation rules, a Sino-foreign joint venture is formed in PRC with joint capital by foreign companies, enterprises, other economic organisations and individuals with Chinese companies, enterprises, other economic organisations and individuals. The main feature is that the joint parties invest together, operate together, take risk according to the ratio of their capital contributions and responsibility of losses and profits in the agreed ratio. The capital from different parties are translated into the ratio of capital, and in general the capital from foreign party should not be lower than 25%.

Sino-foreign cooperative joint ventures

According to the Law of the PRC on Sino-foreign Cooperative Joint Ventures (《中華人民共和國中外合作經營企業法》) and its implementation rules, Sino-foreign Cooperative Joint Ventures are formed in China with joint capital or terms of cooperation by foreign companies, enterprises, other economic organisations and individuals with Chinese companies, enterprises, other economic organisations and individuals. The rights and obligations of different parties are embedded in the contract. To establish a Sino-foreign Cooperative Joint Venture, the foreign party, generally speaking, supplies all or most of the capital while Chinese party supplies land, factory buildings, and useful facilities, and also some supply a certain amount of capital, too.

Wholly foreign-owned enterprises

A wholly foreign-owned enterprises (WFOE) is governed by the Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》) and its Implementation Regulations.

The establishment of a WFOE must be approved by the MOFCOM or the authorised people's government ("Approval Authority"). If two or more foreign investors jointly apply for the establishment of a WFOE, a copy of the contract between the parties must also be submitted to Approval Authority for its record. A WFOE must also obtain a business licence from the relevant local Administration for Industry and Commerce before it can commence business operation.

A WFOE is a limited liability company under the WFOE Law. A WFOE is a legal person who is entitled independently to assume civil obligations, enjoy civil rights and own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital it subscribed to contribute. A foreign investor is permitted to make its contributions by installments and the registered capital shall be contributed within the required period as approved by the MOFCOM (or its delegated authorities) in accordance with the relevant PRC laws and regulations.

The WFOE Law provides that a WFOE shall withdraw reserve fund from the after-tax profit, and at least 10% of the after-tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50% of the enterprise's registered capital, the enterprise will not be required to make any additional contribution. After the effectiveness of the new Company Law since January 1 2006, the employee bonus and benefit fund is no longer required to be withdrawn, however, the boards of a WFOE can make a resolution to withdraw the employee bonus and benefit fund from the after-tax profit. A WFOE is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

Foreign investment in manufacturing and distribution of pharmaceutical products

According to the Foreign Investment Catalogue, as well as the World Trade Organisation Commitment of PRC, foreign investors are permitted to set up foreign invested enterprise engaging in manufacturing and trading of pharmaceutical products.

MAJOR TAXES APPLICABLE TO ENTERPRISES IN THE PRC

Income tax

Prior to 1 January 2008, according to the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises" (中華人民共和國外商投資企業和外國企業所得稅法) enacted by National People's Congress on 9 April 1991 and effective on 1 July 1991 and its detailed rules enacted by the State Council on 30 June 1991, the rate of enterprise income tax for foreign investment enterprises and enterprise income tax for entities and premises engaged in production and operation by foreign enterprises in China was 30%, and the rate of local income tax was 3%.

Prior to 1 January 2008, pursuant to the "Provisional Regulations of the PRC on Enterprise Income Tax" issued by the State Council on 13 December 1993 and enforced on 1 January 1994 and its Implementation Rules enacted by the Ministry of Finance on 4 February 1994, the income tax rate applicable to Chinese enterprises other than foreign investment enterprises and foreign enterprises was 33%.

According to the PRC Enterprise Tax enacted by the National People's Congress on 16 March 2007 and effective from 1 January 2008 onwards, a uniform income tax rate of 25% shall be applied towards foreign investment enterprise and foreign enterprises which have set up production and operation facilities in the PRC as well as PRC enterprises.

Under the pervious EIT system, the standard EIT rate for both domestic company and FIEs was 33%. However, qualified production FIEs with operation period of at least 10 years could enjoy two-year tax exemption and 50% reduction for the next three years commencing from the first profit-making year. In addition, for FIEs located in specific geographic locations, some further tax holidays were given by reducing the applicable EIT base rate to 15% or 24%. The EIT Law reduces the unified standard EIT rate from 33% to 25% and abolishes all the tax holidays conferred to FIEs as mentioned above.

However, according to the Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax (《國務院關於實施企業所得税過渡優惠政策的通知》) issued by the State Council on 26 December 2007 and which became effective as of 1 January 2008, FIEs which enjoy the preferential policies of low tax rates before the effectiveness of new FIE Law shall be gradually transited to the new statutory tax rate within 5 years after carrying out the EIT Law as of January 1, 2008. Among them, FIEs which enjoy the enterprise income tax rate of 15% shall be subject to the enterprise income tax rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. The enterprises that enjoy the tax rate of 24% before the effectiveness of new FIE Law shall be subject to the tax rate of 25% as of 2008.

As of January 1, 2008, FIEs that enjoy "2-year exemption and 3-year half payment", "5-year exemption and 5-year half payment" of the enterprise income tax and other preferential treatments in the form of periodic tax deductions and exemptions may, after carrying out the FIE Law, go on to enjoy the relevant preferential treatments under the preferential measures and the time period set down in the previous tax law, administrative regulations and relevant documents until the expiration of the said time period. However, its preferential time period shall be counted from 2008 if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make profits.

Furthermore, the Notice of the State Administration of Taxation on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of "de facto management body" (Guo shuifa No.82[2009]) (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) currently in force has only clarified the conditions under which a foreign company invested by a Chinese enterprise or a group of Chinese enterprises as its majority shareholder would be considered as a PRC tax resident enterprise who is having its "de facto management body" located in the PRC. However, the relevant PRC tax rules have not clarified whether and under what conditions a foreign company invested by overseas investors as its majority shareholder will be considered as a PRC tax resident enterprise having its "de facto management body" located in the PRC, and currently, it is uncertain whether the PRC local tax authority will make such determination. As at the Latest Practicable Date, the PRC local tax authorities have not certified our Company as a PRC tax resident enterprise. But we cannot assure you that our Company will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations and not be subject to the enterprise income tax at the rate of 25% on our income generated both inside and outside the PRC.

In accordance with the related regulations concerning development of China's western area issued by State Council, the "Preferential Tax Policies for Development of Western Areas" (財税〔2001〕202 號), jointly issued by the Ministry of Finance, the State Administration of Taxation and China Customs, provide that FIEs operating transportation, electric, irrigation, postal, broadcasting or television businesses in China's western areas that derive more than 70% of their gross revenue from the income of these operations, may be eligible for preferential tax treatment. Specifically, FIEs with business terms of 10-plus years shall be exempt from taxes during the first two years of profitability and subject to a tax on income equal half the applicable rate during the next three years. The income tax rate is 15% for enterprises developing in western areas. Pursuant to the Notice of the General Office of the State Council on Implementing by Analogy in the Six Provinces of the Central Region the Relevant Polices on Revitalising the Old Industrial Bases in the North-eastern Region and Other Regions and Promoting the Development of the Western Region (No. 2 [2007]) (《關於中部六省比照實施振興東北地區等老工業基地和西部大開發有關政策範圍的通知》), enterprises in Li prefecture are subject to the benefit tax rate at 15%.

Article 95 of the new EIT Law's Implementing Rules provides a weighted deduction may be computed from taxable income for research and development expenses arising from the development of new technology, new products and new skills. For intangible assets not yet formed and calculated into current profits and losses, weighted R&D expense deduction shall be computed at a rate of 50%. For intangible assets already formed, amortisation shall be calculated at a rate of 150% of the cost of such intangible assets.

Business tax

Pursuant to the "Interim Regulations of the People's Republic of China on Business Tax" (《中華人民共和國營業税暫行條例》) enacted by the State Council on 13 December 1993 and enforced on 1 January 1994 and its "Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Business Tax" (《中華人民共和國營業税暫行條例實施細則》) issued by the Ministry of Finance on 25 December 1993, the tax rate on transfer of immovable properties, their superstructures and attachments is 5%.

Municipal maintenance tax

Under the "Interim Regulations of the People's Republic of China on Municipal Maintenance Tax" (《中華人民共和國城市維護建設税暫行條例》) enacted by the State Council on 8 February 1985, any taxpayer, whether an entity or individual, of product tax, value-added tax or business tax shall be required to pay municipal maintenance tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a prefecture and a town, and 1% for a taxpayer whose domicile is not in any urban area or prefecture or town. Under the "Circular Concerning Temporary Exemption from Municipal Maintenance Tax and Education Surcharge For Enterprises with Foreign Investment and Foreign Enterprises" (《關於外商投資企業和外國企業暫不徵收城市維護建設税和教育費附加的通知》) and the "Approval on Exemption of Municipal Maintenance Tax and Education Surcharge in Foreign-Invested Freightage Enterprises" (《關於外商投資貨物運輸企業免徵城市維護建設税和教育費附加問題的批覆》) issued by State Administration of Taxation on 25 February 1994 and on 14 September 2005 respectively, whether foreign investment enterprises are subject to municipal maintenance tax shall be determined in accordance with notices issued by the State Council; and such tax is not applicable to enterprises with foreign investment for the time being, until further explicit stipulations are issued by the State Council.

Withholding tax

The new EIT Law removes the prior tax policy that exempted profits, paid as dividends, by FIEs to foreign investors from PRC income tax. According to the new EIT Law, dividends paid to foreign investors will now be subject to a 10% withholding tax. However, for FIEs from countries or regions that have signed bilateral tax agreements with China, the withholding rate may be reduced to as low as 5% depending on the terms of the applicable tax treaty.

In accordance with the Arrangement between Mainland China and Hong Kong 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税和防止偷漏税的安排》) (the "Relevant Tax Treaties") signed on 21 August 2006, the 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong tax resident, provided that the recipient is a company that holds at least 25% of the registered capital of the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if the recipient is a company that holds less than 25% of the capital of the PRC Company. Further, pursuant to the Circular of State Administration of Taxation on Printing and Issuing the Administrative Measures for Non-resident Individuals and Enterprises to Enjoy the Treatment Under Taxation Treaties (關於印發《非居民享受税收協定待遇管理辦法(試行)》的通知), which became effective on 1 October 2009, the preferential tax rate under the Relevant Tax Treaties does not automatically apply. Approvals from competent local tax authorities are required before an enterprise can enjoy the relevant tax treatments relating to dividends under the Relevant Taxation Treaties. In addition, in accordance with the Notice of the State Administration of Taxation on How to Understand and Determine the "Beneficial Owners" in the Relevant Taxation Treaties (《關於如何理解和認定税收協定中"受益所有人"的通知(國税函 [2009] 601號)》) issued by the State Administration of Taxation on 27 October 2009, the PRC tax authorities must evaluate whether an applicant (income recipient) can be qualifies as a "beneficial owner" under the Relevant Taxation Treaties on a case-by-case basis, and, in conducting such evaluation, the taxation authorities must examine the substance rather than the form of the relevant case. Further, pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements (《國家税務總局關於執行税收協定股息條款有關問題的通知(國税函〔2009〕81號)》) issued by the State Administration of Taxation on 20 February 2009, the preferential tax rate under the Relevant Taxation Treaties shall only apply to a tax resident from the other side that directly holds at least 25% of the registered capital of a PRC company for a period of consecutive 12 months prior to receiving the dividends.

ENVIRONMENTAL PROTECTION

Pursuant to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) 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 may also promulgate local standards for environmental protection on matters not specified under national standards and the local governments must report such standards to the competent department of environmental protection administration under the State Council for record.

Pursuant to the Law on Environmental Impact Evaluations of the PRC (《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 environmental impact evaluation reports setting forth the impact the proposed construction project may have on the environment and the measures to prevent or mitigate the impact for approval by the government authority prior to commencement of construction of the relevant project.

Pursuant to Atmospheric Pollution Prevention Law of the PRC (《中華人民共和國大氣污染防治法》) promulgated on 29 April 2000 by the General Committee of the National People's Congress of the PRC and effective on September 1, 2000, the environmental protection authorities above the prefecture level are in charge of promulgating laws and regulations governing prevention of atmospheric pollution. The environmental protection department under the State Council formulates national standards and the local provincial governments formulate local standards on

matters not specified under national standards. Manufacturers discharging polluted air must comply with applicable national and local standards. If a manufacturer emits polluted air exceeding national or local standards, it must correct its action during a certain period of time and the manufacturer may be subject to penalties.

Pursuant to Water Pollution Prevention Law of the PRC (《中華人民共和國水污染防治法》) promulgated by the General Committee of the National People's Congress of the PRC on 1 November 1984, amended on 28 February 2008 and which became effective as of 1 June 2008 and the Implementation Rules of the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法實施細則》) effective as of 20 March 2000, the environment protection department under the State Council is in charge of promulgating laws and regulations governing national standards relating to discharge of waste water. Provincial governments may promulgate local waste discharge standards for matters not specified in national standards. Manufacturers must discharge of waste water in accordance with national and local standards. Manufacturers discharging waste water must pay water treatment fees. If the waste water discharged exceeds national or local standards, the manufacturer is required to pay higher waste water treatment fees. The environmental protection department has the right to order manufacturers which severely polluted water to correct their actions by reducing the amount of discharge during a stipulated period, or suspend their operation or shut down.

Pursuant to the Laws of Prevention and Control of Environmental Noise Pollution of the PRC (《中華人民共和國環境噪音污染防治法》) promulgated on 29 October 1996 and effective on 1 March 1997, the environment protection department under the State Council is in charge of promulgating national standards for noise control. Local governments at the prefecture level or above are in charge of promulgating local standards with respect to noise control.

As of 1 April 2005, producers, distributors, importers and users of a product shall be responsible for the prevention and control of the solid wastes it generates or discharges under the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) amended on 29 December 2004.

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.

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 US dollar. The PBOC will announce the closing price of a foreign currency such as the US 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.

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 US 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 authorised the China Foreign Exchange Trading System to determine and announce the central parity of RMB against the US dollar, based on the inquiry system, at 9:15 am on each business day.

On 29 August 2008, SAFE issued the Notice of the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises (《國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》). According to the Notice, the foreign-invested enterprise shall authorise the competent accountant office to conduct capital verification before applying for the settlement of the foreign currency capital. The settled foreign currency capital shall be merely used for the business approved by the related authorities and shall not be used for equity investment. It is also prohibited to use the settled foreign currency capital for purchasing the not-self-use domestic real estate, unless the enterprise is a foreign invested real estate enterprise.

On 21 October 2005, SAFE promulgated the "Circular Regarding Foreign Exchange Control For Fundraising And Offshore-Domestic Investments By Domestic Residents Through Special Purpose Vehicles" (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) ("Circular 75"), which became effective as at 1 November 2005 and abolished the previous rules issued in January and April 2005. Circular 75, subject to the rules thereof, allows a PRC domestic enterprise or a PRC natural person ("PRC Resident") to transfer their assets to a foreign special purpose vehicle ("SPV").

The new rules under Circular 75 impose a registration procedure with SAFE, as opposed to an approval procedure under the abolished rules. Under Circular 75, PRC residents are required to register with SAFE and obtain a certificate of registration before they can establish or control SPVs. The new rules also provide that PRC Residents who have established SPVs or acquired control of SPVs prior to 1 November 2005 must register their offshore investment by 31 March 2006.

In August 2006, MOFCOM, along with State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, SAIC, CSRC and SAFE issued the M&A Rules, which became effective on 8 September 2006. The new M&A Rules replace a regulatory framework governing foreign acquisitions of Chinese companies previously referred to as the "Interim Provisions on Merger and Acquisition of Domestic Enterprises by Foreign Investors" (the "Interim M&A Provisions") issued in 2003.

An offshore SPV is defined under the new M&A Rules as an offshore entity directly or indirectly controlled by PRC individuals or enterprises with the objective of an overseas listing, and the main assets of which are its rights and interests in an affiliated domestic PRC enterprise.

Under the new M&A Rules, an approval is required by central level MOFCOM for:

- the establishment of offshore SPV for overseas listings by PRC companies; and
- the SPV's acquisition of PRC affiliates.

PRC enterprises and PRC ultimate shareholders of the SPV must, within six months of receipt, remit into China any dividends, profit and proceeds of any capital adjustments received from the SPV. In addition, under the new M&A Rules, the offshore listing of a SPV shall be subject to the approval by the CSRC.

LABOUR AND SAFETY

According to the Labour Law of the PRC (《中華人民共和國勞動法》) and the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), labour contracts shall be concluded if the labour relationship are to be established between employees and the employers. Employers must provide wages which are no lower than local minimum wage standards to the employees from time to time. Employers are required to establish a system for labour safety and sanitation, strictly abide by State rules and standards and provide relevant education to their employees. Employers are also required to provide our employees with labour safety and sanitation conditions that satisfy or meet State rules and standards and carry out regular health examinations of our employees engaged in hazardous occupations. The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) was enforced on 1 January 2008.

As required under the Regulation of Insurance for the Interim Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), the Regulations on Work-related Injury Insurances (《工傷保險條例》), the Regulations on Unemployment Insurance (《失業保險條例》) and the Trial Procedures for Childbirth Insurance for Enterprise Employees (《企業職工生育保險試行辦法》), employers shall provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

According to the Safety Production Law of the PRC (《中華人民共和國安全生產法》) enacted by the Standing Committee of the National People's Congress on 29 June 2002 and enforced on 1 November 2002, entities that are engaged in production and business operation activities within the PRC shall observe all relevant laws, rules and regulations concerning production safety and establish and perfect the conditions and system of responsibility for production safety. It requires that entities shall maintain conditions for safe production as provided in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operation activities. It also requires entities to offer education and training programs to their employees regarding production safety. The design, manufacture, installation, use, checking and maintenance of safety equipment is required to conform with applicable national or industrial standards. In addition, it requires entities to provide labour protection equipment that meets the national or industrial standards to employees and to supervise and educate them to wear or use such equipment according to the prescribed rules.

This section contains information and statistics relating to our industry and related industry sectors, some of which has been derived from official governmental and other industry sources as well as from a report we commissioned from Frost & Sullivan, an independent third party. We believe that the sources of this information 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 Shareholder, the Sole Sponsor, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy.

OVERVIEW OF THE PRC HEALTHCARE MARKET

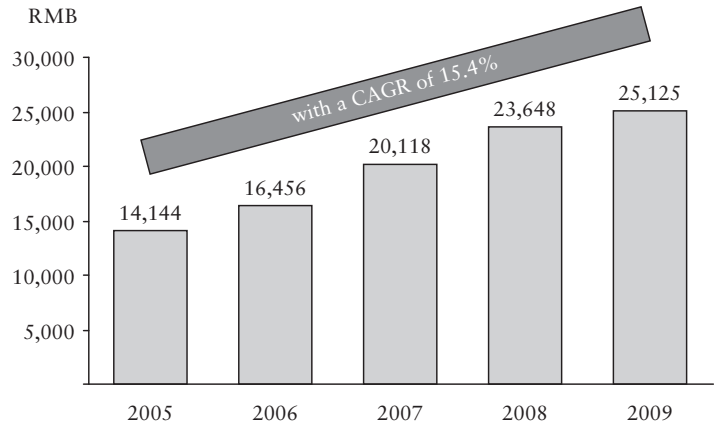
Our business operates in the large and rapidly growing healthcare industry in China. The healthcare industry in China is supported by a number of favourable socioeconomic factors such as the China's rapidly growing economy, large and growing population, improvement of living standards with increasing disposable income, increased health consciousness and active support from the PRC government.

PRIMARY GROWTH DRIVERS OF THE HEALTHCARE INDUSTRY IN CHINA

Economic growth and increasing disposable income

The PRC economy is one of the world's fastest growing economies. According to China National Bureau of Statistics, the nominal GDP of China increased from RMB18,494 billion (equivalent to approximately US$2,726 billion) in 2005 to RMB33,535 billion (equivalent to approximately US$4,943 billion) in 2009, representing a CAGR of 16.0% and an annual growth of 8.7% in 2009. From 2005 to 2009, the per capita GDP of China also increased from approximately RMB14,144 (equivalent to approximately US$2,085) to approximately RMB25,125 (equivalent to approximately US$3,704), representing a CAGR of 15.4%. The following chart illustrates the growth of China's GDP in the periods indicated:

Nominal GDP per capita in China



Source: China National Bureau of Statistics

In addition to the GDP growth, China is experiencing a growth in disposable income. According to China National Bureau of Statistics, the average per capita annual disposable income of China's urban residents increased from approximately RMB10,493 (equivalent to approximately US$1,547) in 2005 to RMB17,175 (equivalent to approximately US$2,532) in 2009, representing a CAGR of approximately 13.1%. For rural households, average per capita annual net income increased from approximately RMB3,255 (equivalent to approximately US$480) in 2005 to RMB5,153 (equivalent to approximately US$760) in 2009, representing a CAGR of approximately 12.2%.

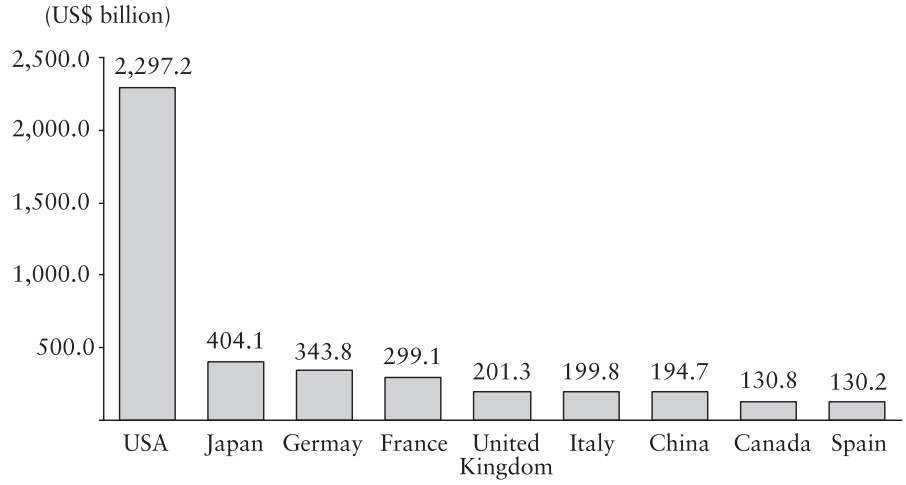
Population growth and increased life expectancy

The growth of China's population is expected to drive demand for healthcare in China. According to China National Bureau of Statistics, the population in China has increased from approximately 1.3 billion people in 2004 to approximately 1.335 billion people in 2009. The proportion of the elderly people aged 65 or above in China has increased from 7.7% in 2005, or approximately 100.6 million people, to 8.5%, or approximately 113.1 million people, in 2009. Rising life expectancy is also expected to contribute to the growth of China's population, both as an absolute number and as a percentage of the total population. We believe that the ageing population in China will drive healthcare spending and consequently drive the growth of the PRC healthcare industry.

Rising health cautiousness and spending on healthcare

According to WHO, China spent approximately US$194.7 billion on healthcare, in 2009, compared to approximately US$2,297.2 billion spent on healthcare in the United States, being the world's largest healthcare market in 2009. Further, according to WHO, the healthcare expenditure per capita in China increased from US$81.1 in 2005 to US$146.6 in 2009, representing a CAGR of 16.0%. In the United States, the healthcare expenditure per capita increased from US$6,598.4 in 2005 to US$7,492.5 in 2009, representing a CAGR of 3.2%. The following chart illustrates the total healthcare expenditure spent by various countries in 2009:

Total healthcare expenditure 2009



Source: World Health Organisation

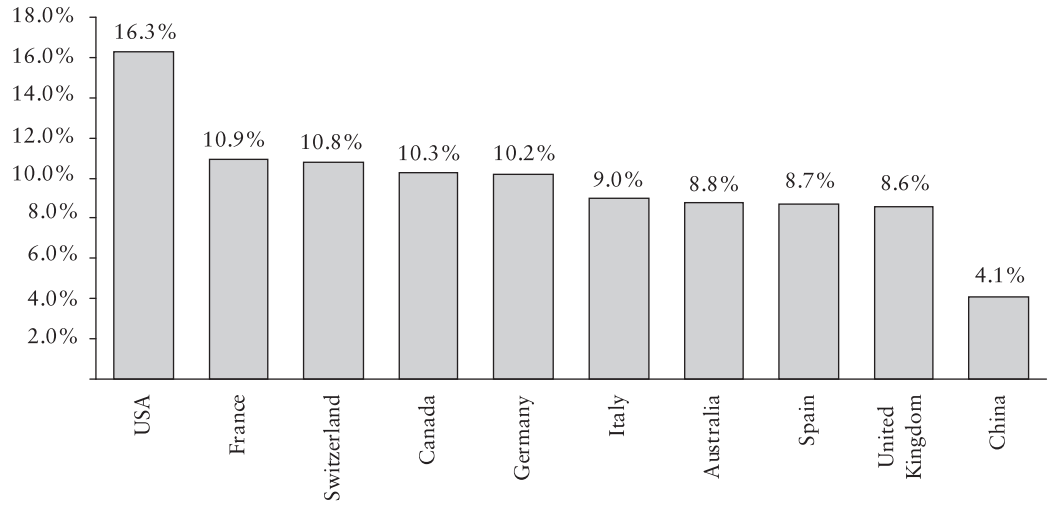
The following table sets out the healthcare expenditure per capita and CAGRs for the period from 2005 to 2009 of various countries:

	Healthcare expenditure per capita		CAGR
	2005	2009	(2005-2009)
	US$	US$	%
Country			
USA	6,598.4	7,492.5	3.2
Japan	2,921.5	3,166.8	2.0
Germany	3,618.1	4,192.9	3.8
France	3,924.9	4,789.0	5.1
United Kingdom	3,112.4	3,267.2	1.2
Italy	2,706.3	3,326.4	5.3
China	81.1	146.6	16.0
Canada	3,470.8	3,887.2	2.9
Spain	2,179.6	2,860.3	7.0

Source: World Health Organisation

As a percentage of GDP, China's spending on healthcare was also low compared to many other countries. According to WHO, the total healthcare expenditure accounted for about 4.1% of GDP for China in 2009 and the total healthcare expenditure accounted for about 16.3% of GDP for the United States. We believe growth factors such as China's rapidly growing economy, which has fuelled rising living standards and increasing health consciousness, as well as China's large and growing population and active PRC government support, will enhance China's healthcare spending. The following chart illustrates the healthcare expenditure as a percentage of GDP of various countries in 2009:

Total healthcare expenditure as % of GDP in 2009



Source: World Health Organisation

Government support and the latest healthcare reform plan

Increasing coverage of social medical insurance in China

The medical insurance programme for PRC nationals provided by the government is largely made up of three major components and supplemented by several smaller schemes to ensure wide coverage of the population. The three major components are the Urban Worker Basic Medical Insurance Programme (the "Urban Worker Programme") (城鎮職工基本醫療保險), a mandatory scheme covering urban workers and their minor children, the Urban Resident Basic Medical Insurance Programme (the "Urban Resident Programme") (城鎮居民基本醫療保險), a voluntary programme that covers the rest of the urban residents not covered by the Urban Worker Programme, and the New Rural Cooperative Medical Insurance Scheme (the "New Rural Co-op Insurance") (新農村合作醫療保險), a voluntary scheme that provides medical coverage for the rural population. There are also other relatively smaller schemes such as those for migrant workers who cannot obtain coverage otherwise.

The PRC government is moving towards achieving its announced goal of having its social medical insurance coverage above 90% of the total population by 2011. As at the end of 2009, the New Rural Co-op Insurance covers approximately 830 million rural residents, accounting for approximately 94% of the total rural population. The coverage of the two urban insurance programmes reached 400 million urban residents, accounting for approximately 64.4% of the total urban population, as at the end of 2009.

In addition to maximising the coverage of the healthcare programme, it is also the aim of the PRC government to provide better benefits under the programme. In the recently enacted RMB850 billion (equivalent to approximately US$125 billion) healthcare reform, the government announced in Implementation Plan for the Recent Priorities of the Health Care System Reform (2009-2011) (醫藥衛生體制改革近期重點實施方案 (2009-2011年)) that the annual subsidy for each participant would increase to RMB120 (equivalent to approximately US$18) for Urban Resident Programme participants and New Rural Co-op Insurance participants, starting from 2010. The reform plan will also raise the cap on claim payments to six times local average annual income.

Latest healthcare reform plan in the PRC

In September 2008, the State Council published a draft plan to ease the difficulties and minimise the costs for PRC nationals to obtain proper healthcare treatment. On 17 March 2009, the PRC government issued an Opinion on Intensifying the Healthcare System Reform (《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 Implementation Plans for the Healthcare System Reform 2009-2011 (《醫藥衛生體制改革近期重點實施方案(2009-2011年)的通知》) (the "Implementing Plan"). The goal of the healthcare reform plan is to establish a basic, universal healthcare framework to provide Chinese nationals with convenient and affordable healthcare.

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. The public health services system will provide services such as immunisations, 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 programmes.
- 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 programme, 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 centres, the reform plan aims to place a medical clinic in every village and a hospital in every prefecture by 2011.
- The drug supply system. This system regulates pricing and how drugs will be procured, prescribed and dispensed at 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, and the SFDA and the NDRC under the supervision of the Ministry of Health, to adopt implementing regulations for the reforms outlined in the healthcare reform plan. Although the healthcare reform plan is expected to benefit our business, the full effect of the healthcare reform plan on our operations is as yet unclear. Please also refer to the section headed "Business — Recent regulatory development."

PHARMACEUTICAL MARKET IN CHINA

Market size and growth rate of the Chinese pharmaceutical market

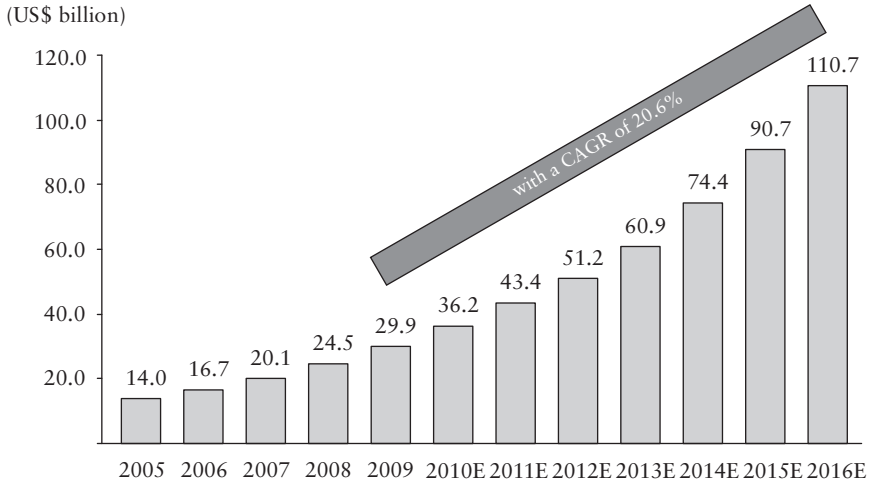
The Chinese pharmaceutical market has grown rapidly in recent years due to the favourable macro environment in terms of the GDP growth and the increase in healthcare expenditure in China. According to the Frost & Sullivan Report, the Chinese pharmaceutical market grew from US$18.7 billion in 2005 to US$37.6 billion in 2009, representing a CAGR of 19.0%. It is estimated that the amount will reach US$137.1 billion in 2016, representing a CAGR of 20.3% from 2009 to 2016.

Chinese prescription pharmaceutical market

According to the Frost & Sullivan Report, the Chinese prescription drugs market amounted to US$29.9 billion in 2009, accounting for about 79.5% of the whole Chinese pharmaceutical market in terms of sales volume in the same year, and the market size of the prescription drugs market in China is expected to reach US$110.7 billion by 2016, representing a CAGR of 20.6% from 2009 to 2016. An increase in demand for certain treatments (such as cardiovascular and central nervous system therapies), rising health expenditure and the continued perception of hospitals as the primary source of treatment are set to be the key drivers of growth. Hospitals will remain responsible for generating the bulk of prescription drugs revenues.

The following chart illustrates the historical and forecast market size of the prescription drugs market in China for the periods indicated:

Prescription drugs market in China

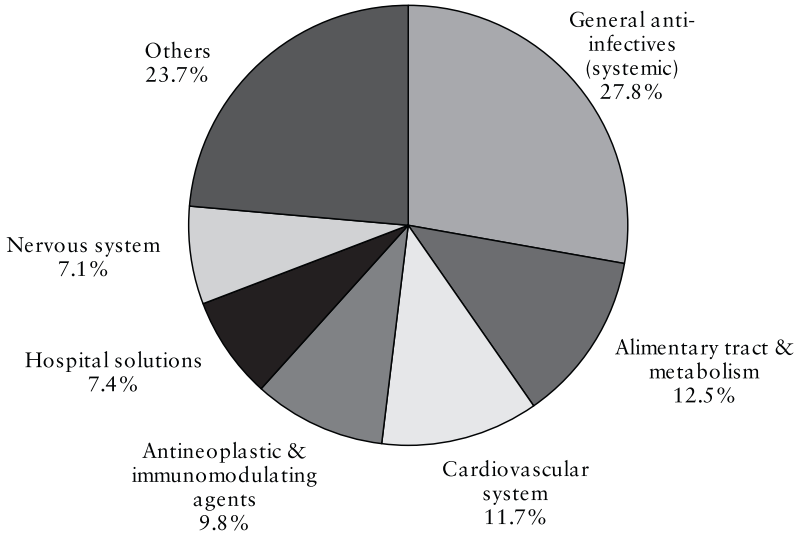


Source: Frost & Sullivan

Breakdown of the Chinese hospital pharmaceutical market by therapeutic areas

According to Business Insights, based on data provided by IMS Health, in 2008, the top ten therapeutic areas in the Chinese hospital pharmaceutical market in terms of sales were: general anti-infectives (systemic), alimentary tract and metabolism, cardiovascular system, antineoplastic and immunomodulating agents, hospital solutions, nervous system, blood and blood-forming organs, respiratory system, musculo-skeletal system and genito-urinary system, and sex hormones. In particular, the markets for cardiovascular system and the nervous system, which two of our in-licensed products, XinHuoSu and Deanxit, belong to, are expected to grow at CAGRs of 12.2% and 10.6% from 2008 to 2014, respectively. The market for cardiovascular system is expected to grow from US$2,383 million in 2008 to US$4,745 million in 2014, and the market for nervous system is estimated to grow from US$1,149 million in 2008 to US$2,645 million in 2014. The following pie chart illustrates the relative size of the top ten therapeutic areas in the Chinese hospital pharmaceutical market in terms of sales in 2008:

Pharmaceutical market in China by therapeutic areas in 2008



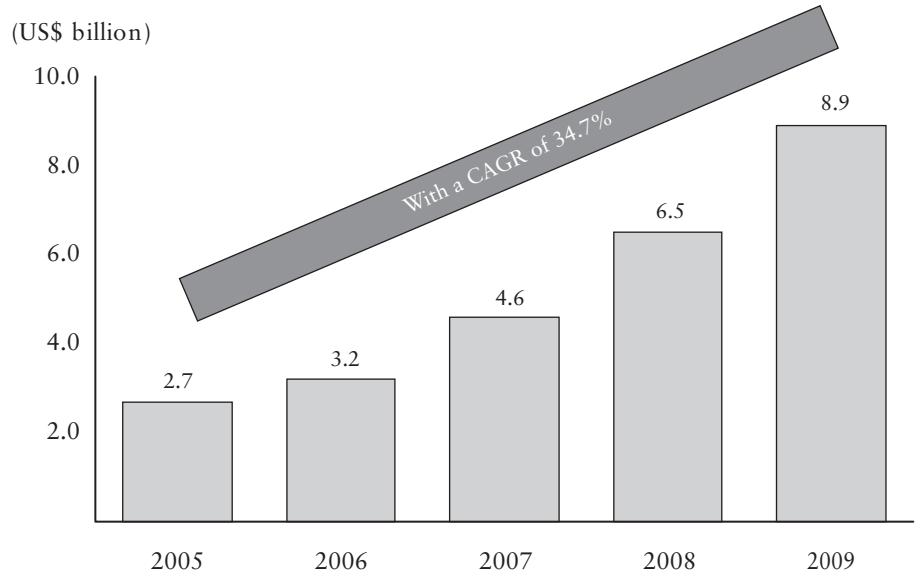
Source: Business Insights, based on data from IMS Health

Imported pharmaceutical market in China

According to the Frost & Sullivan Report, the sales of imported pharmaceutical drugs (including both prescription drugs and over-the-counter drugs) in China amounted to approximately US$11.3 billion in 2009, representing a CAGR of 35.0% from 2005 to 2009, which outpaces the growth of the overall Chinese pharmaceutical market. Although the pharmaceutical market for imports has shown rapid growth over time, it is the prescription drug segment that takes up a significant portion of the overall Chinese imported pharmaceutical drugs market. Prescription drugs accounted for about 78.8% of the overall imported drugs market in 2009, whilst the balance of the market represents sales of over-the-counter drugs. Sales of imported prescription drugs grew from US$2.7 billion in 2005 to US$8.9 billion in 2009, representing a CAGR of 34.7%.

The following chart illustrates the historical market size of the imported prescription pharmaceutical market in China for the periods indicated:

PRC market of imported prescription drugs



Source: Frost & Sullivan

In addition, according to the Frost & Sullivan Report, an increasing number of foreign pharmaceutical products are expected to enter into the Chinese market in the coming years. The number of imported drugs registered with the SFDA in 2007 and 2008 was 831 and 1,426, respectively, representing a 71.6% growth.

PRIMARY GROWTH FACTORS FOR IMPORTED PRESCRIPTION DRUGS IN CHINA

Overseas pharmaceutical companies are attracted to the fast growing Chinese pharmaceutical market

In recent years, China has experienced and become renowned for one of the most remarkable economic growths. As mentioned in the paragraph headed "— Primary growth drivers of the healthcare industry in China" in this section of the prospectus, China's nominal GDP grew at a CAGR of about 16.0% from 2005 to 2009, and China's healthcare expenditure grew at a CAGR of 15.4% from 2005 to 2009. Further, according to the Frost & Sullivan Report, based on the figures provided by IMS Health, the global pharmaceutical market grew at about 5% in 2009 as the global economy experienced recession, whilst the Chinese pharmaceutical market grew at 21.9% in 2009, which surpassed the growth rate of the global pharmaceutical market. Further, according to the Frost & Sullivan Report, the Chinese pharmaceutical market is expected to grow at a CAGR of 20.3% from 2009 to 2016. In light of the rapid growing pharmaceutical market in China, coupled with the fact that China's expenditure on healthcare as a percentage of its GDP is still lower than most other countries, many overseas pharmaceutical companies are attracted to the huge growth potential of the Chinese pharmaceutical market.

Recent healthcare reform, urbanisation and improving living standard in China generate more demand for high quality imported prescription drugs

The recent healthcare reform initiated by the State Council in 2009 called for acceleration in building basic medical insurance system and essential drug system, and promotion of primary health care facilities and pilot reform of State-run hospitals. Under the reform, an estimated amount of RMB850 billion (equivalent to approximately US$125 billion) will be spent on healthcare through 2011. With RMB850 billion investment (equivalent to approximately US$125 billion), the reform is considered to lay a solid foundation for equitable and universal access to essential health care for all in China by 2020.

In addition, China has been undergoing an urbanisation process. According to China National Bureau of Statistics, the number of Chinese residents resided in urban areas increased steadily from 2003 to 2009. The number was about 524 million in 2003 and increased to about 622 million in 2009. In terms of a percentage of the whole population in China, about 40.5% of the population resided in urban areas in 2003, which increased to about 46.6% in 2009. Given that more high-end medical facilities are located in cities or major metropolitan areas of the PRC, urbanisation has resulted in the increased use and consumption of healthcare services and products. In addition, as referred to in the paragraph headed "Primary growth drivers of the healthcare industry in China — Economic growth and increasing disposable income" in this section of the prospectus, China is experiencing a growth on disposable income.

With the increasing government spending on healthcare, rising disposable income and living standards in China, people in China become more health conscious and hence the domestic demand for high-quality imported prescription drugs will increase, as they become more attractive to patients in China.

Imported prescription drugs for certain therapeutic areas newly identified in China are in demand due to lack of similar domestic prescription drugs

Due to the rising standard of healthcare education, improving diagnostic skills of physicians and availability of more healthcare and medical information in electronic or other media to the general public, knowledge and understanding amongst physicians and patients about various types of illnesses, the relevant methods of diagnosis and applicable therapies and medicines have improved considerably. Such rising health consciousness and other social and economic changes in China result in more diseases which were neglected, misunderstood or otherwise not identified in China in the past being recognised nowadays. Therefore, demand for prescription drugs in the newly identified therapeutic areas increases. However, domestic pharmaceutical companies may not be able to respond to such increase in demand and manufacture and provide such products promptly or at all, because they may lack the sufficient skills, technical knowledge and know-how to develop or produce the new products in demand. Besides, research and development and manufacture of new products usually require substantial capital and other resources investment, which domestic pharmaceutical manufacturers may not have. As a result, there is an increasing demand for imported prescription drugs to treat patients in China from these newly identified therapeutic areas.

Large market potential for "originator branded generics" in China

According to the Frost & Sullivan Report, in the United States and certain other more developed markets, sales of patent-protected drugs typically fall significantly after the relevant patent expires because generic equivalents take over a vast majority of the market quickly. However, in developing countries like China, patients and physicians generally attach more importance to the brands and credibility of pharmaceutical manufacturers in part due to their concerns about safety and quality of the pharmaceutical products. As a result, the originator branded generics, with their long-established history and well recognised brands, often command significant market share and

present growth opportunities in China even though they are typically priced at a premium to the competition. This attracts more overseas pharmaceutical companies to bring in their originator branded generics to China.

PHARMACEUTICAL MARKETING, PROMOTION AND SALES SERVICE INDUSTRY IN CHINA

Overview

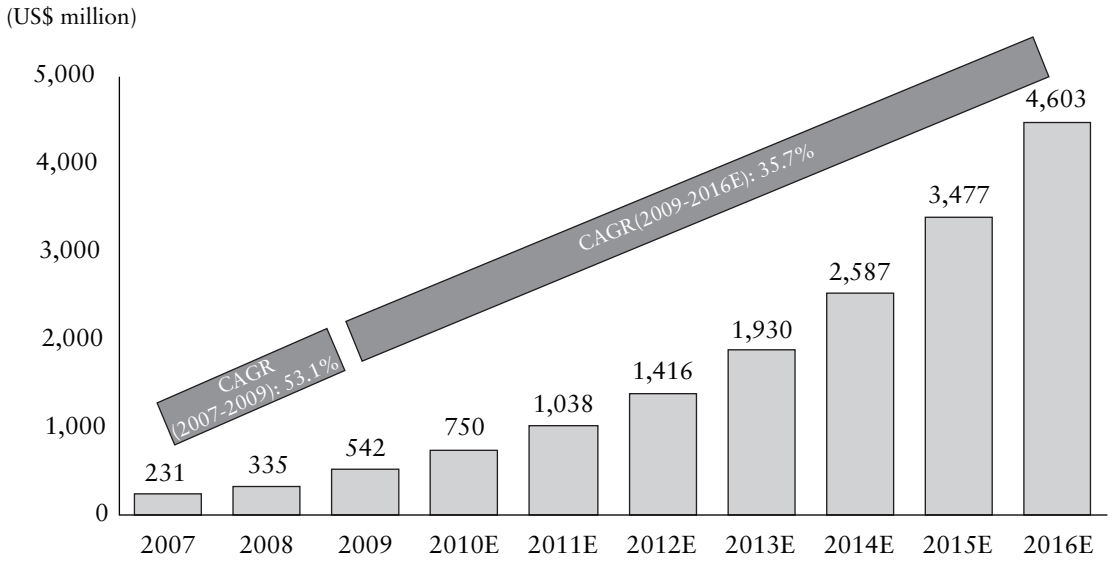
China's pharmaceutical marketing, promotion and sales service industry is highly specialised. Service providers assist both overseas and domestic pharmaceutical companies in promoting and marketing their pharmaceutical products to targeted physicians in China. They generally adopt a physician-oriented academic promotion approach, which includes educating physicians on the proven clinical data, usage, side effects and other clinical aspects of the pharmaceutical products, organising clinical seminars, sponsoring medical conferences and providing other value-added promotion-related services. These promotion services facilitate the launch of new products or new market entries with the aim of improving the profitability of the pharmaceutical companies. In recent years, outsourcing of marketing, promotion and sales has become an increasingly important component of a pharmaceutical company's marketing strategy, driven in large part by an increasing focus on cost-saving in an environment of rising sales force costs.

Third-party marketing, promotion and sales service providers in China usually in-license pharmaceutical products and generate their revenue from the sale of the products to distributors, who then on-sell the products to hospitals. This approach stands in contrast with the approach that prevails in more developed markets, where service providers typically operate a fee-for-service model, under which they are remunerated based on a pre-determined percentage of total sales generated. In China, third-party service providers typically help to raise awareness and strengthen recognition of the products by carrying out promotion activities targeted at physicians in hospitals, which in turn generate sales to hospitals from distributors. This business model is largely driven by demand from upstream pharmaceutical product suppliers, in particular those small to medium size overseas pharmaceutical companies which do not have their own sales forces and are either not capable of or not interested in managing a network of distributors in China because of the cost implications or the risk profile or for some other reasons. Given this fact, a promotion service provider with sales capability is better positioned to attract suppliers.

According to the Frost & Sullivan Report, China's pharmaceutical marketing, promotion and sales service industry has grown substantially from US$231 million in 2007 to US$542 million in 2009, representing a CAGR of 53.1%. As the Chinese pharmaceutical market continues to grow and more foreign players and products enter the market, Frost & Sullivan projects that the pharmaceutical marketing, promotion and sales service industry in China will continue to grow and reach US$4.6 billion by 2016, representing a CAGR of 35.7% from 2009 to 2016.

The following chart illustrates the historical and forecast market size of the pharmaceutical marketing, promotion and sales service industry in China for the periods indicated:

Pharmaceutical marketing, promotion and sales service industry in China



Source: Frost & Sullivan Report

According to the Frost & Sullivan Report, the top five service providers in China in 2009 in terms of revenue are our Company, NT Pharma, Edding Pharm, Novamed and Honghui. From 2007 to 2009, our Company, which focuses on the marketing, promotion and sale of prescription drugs of overseas and domestic specialty pharmaceutical companies, maintained a dominant position in the Chinese market with a market share of approximately 18% in 2009, and our marketing, promotion and sales network is the largest in China in terms of hospital coverage, therapeutic focus and the number of sales people, which is important in meeting the needs of pharmaceutical companies. NT Pharma was ranked second in 2009 in terms of market share, and its pharmaceutical promotion business primarily focuses on marketing and promoting products from multinational pharmaceutical companies in China. In addition, NT Pharma has a strong presence in vaccine distribution and sales. Edding Pharm was ranked third in 2009, and its business primarily focuses on marketing and promoting oncology and nutrition products. Novamed was ranked fourth in 2009, and its pharmaceutical promotion business primarily focuses on products in CNS and oncology areas. Honghui was ranked fifth in 2009, and focuses on marketing and promotion of pharmaceutical products and medical equipment.

In addition to the competition amongst themselves, service providers also compete with pharmaceutical manufacturers' in-house marketing, promotion and sales teams, which reduce the need for third-party services.

	Market share		
Key industry players	**2007**	**2008**	**2009**
CMS	22%	22%	18%
NT Pharma*	7%	8%	17%
Edding Pharm	8%	12%	10%
Novamed	2%	7%	10%
Honghui	6%	9%	7%

Source: Frost & Sullivan Report

Note:

* Only in respect of its pharmaceutical promotion business.

Key trends in pharmaceutical promotion practices in China

Marketing, promotion and sales practices in the Chinese pharmaceutical market have become more sophisticated over the years. Physician-oriented academic promotion approach is playing an increasingly critical role in the value chain of prescription drugs, and is being increasingly recognised as an effective approach to promote pharmaceutical products to the medical community in China because:

- with hospitals estimated to control over 80% of the sales of prescription drugs in China, physicians are the decision makers in choosing what pharmaceutical products to prescribe to their patients. Therefore, the demand for prescription drugs is largely driven by physicians; and
- medical seminars and conferences are one of the major channels for physicians to learn the up-to-date information about new treatments and new pharmaceutical products. Therefore, a successful seminar or conference will raise awareness of a pharmaceutical product and generate more demand for the product.

This trend has been complemented by the PRC government's clamping down on under-the-table dealings of pharmaceutical companies, which has largely improved the overall legal compliance by pharmaceutical companies.

Key growth drivers for pharmaceutical marketing, promotion and sales service industry in China

As physician-oriented academic promotion approach becomes more prominent in China, there are more pharmaceutical companies, both domestic and overseas, looking for suitable third-party service providers to promote and sell their products in China in a more cost-efficient and effective way. This has presented substantial business opportunities for third-party marketing, promotion and sales service providers in China in recent years. In particular,

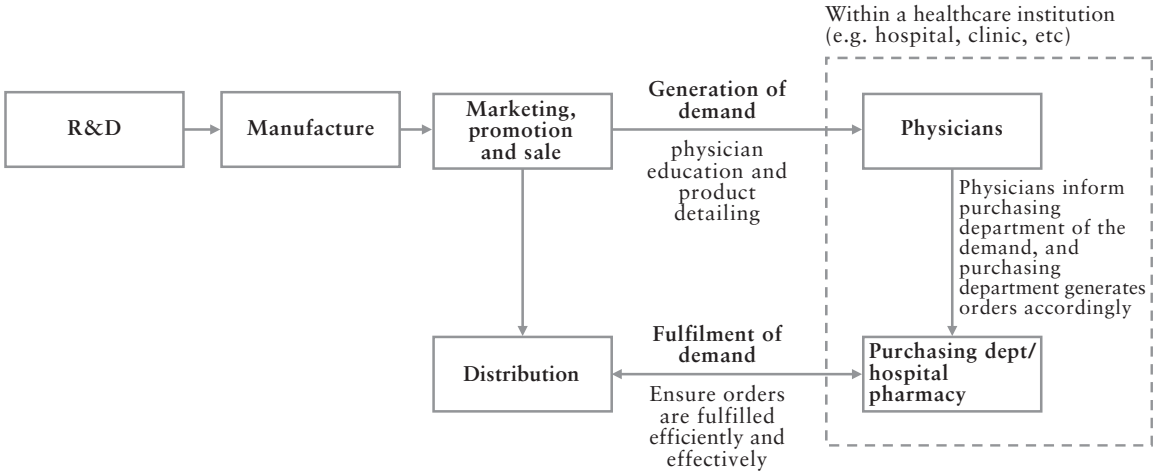
- for large global pharmaceutical manufacturers, even if they have achieved certain success in China, however, they might still have pressure on global headcount and cost-reduction and may have limited promotion capacity in China. Therefore, they need to prioritise their resources to support a portfolio of selected products in selected markets, and engage third-party promotion service providers to promote a wider range of their products or to promote their products in remote markets where they do not have wide coverage, in order to capture potential growth of these products without incurring significant additional costs;

- many smaller overseas pharmaceutical companies have not reached critical scale in China, therefore, engaging domestic promotion service providers will be a cost-efficient way for them to capture the vast potential growth of the Chinese pharmaceutical market; and
- many domestic pharmaceutical companies have historically focused on manufacturing and have not established in-house marketing and sales capabilities. As the promotion practices in China become more sophisticated, these companies also plan to grow their products by engaging capable third-party promotion service providers.

The different roles played by promotion service providers and distributors in China's healthcare industry

The chart below illustrates different roles played by promotion service providers and distributors in China's healthcare industry:

Value chain of prescription pharmaceutical products in China



The fact that a company sells a pharmaceutical manufacturer's products does not alone make it a distributor. Instead, it is the core service or core competency of the particular company that determines whether it is a distributor.

For prescription pharmaceutical products, physicians, who participate in the purchasing decision-making process, generally do not interact directly with distributors. Demand for prescription pharmaceutical products is generated by educating physicians of the benefits of the products based on their efficacy, safety, brand, and other clinical attributes. Demand is then communicated by the physicians, by way of prescription, to the purchasing department or the in-house pharmacy of the hospital or other healthcare institutions which then place orders with distributors.

As a result, the promotion and distribution of prescription pharmaceutical products are two different activities targeted at different audiences in the selling process.

The core competency of promotion service providers is educating physicians on the attributes of products through one-on-one visits, seminars, conferences, advertisements in healthcare industry publications, and other promotional activities. Promotion is typically done by the in-house

marketing, promotion and sales teams of the manufacturers or by third-party promotion service providers, and these marketing, promotion and sales teams are generally made up of personnel with relevant pharmaceutical or clinical backgrounds.

The core competency of distribution service providers by contrast is ensuring that purchase orders are met effectively and efficiently. Distribution teams interact mainly with the purchasing department of a healthcare institution. In the case of a hospital, such purchasing department is typically an in-hospital pharmacy. Healthcare distribution services typically include warehousing, storage, delivery, invoicing and collection of payment. Distribution service providers that deal with imported pharmaceutical products often provide import agency service, customs clearance and drug inspection clearance. Other distribution service providers, in particular, the leading ones, also provide other value-add services such as inventory management and analysis, product flow analysis, delivery of specialty products and others. All these services aim to ensure that the purchase order is met and enhance the overall efficiency of the supply chain by completing or facilitating the flow of products, information, and payments. Distributors of pharmaceutical products generally do not hire promotion staff and are not responsible for generating demand for the products.

In terms of financial profile, promotion service providers normally have higher gross margins, and a larger proportion of sales and marketing expenses, compared to distribution service providers. This is partly due to the manufacturers' recognition of the promotion activities that need to be conducted by the promotion service providers, which incur marketing and promotion related expenses. Distribution service providers normally cannot afford similar levels of sales and marketing expenses due to the lower gross margins they typically achieve. In addition, unlike distribution service providers, which normally require heavy capital expenditure in transportation and inventory storage facilities, promotion service providers are able to generate positive cash flow with a relatively light asset base.

We rely on a network of distributors to distribute our products to hospitals and are not ourselves a distribution service provider in the context of the pharmaceutical industry.

REPORT COMMISSIONED FROM FROST & SULLIVAN

We commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to report on, the pharmaceutical marketing and sale service provider market in China, which covers historical data for the period from 2005 to 2009 and forecast for the period from 2010 to 2016. The report commissioned has been prepared by Frost & Sullivan independent of our influence, and we paid US$60,000 to Frost & Sullivan for the report commissioned. According to information provided by Frost & Sullivan, Frost & Sullivan was founded in 1961 and has 35 global offices with more than 1,800 industry consultants, market research analysts, technology analysts and economists. Its services include technology research, market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. Based in the United States, it has been covering the Chinese market from its offices in China since the 1990s.

The Frost & Sullivan Report includes information on the PRC pharmaceutical marketing and sale service provider market such as industry segmentation, market size and growth in China, competitive landscape, market share and ranking of companies, prescription drugs market, imported pharmaceutical products market, historical and forecast sales data of our certain products, and other pharmaceutical industry and economic data, which have been quoted in this prospectus. The research was carried out through a blend of primary research and secondary research findings consummated by a team of Frost & Sullivan's in-house subject matter experts and industry leaders. The research encompassed a thorough assessment of the value chain which involved over 30 interviews with salespersons from pharmaceutical marketing and sale service providers,

pharmaceutical drug manufactures and physicians. The primary research was backed by a comprehensive "bottom-up" data collection through secondary sources, involving government publications and publically available statistical information. Some of the notable sources, such as the Ministry of Health, the Chinese Customs Trade Data and the China National Statistics Bureau were referred to. A significant contributor to the secondary research was Frost & Sullivan's proprietary decision support database, which covered typical information on market sizing of imported pharmaceutical products and total pharmaceutical size in China.

OVERVIEW

Our Group was founded in 1995 when our Chairman Mr. Lam Kong acquired Kangzhe Shenzhen through his company Shenzhen Kangzhe Enterprise Investment Co. Ltd. (深圳市康哲實業投資有限公司), which was then a small-scale PRC company primarily engaged in the trading of pharmaceutical products. Over the years, Mr. Lam has successfully steered the growth of our Group and transformed it from a small pharmaceutical trading company into a leading pharmaceutical services company focusing on the marketing, promotion and sale of prescription pharmaceutical products in the PRC. Our Chairman soon started to identify quality pharmaceutical products with large commercial potential for import into the PRC, secure the exclusive promotion and selling rights from pharmaceutical manufacturers and introduce and market such pharmaceutical products in the PRC. East Kingdom, a company owned as to 99% by our Chairman but not a member of our Group because our Group did not and does not have any interest in it, obtained the exclusive right to promote and sell Deanxit, a drug manufactured by Lundbeck Export A/S, a Danish pharmaceutical company, in the PRC in 1997, and procured the exclusive rights from German manufacturer Dr. Falk Pharma GmbH to promote and sell Ursofalk in the PRC in 1998. In 2002, we entered into exclusive agreements directly with Lundbeck Export A/S and with Dr. Falk Pharma GmbH to promote and sell Deanxit and Ursofalk in the PRC, respectively. Although Deanxit was then new to the PRC market, we successfully introduced Deanxit to the PRC market and generated strong growth of its revenue. Deanxit is now our biggest revenue generator, accounting for 46.1% of our total revenue in 2009. Similarly, since 2002, we successfully introduced Ursofalk to the PRC market and have managed to advance it to a rapid growth phase. We have since then applied our selection methodology to other pharmaceutical products. As at the Latest Practicable Date, we have the exclusive rights to promote and sell a total of eight key in-licensed pharmaceutical products from a number of overseas and domestic specialty pharmaceutical companies.

HISTORY AND DEVELOPMENT

Kangzhe Shenzhen

Kangzhe Shenzhen was established in 1985 by Shenzhen Medical Company (深圳醫藥總公司) as a state-owned enterprise under the name Shenzhen Friendship Pharmaceutical Trading Company (深圳市友誼藥材貿易中心). Shenzhen Medical Company itself is also a state-owned enterprise. In January 1995, Mr. Lam Kong, through his 95% owned company, Shenzhen Kangzhe Enterprise Investment Co. Ltd. (深圳市康哲實業投資有限公司) acquired a 90% interest in Kangzhe Shenzhen by injecting RMB2,880,000 cash into Kangzhe Shenzhen. The amount of the consideration was based on the valuation of the net assets of Kangzhe Shenzhen by an independent valuer. Our PRC legal adviser has confirmed that Shenzhen Medical Company was duly authorised under relevant local rules applicable at the time to approve that acquisition. Kangzhe Shenzhen was then converted to a non state-owned enterprise. Following the capital injection, the registered capital of Kangzhe Shenzhen was increased to RMB3,200,000 and was held as to 90% by Shenzhen Kangzhe Enterprise Investment Co. Ltd. and 10% by Shenzhen Medical Company. In March 2000, Mr. Lam Kong, through his 90% owned company, Shenzhen Kangyi Medical Promotion and Consultancy Co. Ltd. (深圳市康義醫藥推廣諮詢有限公司) acquired the remaining 10% interest in Kangzhe Shenzhen from Shenzhen Medical Company for a cash consideration of RMB500,000. The amount of the consideration was determined based on the then net asset value of Kangzhe Shenzhen. In April 2001, each of Mr. Chen Hongbing, Ms. Hou Xiaoxuan and Shenzhen Jiesheng Information Consultancy Co. Ltd. (深圳市傑盛信息諮詢有限公司) acquired a 5% equity interest in Kangzhe Shenzhen for a cash consideration of RMB45,000. The amount of consideration was based on an agreement among the relevant parties. Since its establishment, Shenzhen Jiesheng Information Consultancy Co. Ltd. was held as to 85% by Mr. Lam Kong and as to 5% by each of Mr. Fu Zhongming, Ms. Li Yafeng and Ms. Chen Yanling. Mr. Chen Hongbing, Ms. Chen Yanling and Ms. Hou Xiaoxuan are each a

Director. Each of Mr. Fu Zhongming and Ms. Li Yafeng was (and, in the case of Mr. Fu Zhongming, continues to be) a key employee of our Group. Mr. Fu and Ms. Li were our district manager and human resources manager, respectively. Following these acquisitions, the ownership of Kangzhe Shenzhen was as follows:

Shenzhen Kangzhe Enterprise Investment Co. Ltd.	75%
Shenzhen Kangyi Medical Promotion and Consultancy Co. Ltd.	10%
Shenzhen Jiesheng Information Consultancy Co. Ltd.	5%
Mr. Chen Hongbing	5%
Ms. Hou Xiaoxuan	5%

Subsequently, the registered capital of Kangzhe Shenzhen was increased on several occasions and eventually to RMB83,570,000, contributions to which were made by the equity holders pro rated to their respective percentage holding in Kangzhe Shenzhen. In November 2004, Kangzhe Shenzhen was converted into a limited liability company.

In December 2004, the entire equity interest in Kangzhe Shenzhen was transferred to Sino Talent for a cash consideration of RMB123,000,000, the value of which was determined based on the then net asset value of Kangzhe Shenzhen. Following the transfers, Kangzhe Shenzhen became a wholly foreign owned enterprise. The registered capital and total investment of Kangzhe Shenzhen were further increased to RMB150,000,000 in July 2007 and RMB350,000,000 in April 2008, respectively, and the registered capital has been fully paid up by Sino Talent. Kangzhe Shenzhen is now wholly owned by Sino Talent.

Kangzhe Pharmaceutical Technology

Kangzhe Pharmaceutical Technology was established in February 2000 by Shenzhen Kangzhe Enterprise Investment Co. Ltd. and Shenzhen Kangyi Medical Promotion and Consultancy Co. Ltd. with a registered capital of RMB3,000,000. The registered capital of Kangzhe Pharmaceutical Technology was increased to RMB10,000,000 in December 2000. In December 2000, Mr. Chen Hongbing, Ms. Hou Xiaoxuan and Shenzhen Jiesheng Information Consultancy Co. Ltd. each acquired a 5% interest in Kangzhe Pharmaceutical Technology by injecting RMB500,000. The amount of the consideration was determined based on the then registered capital of Kangzhe Pharmaceutical Technology. In April 2001, Mr. Lam Kong acquired an aggregate of 90% interest in Kangzhe Pharmaceutical Technology from the three corporate equity holders, being Shenzhen Kangzhe Enterprise Investment Co. Ltd., Shenzhen Kangyi Medical Promotion and Consultancy Co. Ltd. and Shenzhen Jiesheng Information Consultancy Co. Ltd., for a total consideration of RMB9,000,000. The amount of the consideration was determined based on the then registered capital of Kangzhe Pharmaceutical Technology.

In December 2001, Mr. Chen Hongbing and Ms. Hou Xiaoxuan transferred an aggregate of 10% interest in Kangzhe Pharmaceutical Technology to Shenzhen Tianchi Medicine Information & Technology Development Ltd. (深圳市天馳醫藥信息技術開發有限公司), which was held as to 83% by Shenzhen Kangzhe Enterprise Investment Co. Ltd., for a consideration of RMB1,000,000. At the same time, Mr. Lam Kong transferred his 90% interest in Kangzhe Pharmaceutical Technology to Kangzhe Shenzhen for a consideration of RMB9,000,000. Both of the two amounts of consideration were based on the then registered capital of Kangzhe Pharmaceutical Technology. In August 2003, Shenzhen Tianchi Medicine Information & Technology Development Ltd. transferred its 10% interest in Kangzhe Pharmaceutical Technology to Shenzhen Kangzhe Enterprise Investment Co. Ltd. for RMB1,000,000, which is equivalent to the amount paid by Shenzhen Tianchi Medicine Information & Technology Development Ltd. for the 10% interest in December 2001. In July 2005,

Shenzhen Kangzhe Enterprise Investment Co. Ltd. transferred its 10% interest in Kangzhe Pharmaceutical Technology to Kangzhe Hunan for RMB1,000,000, which is equivalent to the amount paid by Shenzhen Kangzhe Enterprise Investment Co. Ltd. for the 10% interest in August 2003.

Kangzhe Hunan

Kangzhe Hunan was established in 1996 by Hunan Li prefecture government as a state-owned enterprise under the name Lizhou Medical Factory (澧州製藥廠). In April 1996, Shenzhen Kangzhe Enterprise Investment Co. Ltd. and East Kingdom acquired the entire equity interest in Lizhou Medical Factory for a cash consideration of RMB2,480,000. The amount of the consideration was based on the valuation of the fixed assets of Lizhou Medical Factory determined by an independent valuer. In May 1996, Lizhou Medical Factory was converted into a sino-foreign investment enterprise and renamed as Yiqiao (Hunan) Pharmaceutical Co. Ltd. (益僑(湖南)制藥有限公司). The registered capital of Kangzhe Hunan was also increased to RMB8,280,000 in June 1996. In May 2001, East Kingdom transferred 24% equity interest in Kangzhe Hunan to Shenzhen Kangzhe Enterprise Investment Co. Ltd. for a consideration of RMB15,000,000, which was based on the then net asset value of Kangzhe Hunan. In June 2001, Shenzhen Kangzhe Enterprise Investment Co. Ltd. transferred 75% equity interest in Kangzhe Hunan to Kangzhe Shenzhen for a consideration of RMB42,150,000, which was based on the then net asset value of Kangzhe Hunan. In August 2001, the registered capital of Kangzhe Hunan was increased to RMB20,000,000 and the increase was contributed by the equity holders pro rated to their respective percentage holding. In August 2004, East Kingdom transferred its 25% equity interest in Kangzhe Hunan to Kangzhe Pharmaceutical for a consideration of HK$19,980,000, which was determined by reference to the then net asset value of Kangzhe Hunan.

Kangzhe Pharmaceutical

Kangzhe Pharmaceutical is a company incorporated in the BVI on 23 March 2004 with an issued share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. Kangzhe Pharmaceutical is wholly owned directly by Kangzhe Shenzhen. It is an investment holding company.

Sino Talent

Sino Talent is a company incorporated in Hong Kong on 29 October 2004 with an issued share capital of HK$1 of one ordinary share of HK$1, which is held by CMS International. It is an investment holding company.

CMS International

CMS International is a company incorporated in the BVI on 17 February 2004 with an issued share capital of US$10,000 divided into 10,000 ordinary shares of US$1 each. CMS International is wholly owned directly by our Company. It is an investment holding company.

CMS Pharmaceutical Agency

CMS Pharmaceutical Agency is a company incorporated in Malaysia on 2 July 2008 with an issued share capital of US$1 of one ordinary share of US$1. CMS Pharmaceutical Agency is wholly owned by CMS International and primarily engaged in trading of pharmaceutical products.

Sky United

In January 2007, we acquired 60% of the issued share capital of Sky United from Mr. Vincent Hui, our company secretary, and Mr. Hui Ki Fat, an executive Director, for a total consideration of HK$3 million in cash. The consideration was determined by reference to Sky United's net profits in 2006. Following completion of the acquisition, Sky United has become a subsidiary of our Company. Sky United is a company incorporated in Hong Kong on 1 August 1995 with an issued share capital of

HK$10 divided into 10 ordinary shares of HK$1 each. Prior to the acquisition, Sky United assisted our Group in the import of certain pharmaceutical products for a fee. The Directors considered the acquisition of Sky United represented a logical vertical integration of our service provider in its supply chain. Sky United is now principally engaged in the import of pharmaceutical products into China for our Group.

To streamline the group structure and eliminate the non-controlling interest, we acquired the remaining 40% interest in Sky United from Mr. Hui Ki Fat for a contracted consideration of HK$15,407,828 in April 2010. The consideration was determined by reference to Sky United's net profits in 2009. The consideration was satisfied by our Company allotting and issuing 263,833 Shares of US$ 0.1 each credited as fully paid up to Archiever Development Limited, a company incorporated in the BVI and wholly owned by Mr. Hui Ki Fat. Following the acquisition, Sky United became a indirect wholly-owned subsidiary of our Company. Sky United is directly held by Sino Talent.

Kangzhe Changde

Kangzhe Changde was established in the PRC on 15 October 2008 as a limited liability company by Kangzhe Hunan with a registered capital of RMB2,000,000. Its principal business is the trading of pharmaceutical products.

Guangdong Lantai

In November 2007, we acquired a 55% equity interest in Guangdong Lantai, a company principally engaging in the sale of pharmaceutical products, which complements our core business of marketing, promoting and selling prescription drugs in China. We have a right to appoint three out of the five directors of Guangdong Lantai. However, under the memorandum and articles of association of Guangdong Lantai, financial and operating policies are required to be approved by two thirds of the directors of Guangdong Lantai. Accordingly, we do not have control over Guangdong Lantai and it is accounted for as a jointly controlled entity in our Group's consolidated accounts.

Guangdong Lantai was established as a limited liability company in the PRC on 19 May 2005 with a registered capital of RMB7,000,000 and was held by Guangdong Kanghong Medical Co. Ltd. (廣東康虹醫藥有限公司) as to 49%, Mongolia Lantai Pharmaceutical Co. Ltd. (內蒙古蘭太藥業有限責任公司) as to 31%, and Mongolia Lantai Pharmaceutical Distribution Co. Ltd. (內蒙古蘭太藥業營銷有限公司) as to the remaining 20%. Each of these three equity holders is an independent third party of our Company. After several internal transfers, in June 2006, Guangdong Lantai was held as to 80% by Guangdong Kanghong Medical Co. Ltd. and as to the balance by Mongolia Lantai Pharmaceutical Distribution Co. Ltd. In November 2007, we acquired a 55% equity interest from Guangdong Kanghong Medical Co. Ltd. for nil consideration, and Guangdong Kanghong Medical Co. Ltd. and Mongolia Lantai Pharmaceutical Distribution Co. Ltd. transferred their remaining interests in Guangdong Lantai to Guangdong Yousheng Trading Development Co. Ltd. (廣州佑生貿易發展有限公司), an independent third party of our Company, for nil consideration. In December 2009, Guangdong Yousheng Trading Development Co. Ltd. transferred its 45% interest in Guangdong Lantai to Mr. Guo Yuandong (郭遠東) for nil consideration. Equity interest in Guangdong Lantai was transferred to us and Mr. Guo Yuandong at nil consideration because the asset value of Guangdong Lantai was negative at the time of the relevant transfer.

Guangdong Lantai is engaged in the business of selling pharmaceutical products. The products it sells include some of our in-house manufactured products as well as products manufactured by third parties. Guangdong Lantai's business segment and business strategy are different from that of the core business of our Group. It focuses on products that would not be material to our Group. Nevertheless, Guandong Lantai represents a strategic fit to our Group as it provides an additional sales channel for some of our products.

Ophol Limited

In June 2009, we acquired 24.5% of the issued share capital of Ophol Limited. Ophol Limited was incorporated in Hong Kong on 31 October 2006 with limited liability. It has an issued share capital of HK$10,000 divided into 10,000 share of HK$1 each. Prior to our acquisition in 2009, Ophol Limited was owned as to 73.5% by Winpro Development Limited ("Winpro") and as to the balance by two other shareholders ("Original Ophol Shareholders"), each of whom is an independent third party of our Company. One of the Original Ophol Shareholders is Synda Limited and the other Original Ophol Shareholder is a shareholder of Pharma Stulln GmbH, which is the manufacturer of Augentropfen Stulln Mono eye-drops. Ophol Limited is an investment holding company whose major asset is the right to receive the annual payment of the deferred consideration due from CMS Pharmaceutical Agency for its acquisition in 2008 of the exclusive agency right to promote and sell Augentropfen Stulln Mono eye-drops in China. The total consideration for the acquisition of the exclusive agency right was RMB60.0 million and is payable in ten annual installments of RMB6.0 million each starting from 2008. An agency right is different from a distribution right. An agency right can only be obtained directly from the manufacturer and it includes the right for the agent to import, promote and sell the products (including on-selling the products to other third parties). A distribution right may be granted by an agent of the manufacturer, but not necessarily from the manufacturer directly, to sell the products in a defined market.

In 2009, Winpro desired to cash out its share of the annual deferred payment receivable by Ophol Limited by selling its shares in Ophol Limited. The Original Ophol Shareholders and we were interested in acquiring the stake and agreed to do so in equal shares. As Ophol Limited's major asset is the right to receive the annual payment of the deferred consideration payable by our Group in relation to our acquisition in 2008 of the exclusive agency right to promote and sell Augentropfen Stulln Mono eye-drops in China and we are confident in the prospect of the product, it was in line with our Group's interest to invest in Ophol Limited. To expedite the negotiation process at the request of Winpro, we first entered into an agreement with Winpro for the acquisition of its 73.5% interest in Ophol Limited. On 20 February 2009, CMS Pharmaceutical Agency entered into an agreement with Winpro to acquire the 73.5% interest in Ophol Limited for a total cash consideration of RMB22,500,000, which was payable as to RMB18,000,000 at completion and the balance of RMB4,500,000 in four equal annual installments starting from 2010. On 15 March 2009, before completion of the transaction, CMS Pharmaceutical Agency entered into agreements to transfer a total of 49.0% in Ophol Limited to the Original Ophol Shareholders for an aggregate cash consideration of RMB15,000,000, payable as to RMB12,000,000 at completion and the balance of RMB3,000,000 in four equal annual installments starting from 2010. The amount of consideration payable and the timing for the payment under CMS Pharmaceutical Agency's agreement to transfer 49.0% in Ophol Limited to the Original Ophol Shareholders are proportional and corresponding to that under CMS Pharmaceutical Agency's agreement to purchase 73.5% interest in Ophol Limited from Winpro. The consideration for the shares in Ophol Limited was determined by reference to the stream of the remaining annual payment of the deferred consideration receivable by Ophol Limited in relation to the transfer of its exclusive agency right to promote and sell Augentropfen Stulln Mono eye-drops in China to CMS Pharmaceutical Agency discounted to the present value.

Following the completion of the transfer of the 73.5% interest in Ophol Limited in June 2009, Ophol Limited is held as to 24.5% by CMS Pharmaceutical Agency, 36.7% by Synda Limited and 38.8% by the other Original Ophol Shareholder.

Qingdao League

Qingdao League is a company established in the PRC and, prior to February 2007, was owned by 10 individuals, each being an independent third party of our Company and was independent from Ophol Limited (except for one individual who was the father of one of the original shareholders of Ophol Limited). Historically, Qingdao League engaged in several lines of business, including the operation of drug stores and wholesaling and retailing of medical devices. Qinqdao League had also acquired from Pharma Stulln GmbH, Germany, exclusive agency rights for Augentropfen Stulln Mono eye-drops in China.

In October 2006, Kangzhe Shenzhen agreed to acquire from Qingdao League the exclusive right to promote and sell Augentropfen Stulln Mono eye-drops in China for a period of 10 years commencing on 1 January 2007. The acquisition of these rights was made through an introduction to Kangzhe Shenzhen by the sole shareholder of Synda Limited, also an independent third party. The exclusive distribution right was acquired by our Group in connection with our acquisition of a 51% equity interest in Qingdao League in February 2007. We paid a cash consideration of RMB5,865,000 to four individual shareholders of Qingdao League, each being an independent third party of our Company and was independent from Ophol Limited (except for one individual who was the father of one of the original shareholders of Ophol Limited). The consideration was determined based on the then net asset value of Qingdao League. Although no consideration was agreed to be paid for the distribution right in October 2006 when the exclusive distribution right agreement was signed, for the purpose of the accounting treatment, the consideration for acquiring the exclusive distribution right was considered to be included in the consideration paid by Kangzhe Shenzhen to the shareholders of Qingdao League for the acquisition of the 51% equity interest in Qingdao League. As such, the consideration which was allocated to the acquisition of distribution right from Qingdao League was accounted for as intangible assets and the consideration which was allocated to the acquisition of the 51% equity interest in Qingdao League was accounted for as available-for-sale investment amounted to RMB4,905,000 and RMB960,000, respectively. At the same time, Ophol Limited acquired the remaining 49% interest in Qingdao League from six individual shareholders of Qingdao League, each being an independent third party of our Group and Ophol Limited, for a cash consideration of RMB5,635,000. Our primary purpose for acquisition was to secure the exclusive rights to promote and sell Augentropfen Stull Mono eye-drops in China. As part of the acquisition agreement, we agreed to relinquish control over the management of Qingdao League other than with respect to matters related to Augentropfen Stulln Mono eye-drops. Qingdao League also agreed to sell Augentropfen Stulln Mono eye-drops to us at a price that is lower than our original purchase price specified in the 2006 distribution agreement. Such reduction in price reflected our proportional share of the estimated profit that Qingdao League would have generated from the sale of the eye-drops, and therefore, we agreed not to share any profit from Qingdao League. Because we did not have control over the management of Qingdao League, our interest in Qingdao League was accounted for in our Group's accounts as available-for-sale investment.

In April 2008, we and Ophol Limited agreed to reorganise Qingdao League. We also agreed that Qingdao League would transfer the exclusive agency right to Augentropfen Stulln Mono eye-drops to Ophol Limited and, in turn, our Group would obtain the exclusive agency right to Augentropfen Stulln Mono eye-drops directly from Ophol Limited. In effect, we acquired from Ophol Limited a 49% interest in the exclusive agency right to Augentropfen Stulln Mono eye-drops for a cash consideration of RMB60,000,000 payable in ten equal annual installments starting from 2008. The consideration was determined based on the estimated value attributable to Ophol Limited had Qingdao League retained the exclusive agency right to Augentropfen Stulln Mono eye-drops, and such amount was determined by reference to: (i) the expected sales of Augentropfen Stulln Mono eye-drops in China; (ii) the expected fees Qingdao League would have received from Kangzhe Shenzhen over the duration of the 10-year exclusive distribution arrangement relating to

Augentropfen Stulln Mono; and (iii) the expected dividends that Ophol Limited would have received through its 49% interest in Qingdao League had the latter retained the exclusive agency right. As a shareholder in Qinqdao League, we agreed to the transfer of the exclusive agency right for nil consideration as our share of Qingdao League's profit had already been reflected in our reduced purchase price of the eye-drops, and such price remained unchanged when the agency right was transferred from Qingdao League to Ophol. Therefore, our economic benefit did not change as a result of the transfer of the agency rights.

We subsequently disposed of our entire interest in Qingdao League in July 2008 for a cash consideration of approximately RMB1,329,000 to Qingdao Leatu, an independent third party of the Group. The consideration for the disposal was determined by reference to the book value of such investment recorded in our Group's financial statements.

As advised by our PRC legal adviser, we have obtained all the necessary approvals and permits required under PRC laws and regulations for the acquisitions and disposals in respect of our PRC subsidiaries discussed in this sub-section headed "History and development".

LISTING ON AIM

As our businesses continued to develop, we tapped into the international capital markets to raise capital to finance our growth by listing on AIM. In preparation for our listing, we underwent a restructuring whereby our Company was incorporated in December 2006 in the Cayman Islands to be the holding company of our Group's businesses. In December 2006, our Company acquired the entire issued share capital of CMS International and that of Healthlink, which was subsequently disposed of in the Distribution of Healthlink. The structure of our Group has been in place throughout the Track Record Period, save for those acquisitions and disposals disclosed in this prospectus. Our Group did not carry out any corporate reorganisation for the purpose of seeking a listing on the Hong Kong Stock Exchange. Our Shares were admitted to trading on AIM on 26 June 2007. At the time of the listing, our Company issued a total of 7,246,376 new Shares of US$0.10 each by way of placing at a price of 138 pence per share and raised net proceeds of approximately GBP8.0 million. We used the net proceeds to further develop our R&D activities and provide further working capital to our Group. Since that placing, we have not conducted any capital raising exercise, except for the issuance of an aggregate of 174,363 Shares of US$0.10 each to Fully Profit under the Key Employee Benefit Scheme in 2009 and 2010 and the issuance of 263,833 Shares of US$0.10 each to Archiever Development Limited, a company wholly-owned by Mr. Hui Ki Fat, as consideration for the transfer by Mr. Hui of his 40% shareholding in Sky United to us on 19 April 2010. We notified the London Stock Exchange of the proposed Delisting and our Shareholders passed a resolution to approve the Delisting at the extraordinary general meeting held on 20 August 2010. Conditional upon the Listing, the cancellation of the admission of our Shares to trading on AIM will be effective on the Listing Date.

In relation to the Global Offering, our Company convened an extraordinary general meeting on 20 August 2010 at which our Shareholders approved the adoption of a new set of Articles of Association to comply with the requirements of the Listing Rules and the grant of a mandate to our Board to issue Shares in the Global Offering. Save for the adoption of our new Articles of Association and the mandate to issue Shares, our Company is not required to obtain our shareholders' approval or any approval from relevant regulatory authorities in the United Kingdom for the Listing. To lower the trading price per Share quoted on AIM with the aim of improving the liquidity of our Shares, pursuant to an ordinary resolution of our Shareholders passed at a general meeting held on 25 June 2010, each Share of nominal value of US$0.10 in the capital of our Company was sub-divided into 20 Shares of nominal value of US$0.005 of each with effect from 28 June 2010.

DISPOSED BUSINESS OPERATIONS

As our core business of marketing, promotion and sale of prescription drugs grew, we explored other opportunities in the pharmaceutical industry and ventured into the R&D and manufacture of medical devices through a series of acquisitions as well as internal growth. In 2005 and 2007, we acquired a controlling interest in Shenzhen Shenke and the entire equity interest in Shandong Baolihao, respectively. Both companies manufacture medical devices in China. In June 2002, we established Healthlink whose primary operations are R&D of pharmaceutical products. Our R&D function focused on the research and development of new drugs for the treatment of major diseases in oncology, hepatology and micorbia agent. Our R&D function was organised and held under a BVI incorporated holding company, Healthlink.

Distribution of Healthlink

Towards the end of 2009, we carried out a strategic review of our businesses and concluded that we should focus our resources on our core business, namely, marketing, promotion and sale of prescription drugs. Accordingly, we decided to dispose of our non-core R&D and medical device manufacturing businesses. On 11 December 2009, the Board passed a resolution declaring a payment of dividend by way of distribution in specie of the entire issued share capital of Healthlink to its shareholders. Shareholders were given the choice to elect to receive the dividend in cash instead of shares in Healthlink. Based on the election of our Shareholders, on 16 December 2009, Healthlink repurchased 17.9% of its issued share capital at US$0.232 per share, which price was determined by reference to the valuation of Healthlink carried out by an independent valuer; and distributed all the remaining shares in Healthlink to the Shareholders. Following the Distribution of Healthlink, we ceased to hold any interest in Healthlink and its subsidiaries. As advised by our BVI legal adviser, no further authorisations, consents, approvals, licences, validations or exemptions are required by law from any governmental authorities or agencies or other official bodies in the BVI in connection with the Distribution of Healthlink.

Disposal of Shenzhen Shenke and Shandong Baolihao

Further, we disposed of our interests held in the two medical device companies, namely, Shenzhen Shenke and Shandong Baolihao in December 2009. We sold our interests in Shenzhen Shenke to Shenzhen Kangzhe Enterprise Investment Co. Ltd., which was held as to 95% by Mr. Lam Kong, and other independent third parties, for an aggregate cash consideration of RMB3 million. The amount of consideration was determined based on the then net asset value of Shenzhen Shenke. We sold our interests in Shandong Baolihao to independent third parties for nil consideration as Shandong Baolihao had net liability at the time of the disposal. As advised by our PRC legal adviser, we have obtained all the necessary approvals and permits required under PRC laws and regulations in relation to our disposal of Shenzhen Shenke and Shandong Baolihao.

Accounting treatment

There was no cash flow generated from the repurchase by Healthlink of 17.9% of its issued share capital on 16 December 2009 in our Group's consolidated cash flows for the year ended 31 December 2009. Such repurchase was carried out immediately before the Distribution of Healthlink and therefore, at the time of the repurchase, Healthlink was one of our subsidiaries. Healthlink repurchased its issued shares held by our Company and paid the cash consideration to our Company. Accordingly, the repurchase was an intra-group transaction and there was no cash flow generated from it in our Group's consolidated cash flows.

The disposal of R&D and medical device manufacturing business is not reported as discontinued operations under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" in the financial statements of our Group contained in the accountants' report as set out in Appendix I to this prospectus because (i) the R&D related business was not regarded as a component of our Group

whose operations and cash flows can be clearly distinguished operationally and for financial reporting purposes, from the rest of our Group, and (ii) the medical device manufacturing business did not represent a separate major line of business or geographical area of operations given its insignificant amount of turnover and net results during the Track Record Period.

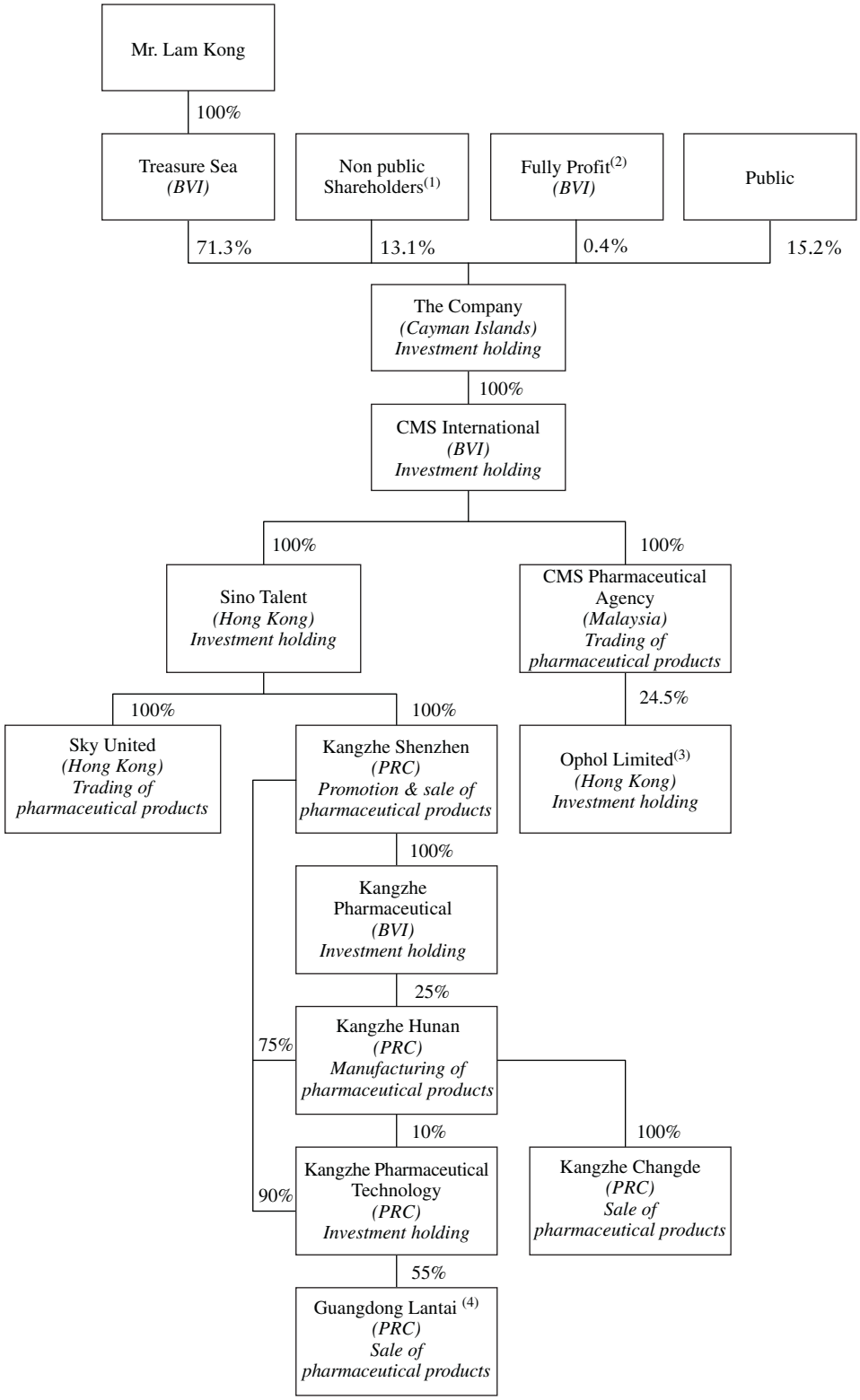
BUSINESS MILESTONES

The following sets out our major business development and achievements:

January 1995	Our Group was founded.
February 1997	East Kingdom obtained the exclusive right to promote and sell Deanxit in the PRC. Then in 2002, we obtained the exclusive rights to promote and sell Deanxit in the PRC.
July 1998	East Kingdom obtained the exclusive right to promote and sell Ursofalk in the PRC. Then in 2002, we obtained the exclusive rights to promote and sell Ursofalk in the PRC.
October 2006	We obtained the exclusive rights to promote and sell Augentropfen Stulln Mono eye-drops in the PRC.
December 2006	We obtained the exclusive rights to promote and sell GanFuLe in the PRC.
June 2007	Our Shares were admitted to trading on AIM.
March 2008	We obtained the exclusive rights in the PRC to promote and sell XinHuoSu and Cystistat.
June 2008	Our Company was awarded the first "Leading Enterprises in Independent Innovative Industry" by Shenzhen Municipality.
September 2008	We obtained the exclusive rights to promote and sell Salofalk in the PRC.
October 2008	Our Company was named in the 2008 Forbes list of "Asia's Best 200 Enterprises Under a Billion."
February 2009	Our previous R&D subsidiary, Kangzhe R&D, was accredited as a State-Level Hi-Tech Enterprises in 2008.
December 2009	We were named one of the "Top 100 Enterprises in Shenzhen".
January 2010	We were named in the 2010 Forbes list of "China's Best Up-and-Coming Small and Medium-sized Enterprises".
	We obtained the right to promote and sell one shipment of Exacin in the PRC.
February 2010	We obtained the exclusive rights to promote and sell Bioflor in the PRC.

GROUP STRUCTURE

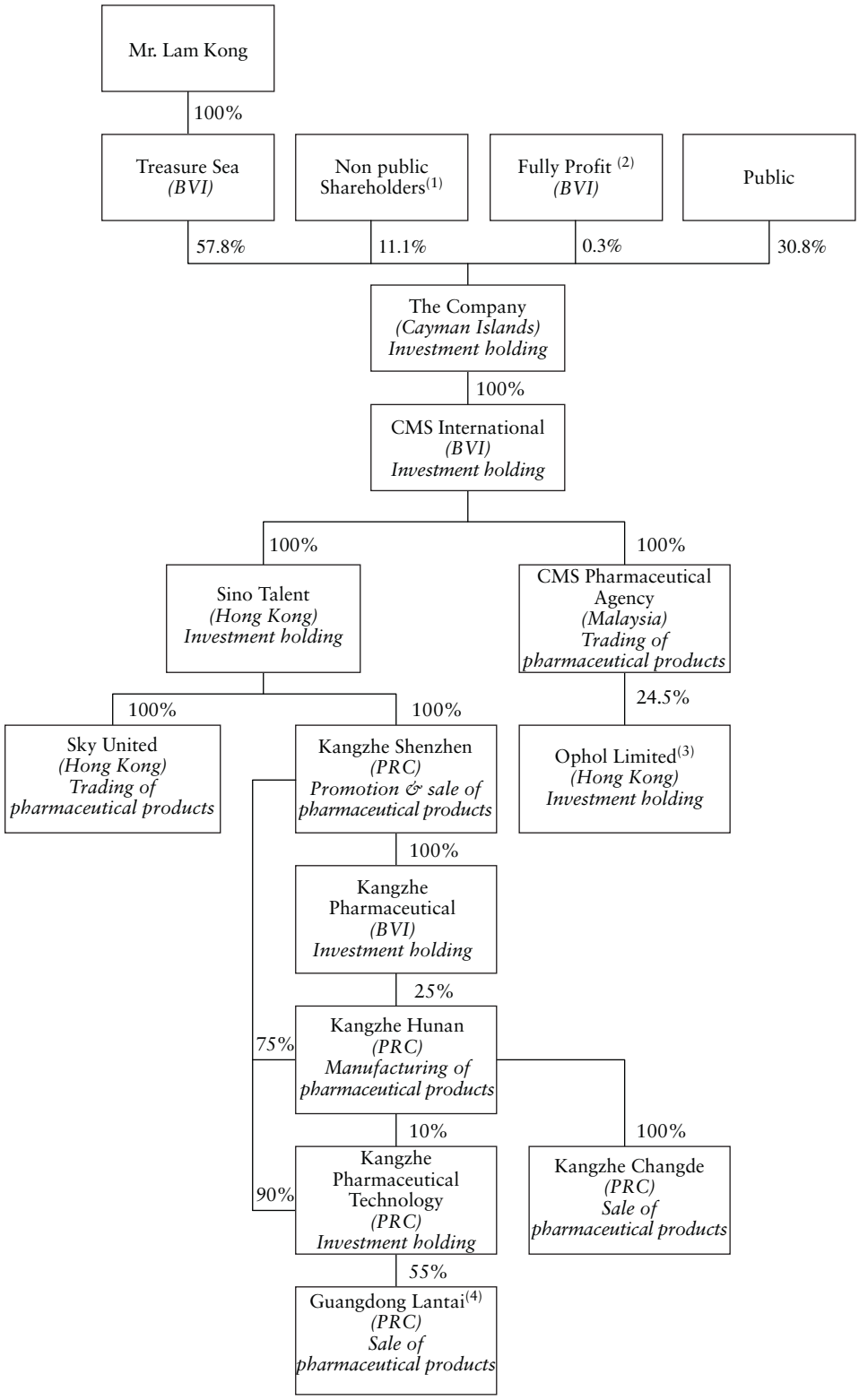
The following chart depicts the corporate structure of our Group as at the Latest Practicable Date:



Notes:

1. The non-public Shareholders are:
   (a) Mr. Chen Hongbing, a Director, directly and indirectly, holding 54,195,820 Shares, representing approximately 5.7% of the issued share capital of the Company as at the Latest Practicable Date.
   (b) Ms. Chen Yanling, a Director, directly and indirectly, holding 4,930,000 Shares, representing approximately 0.5% of the issued share capital of the Company as at the Latest Practicable Date.
   (c) Ms. Hou Xiaoxuan, a Director, and her associate directly and indirectly, holding 43,706,000 Shares, representing approximately 4.6% of the issued share capital of the Company as at the Latest Practicable Date.
   (d) Mr. Hui Ki Fat, a Director, indirectly holding 5,276,660 Shares, representing approximately 0.6% of the issued share capital of the Company as at the Latest Practicable Date.
   (e) Ms. Li Yafeng, who was a director of CMS International and Kangzhe Pharmaceutical in the 12 months preceding the date of this prospectus, indirectly holding 2,000,000 Shares, representing approximately 0.2% of the issued share capital of the Company as at the Latest Practicable Date.
   (f) Mr. Hui Vincent Wing Sin, Ms. Sa Manlin, Mr. Leung Shun, Mr. Peng Lu, Mr. Wang Haoheng, Mr. Ma Lieyi, Mr. Guo Yuandong and Ms. Li Yufang, each being a director of our subsidiaries, and their associates, holding in aggregate 14,825,680 Shares, representing approximately 1.6% of the issued share capital of the Company as at the Latest Practicable Date.
2. Shares held by Fully Profit are held on trust for the beneficiaries of the Key Employee Benefit Scheme.
3. The remaining equity interest in Ophol Limited is held as to 36.7% and 38.8% by two other shareholders, respectively, who are independent third parties (except for their business relationships with our Group).
4. Guangdong Lantai is accounted for as a jointly controlled entity in the consolidated accounts of the Group. The remaining equity interest in Guangdong Lantai is held by an individual who would have been an independent third party but for his directorship and equity interest in Guangdong Lantai.

The following diagram depicts the corporate structure of our Group immediately following the completion of the Global Offering (assuming that no Shares are issued or sold pursuant to the exercise of the Over-allotment Option or the Existing Share Options, or otherwise):



Notes:

1. The non-public Shareholders are:
   (a) Mr. Chen Hongbing, a Director, directly and indirectly, holding 54,195,820 Shares, representing approximately 4.8% of the issued share capital of the Company.
   (b) Ms. Chen Yanling, a Director, directly and indirectly, holding 4,930,000 Shares, representing approximately 0.4% of the issued share capital of the Company.
   (c) Ms. Hou Xiaoxuan, a Director, and her associate directly and indirectly, holding 43,706,000 Shares, representing approximately 3.9% of the issued share capital of the Company.
   (d) Mr. Hui Ki Fat, a Director, indirectly holding 5,276,660 Shares, representing approximately 0.5% of the issued share capital of the Company.
   (e) Ms. Li Yafeng, who was a director of CMS International and Kangzhe Pharmaceutical in the 12 months preceding the date of this prospectus, indirectly holding 2,000,000 Shares, representing approximately 0.2% of the issued share capital of the Company.
   (f) Mr. Hui Vincent Wing Sin, Ms. Sa Manlin, Mr. Leung Shun, Mr. Peng Lu, Mr. Wang Haoheng, Mr. Ma Lieyi, Mr. Guo Yuandong and Ms. Li Yufang, each being a director of our subsidiaries, and their associates, holding in aggregate 14,825,680 Shares, representing approximately 1.3% of the issued share capital of the Company.
2. Shares held by Fully Profit are held on trust for the beneficiaries of the Key Employee Benefit Scheme.
3. The remaining equity interest in Ophol Limited is held as to 36.7% and 38.8% by two other shareholders, respectively, who are independent third parties (except for their business relationships with our Group).
4. Guangdong Lantai is accounted for as a jointly controlled entity in the consolidated accounts of the Group. The remaining equity interest in Guangdong Lantai is held by an individual who would have been an independent third party but for his directorship and equity interest in Guangdong Lantai.

OVERVIEW

Founded in 1995, we are a leading China-based pharmaceutical services company focusing on the marketing, promotion and sale of prescription drugs of overseas and domestic specialty pharmaceutical companies. We provide exclusive marketing, promotion and sale services that primarily include one-on-one visits to physicians, providing them with professional education specific to therapeutic areas related to our products, educating physicians on the clinical uses, benefits, side effects and other clinical aspects of our in-licensed products, organising medical sympsia and sponsoring industry conferences. We also provide other ancillary services needed by our suppliers to bring their products to the market, including handling registration for imported drugs new to China, renewal of expiring imported drug registrations, bidding in collective tender processes, customs clearance, coordination for inspection of imported drugs and other managerial aspects of the products. We utilise local distributors' logistics networks to despatch and sell products to hospitals. By accurately positioning the products to target unmet medical needs and raising the awareness of our products among physicians, our services enable pharmaceutical companies lacking an effective commercialisation or promotion capability in China to bring their products to the market efficiently and generate demand for their products. According to the Frost & Sullivan Report, we are the largest pharmaceutical services company focusing on the marketing, promotion and sale of prescription drugs in China, accounting for 18% of the market in 2009, and we operate the largest third-party promotion network in China in terms of hospital coverage, therapeutic focus and number of salespeople. As at 31 July 2010, our marketing, promotion and sales team comprised more than 950 professionals, enabling our services to reach close to 6,000 hospitals located across 30 provinces, 97% of the provincial capitals and 86% of prefecture level cities in China. Our hospital network covers 91.5% of class-three hospitals and 34.6% of class-two hospitals in China. Our promotion network has identified over 100,000 target physicians who specialise in different therapeutic areas that are relevant to our product portfolio, including the central nervous system (or CNS), hepatology, gastroenterology, urology, ophthalmology, cardiovascular, oncology and paediatrics, and over 35,000 of them have directly participated in promotion activities that we organised, such as medical symposia, industry conferences and educational seminars. In the seven months ended 31 July 2010, over 40,000 of our target physicians had prescribed our in-licensed products.

Among our eight key in-licensed prescription pharmaceutical products in our current product portfolio, we have two strong in-licensed products, being Deanxit and Ursofalk. During the Track Record Period, a significant portion of our revenue was derived from sales of these two in-licensed products and our key in-licensed products were sourced from seven suppliers. Sales of our top two products, Deanxit and Ursofalk, accounted for approximately 79.0%, 79.6%, 75.5% and 70.2% of our total turnover for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. Further, total sales of the products from our top five suppliers represented approximately 90.9%, 95.1%, 96.2% and 94.0% of our total turnover for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. According to the Frost & Sullivan Report, Deanxit was the second-best selling anti-depressant and Ursofalk was the best selling drug for cholagogue treatment in China in 2009. Sales of Deanxit and Ursofalk, our current best-selling drugs, have grown at CAGRs of 28.8% and 47.6%, respectively, since we obtained the exclusive right to promote and sell these products in 2002.

We are a quality service provider and have stable relationships with our suppliers, as evidenced by the 100% renewal rates for the products that we decided to continue in-licensing. Dr. Falk Pharma GmbH, the manufacturer of Ursofalk has granted us the exclusive promotion and selling right of a second in-licensed product, Salofalk. We believe these facts attest to pharmaceutical companies' satisfaction with our marketing, promotion and sales services and reflect the value we bring to them. As we further expand our product portfolio, we believe our reliance on any single product or supplier will correspondingly reduce.

"Distributor" is a well-defined term in the context of the pharmaceutical industry. Unlike pharmaceutical distributors, whose primary goal is to ensure that pharmaceutical products are promptly and properly delivered to their customers in order to enhance the overall efficiency of the supply chain, our services are focused on the value creation aspects of marketing and promotion, such as elevating product profile, enlarging the pool of prescribing physicians and generating demand for a particular product by educating physicians on the clinical attributes of the product through one-on-one visits, and organising and sponsoring medical symposia, industry conferences, educational seminars and other promotional activities. We are therefore not a distribution service provider in the context of the pharmaceutical industry. We procure the exclusive rights to in-license, promote and sell select pharmaceutical products from overseas and domestic specialty pharmaceutical companies. We secure these exclusive rights by entering into long term supply agreements with our suppliers. Our revenue is primarily derived from the sale of the in-licensed pharmaceutical products that we purchase to our distributors, which then on-sell such products to hospitals. When setting the selling price for each product offered to our distributors, we take into account a number of factors including the bidding price at which the product will be supplied to hospitals and the level of profit margin that we believe is generally acceptable to distributors. Please refer to the section headed "Business — Pharmaceutical marketing, promotion and sales services — Customers" for further information on how we price our products. This business model is different from that in more developed markets, where third-party marketing and promotion service providers normally generate their revenues from sales commission at a pre-agreed percentage of total sales generated, according to the Frost & Sullivan Report. For additional details on the different roles played by promotion service providers and distributors in China's healthcare industry, please refer to the section headed "Industry Overview — Pharmaceutical marketing, promotion and sales services industry in China — The different roles played by promotion service providers and distributors in China's healthcare industry".

We operate in the following two business segments:

- *Marketing, promotion and sale of pharmaceutical products*. This is our principal business. We derive revenue from the marketing, promotion and sale of in-licensed pharmaceutical products in China.
- *Other business*. Our other business comprises the manufacture and sale of a number of prescription drugs.

We provide marketing, promotion and sales services for prescription pharmaceutical products of overseas and domestic specialty pharmaceutical companies. All of our supply agreements (except for that of GanFuLe) grant us the exclusive rights to promote and sell our suppliers' pharmaceutical products in China*, and our supply agreements are generally of a duration of five years or more, with automatic renewal rights provided that certain conditions, principally the agreed minimum order quantities, are met.

Note:

* In the case of GanFuLe, we have the exclusive rights to promote and sell the product in China excluding Heilongjiang, Jilin, Liaoning, Beijing, Inner Mongolia, Tianjin, Hebei, Shanxi, Shaanxi, Gansu, Ningxia, Qinghai and Xinjiang.

We believe that demand for our services will increase as the Chinese pharmaceutical market continues to expand. According to the Frost & Sullivan Report, China's pharmaceutical market grew by 21.9%, as compared to a 5% growth rate in the global pharmaceutical market in 2009, and China's spending on prescription drugs is expected to grow at a CAGR of 20.7% from 2005 to 2016, reaching US$110.7 billion by 2016. Drawn by such rapid growth and significant market potential in China, many overseas pharmaceutical companies are eager to bring their products to the Chinese market, and according to the Frost & Sullivan Report, sales of imported prescription drugs in China grew by 38% in 2009, eclipsing the growth of the overall prescription drugs market in China. This offers a significant growth opportunity for pharmaceutical marketing and promotion service providers which primarily focus on imported prescription drugs in China such as ourselves. According to the Frost & Sullivan Report, China's pharmaceutical marketing, promotion and sales services industry has grown substantially from US$231 million in 2007 to US$542 million in 2009, representing a CAGR of 53.1%. Frost & Sullivan also projects that such services market will further grow and reach US$4.6 billion in 2016. According to the Frost & Sullivan Report, large global pharmaceutical companies generally focus their resources on a limited portfolio of selective higher revenue-generating products and engage third-party service providers to market, promote and sell their other products. Most small and medium size overseas pharmaceutical companies have limited understanding of the Chinese market and culture and do not have the capability, expertise and experience to introduce their products to the Chinese market. These small and medium size overseas pharmaceutical companies also often choose to engage third-party service providers to launch and promote their products in China as a cost-efficient way to enter the market. In addition to these international companies, we anticipate that domestic pharmaceutical companies lacking the relevant marketing, promotion and sales capabilities will continue to rely upon third-party providers for these services. We expect to continue to capture the growth opportunities offered by the increasing demand from these overseas and domestic pharmaceutical companies by leveraging our expertise in providing marketing and promotion services and our broad promotion network in China.

We follow a rigorous product screening process to select products which have distinctive features that cannot be easily imitated and marketed in China, and which we expect will enjoy product exclusivity and a leading market position in the market. Our product exclusivity is reflected in the absence of competing products under the same generic name, based on our research carried out on the website of the SFDA as at the Latest Practicable Date, or reflected in administrative protection in the case of GanFuLe, a traditional Chinese medicine. Our current product portfolio consists of eight key in-licensed prescription pharmaceutical products, six of which are imported:

- Deanxit is one of our top two revenue contributors and was our first in-licensed product. It is the only Flupentixol and Melitracen product in China and is currently the second-best selling anxiolytic anti-depressant in China, after its sales surpassed its competitive product Prozac in 2009.
- Ursofalk dominated the ursodeoxycholic acid (UDCA) market and the overall cholagogue market with a 98.0% and 55.9% share, respectively in 2009.
- Augentropfen Stulln Mono eye-drops, which are used for the treatment of age-related macula degeneration (AMD), are the only imported escuilin and digitalisglycosides eye-drops approved by the SFDA.
- GanFuLe is a traditional Chinese medicine with exclusive formulations used to treat liver cancer, hepatitis B and cirrhosis. It has been granted a seven-year National Second Grade Traditional Chinese Medicine Protection.
- XinHuoSu is a National Class One New Drug and the only rhBNP drug in the Chinese market.
- Cystistat is the only imported sterile hyaluronate solution approved by the SFDA used for interstitial cystitis.
- Salofalk was the fifth best-selling anti-inflammatory agent globally for the 12 months ended 31 March 2010.

- Bioflor is the only saccharomyces boulardii approved by the SFDA in China used to treat acute infectious diarrhoea, antibiotic-associated colitis and diarrhoea (AAD).

Since late 2006, the continuing expansion of our product portfolio has contributed significantly to our growth. Sales of the six key products we newly in-licensed since late 2006 have increased significantly. Such products contributed to approximately 11.9%, 16.3%, 21.9% and 22.9% of our sales of in-licensed products for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively, and their revenue growth contributed about 35.3%, 25.4%, 38.0% and 32.4% of the growth in the revenue of our in-licensed products in the respective period. As our product portfolio expands, we reduce the risks associated with our reliance on a limited number of products, and we expect our expanding portfolio to continue to contribute to our growth. Substantially all of our sales are made to pharmaceutical distributors, which provide logistics services and in turn sell our products to hospitals and other healthcare institutions in China. As at 31 July 2010, we had established an extensive distribution network comprising over 300 distributors selling our products to close to 6,000 hospitals across China.

In addition to providing pharmaceutical marketing, promotion and sales services, a small part of our business consists of the production and sale of prescription drugs in China. We have obtained SFDA approvals to manufacture 17 prescription drugs and we currently produce and sell nine out of these 17 drugs. Prior to 2010, our businesses also included the research and development of pharmaceutical products and the manufacture of medical devices. These businesses were disposed of when we re-aligned our strategy to focus on providing marketing, promotion and sales services to overseas and domestic specialty pharmaceutical companies. Please refer to the section headed "History and Development — Disposed business operations" in this prospectus for further information on the disposal of our discontinued businesses.

The following table sets out a breakdown of our turnover by product and as a percentage of our total turnover for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	US$ '000	%	US$ '000	%	US$ '000	%	US$ '000 (unaudited)	%	US$ '000	%
Marketing, promotion and sale of pharmaceutical products										
In-licensed products										
Deanxit	26,144	50.5	36,710	50.6	44,468	46.1	22,768	48.7	26,029	42.5
Ursofalk	14,756	28.5	21,074	29.0	28,327	29.4	13,393	28.6	16,937	27.7
Augentropfen Stulln Mono eye-drops	3,011	5.8	4,394	6.1	6,146	6.4	2,817	6.0	3,814	6.2
GanFuLe	2,599	5.0	3,910	5.4	4,780	5.0	2,243	4.8	2,004	3.3
XinHuoSu	—	—	2,839	3.9	7,253	7.5	2,983	6.4	5,697	9.3
Cystistat	—	—	66	0.1	515	0.4	171	0.4	319	0.5
Salofalk	—	—	133	0.2	1,824	1.9	658	1.4	1,684	2.8
Exacin	—	—	—	—	—	—	—	—	3,367	5.5
Bioflor	—	—	—	—	—	—	—	—	282	0.5
Others	503	1.1	469	0.6	439	0.5	155	0.3	256	0.4
	47,013	90.9	69,595	95.9	93,752	97.2	45,188	96.6	60,389	98.7
Other business										
Self-manufactured pharmaceutical products	4,689	9.1	2,950	4.1	2,571	2.7	1,546	3.3	806	1.3
Self-manufactured medical devices	45	—	55	—	131	0.1	41	0.1	—	—
	4,734	9.1	3,005	4.1	2,702	2.8	1,587	3.4	806	1.3
	51,747	100.0	72,600	100.0	96,454	100.0	46,775	100.0	61,195	100.0

We are headquartered in Shenzhen, China and have a manufacturing facility in Hunan province. As at 31 July 2010, we had approximately 1,200 employees. Our shares are listed and have been admitted to trading on AIM (with ticker AIM: CMSH) since 26 June 2007. To lower the trading price per Share quoted on AIM with the aim of improving the liquidity of our Shares, pursuant to an ordinary resolution of our Shareholders passed at a general meeting held on 25 June 2010, each Share of nominal value of US$0.10 in the capital of our Company was sub-divided into 20 Shares of nominal value of US$0.005 each with effect from 28 June 2010.

For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our total turnover was US$51.7 million, US$72.6 million, US$96.5 million and US$61.2 million, respectively, representing a CAGR of 36.5% over the three years from 2007 to 2009 and an increase of 30.8% in the six months ended 30 June 2010 over the same period in 2009. For each of these periods, our gross profit was US$33.6 million, US$44.8 million, US$60.9 million and US$37.2 million, respectively, representing a CAGR of 34.6% over the three years from 2007 to 2009 and an increase of 25.6% in the six months ended 30 June 2010 over the same period in 2009, and our gross profit margin was 64.9%, 61.7%, 63.1% and 60.8% in the respective period. For each of these periods, our net profit was US$8.7 million, US$15.0 million, US$20.8 million and US$15.3 million,

respectively, representing a CAGR of 55.0% over the three years from 2007 to 2009 and an increase of 45.2% in the six months ended 30 June 2010 over the same period in 2009, and our net profit margin was 16.8%, 20.7%, 21.6% and 25.1% in the respective period.

Our business and results of operations during the Track Record Period relied heavily on two in-licensed products and a small number of suppliers. Please refer in the section headed "Risk Factors — Risks relating to our business — We rely on suppliers and other third parties with respect to our in-licensed products. If we cannot maintain our relationships with our suppliers and such other third parties, it may impair our ability to renew the exclusive promotion and selling rights in respect of our existing in-licensed products upon expiry or obtain promotion and selling rights for new products" in this prospectus. As part of our growth strategy, we seek to expand our product portfolio by obtaining exclusive promotion and selling rights from international and domestic pharmaceutical companies for new in-licensed products with high growth potential. We currently aim to add an average of two additional products to our portfolio every year. Since late 2006, we managed to add six new key in-licensed products to our product portfolio. As our product portfolio expands, we reduce the risks associated with our reliance on a limited number of products and the expanding portfolio is expected to continue to contribute to our growth.

Recent regulatory development

Four of our key in-licensed products are included in the Insurance Catalogue, namely, Deanxit, Ursofalk, GanFuLe and Salofalk, and are therefore subject to price control in China, which typically involves the imposition of retail price ceilings by the PRC government. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, sales of these four key in-licensed products accounted for approximately 84.1%, 85.2%, 82.3% and 76.2% of our Group's turnover for the respective period. Please refer to the section headed "Regulatory Framework — Legal supervision relating to the pharmaceutical industry in the PRC — Price control" in this prospectus for further details.

During the Track Record Period, the retail price ceiling of Ursofalk was adjusted downwards twice by the PRC government. Similarly, the retail price ceiling of Salofalk also endured PRC government imposed adjustments before we obtained the exclusive rights to promote and sell the product in the PRC in September 2008. Our Group's results of operations during the Track Record Period were not affected by any price adjustments imposed by the PRC government in relation to our products included in the Insurance Catalogue. There was a gap between the retail price ceiling and our Group's selling price for all of our products included in the Insurance Catalogue, which left us with meaningful room to absorb the price ceiling reductions imposed during the Track Record Period. However, we cannot assure you that the selling prices of our products will not be adversely affected should the PRC government impose any further price control on any of our products, including expanding the list of our products subject to price control and further significantly lowering the retail price ceilings of our products that are included in the Insurance Catalogue. To mitigate the risks associated with any potential price control measures imposed on our products and to lower the resulting potential impact to our business and results of operations, we strive to expand our product portfolio and increase the number of in-licensed products that we promote and sell so that we reduce our reliance on any single or a small group of products.

On 1 June 2010, the NDRC issued the "Consultation Paper in relation to the Administrative Measures on the Prices of Pharmaceutical Products" (《藥品價格管理辦法(徵求意見稿)》) to seek public opinions on new price control measures in respect of pharmaceutical products included in the Insurance Catalogue. The Consultation Paper is still at a preliminary stage and it is uncertain what measures will be adopted by the NDRC eventually. Further, on 17 June 2010, in response to substantial price increases in respect of certain pharmaceutical products immediately prior to or soon after their admission to the Insurance Catalogue in 2009, the NDRC released a news article on

its website titled "NDRC commenced appraisal on the pricing of the pharmaceutical products newly admitted to the Insurance Catalogue; investigations into pharmaceutical companies which substantially increased the prices of their pharmaceutical products that have been admitted to the Insurance Catalogue" (《國家發展改革委已啟動新進醫保目錄藥品核價工作，對企業在醫保目錄公佈前後的漲價行為從嚴核查》). We have only one key in-licensed product, Deanxit, which was newly admitted to the Insurance Catalogue in 2009. For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our sales of Deanxit amounted to US$26.1 million, US$36.7 million, US$44.5 million and US$26.0 million, respectively, accounting for 50.5%, 50.6%, 46.1% and 42.5% of our total turnover in the respective periods. We are not aware of any substantial increase in the retail prices of Deanxit in 2009 immediately prior to or soon after its admission to the Insurance Catalogue in 2009. On 2 July 2010, the NDRC issued a press release on its website announcing an investigation into the prices of about 900 types of pharmaceutical products from more than 900 manufacturers, which are either newly admitted to the Insurance Catalogue or are subject to price ceilings. The Drug Price Review Centre of the NDRC published a list of manufacturers and pharmaceutical products subject to price investigations. One of our key in-license products, GanFuLe, and its Hunan-based manufacturer were named on this list. For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our sales of GanFuLe amounted to US$2.6 million, US$3.9 million, US$4.8 million and US$2.0 million, respectively, accounting for 5.0%, 5.4%, 5.0% and 3.3% of our total revenue in the respective periods. The price investigation by the NDRC may not necessarily lead to a lowering of GanFuLe's retail price ceiling. Given GanFuLe's minimal contribution to our total turnover, even if the investigations result in the lowering of GanFuLe's retail price ceiling and our selling price is negatively impacted, we believe that this will not have a material adverse impact on our business and profitability.

Save as disclosed above, as at the Latest Practicable Date, we had not received any notification nor are we aware of any price investigation by the NDRC against any of our key in-licensed products. However, we cannot assure you that we or any of our other key in-licensed products will not be subject to any price investigations or other investigations carried out by any PRC governmental bodies. Please refer to the risk factor headed "Our ability to set or raise the prices of our products which are included in the Insurance Catalogue is limited by price control measures imposed by the PRC government. If any of these measures is further tightened or any retail price ceiling is significantly lowered, our business and profitability may be adversely affected" in the section headed "Risk Factors" in this prospectus for further details.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths position us well for continued growth:

We are the largest pharmaceutical service company providing marketing, promotion and sale services in China for specialty pharmaceutical companies, and we benefit from economies of scale.

According to the Frost & Sullivan Report, we are the largest pharmaceutical service company providing marketing, promotion and sale services for prescription pharmaceutical products in China, and we operate the largest third-party promotion platform in China in terms of hospital coverage, therapeutic focus and number of salespeople. We maintained our lead in sales over our competitors in the three years from 2007 to 2009. We have a growing professional and experienced marketing, promotion and sales team of over 950 employees covering 30 provinces, 97% of the provincial capitals and 86% of prefecture level cities in China. Our marketing, promotion and sales team grew from approximately 550 staff at the end of 2007 to 702, 750 and over 950 in 2008, 2009 and at the end of July 2010, respectively. In addition, we have the largest third-party marketing and sales network, covering close to 6,000 hospitals, including 91.5% of class-three hospitals and 34.6%

of class-two hospitals throughout China, giving us potential access to more than 100,000 doctors specialising in therapeutic areas relevant to our product portfolio, including the central nervous system (or CNS), hepatology, gastroenterology, urology, ophthalmology, cardiovascular, oncology and paediatics.

We believe that with our broad marketing, promotion and sales platform, we are able to offer pharmaceutical companies more cost-effective and time-efficient access to the healthcare market in China for their products. With our broad promotion and sales network, extensive hospital coverage and wide scope of therapeutic areas covered by our products, we are better able to cross-sell our products in a cost-effective way and benefit from economies of scale as we add further in-licensed products to our portfolio, which we expect will bolster our operating profit margin in the future.

We are well positioned to capture opportunities presented by the strong growth of the Chinese pharmaceutical market and, in particular, its imported drug market, and by the increasing demand among specialty pharmaceutical companies for third-party pharmaceutical marketing, promotion and sale services.

We believe demand for pharmaceutical marketing, promotion and sale services in China among overseas and domestic specialty pharmaceutical companies will continue to grow as more companies are attracted to the strong growth of the Chinese pharmaceutical market, which is largely driven by increasing healthcare spending, higher disposable income, rising health awareness and the recently announced healthcare reform in China. In particular, according to the Frost & Sullivan Report, sales of imported prescription drugs in China grew at a CAGR of 34.7% from 2005 to 2009, compared to a CAGR of 20.9% for the overall prescription drug market in China over the same period of time.

In light of the strong growth of the Chinese pharmaceutical market and, in particular, its imported drug market, we believe many overseas pharmaceutical companies plan to enter the Chinese market, which will further drive the demand for marketing and promotion services in China. According to the Frost & Sullivan Report, China's pharmaceutical marketing, promotion and sale service industry has grown substantially from US$231 million in 2007 to US$542 million in 2009, representing a CAGR of 53.1%. Frost & Sullivan also projects that such service market will further grow and reach US$4.6 billion in 2016. According to the Frost & Sullivan Report, large global pharmaceutical companies generally focus their resources on a limited portfolio of selective higher revenue-generating products and engage third-party service providers to market, promote and sell their other products. Most small and medium size overseas pharmaceutical companies have limited understanding of the Chinese market and culture and do not have the capability, expertise and experience to introduce their products to the Chinese market. These small and medium size overseas pharmaceutical companies also often choose to engage third-party service providers to launch and promote their products in China as a cost-efficient way to enter the market. Similarly, we anticipate that many domestic pharmaceutical companies that lack the relevant marketing, promotion and sales capability, expertise and experience will continue to rely on third-party providers for these services. As the leading pharmaceutical service company providing marketing, promotion and sale services in China, and with our established reputation, strong expertise and proven track record, we believe we are well positioned to capture growth opportunities presented by the increasing demand expected among these pharmaceutical companies. From 2007 to 2009, our total turnover and net profit grew at CAGRs of 36.5% and 55.0%, respectively, and in the six months ended 30 June 2010, our total turnover and net profit increased by 30.8% and 45.2%, respectively, over the same period in 2009, which outpaced the growth of the overall Chinese pharmaceutical market.

Our proven track record provides us with an advantage when we compete for the exclusive promotion and selling rights for new in-licensed products and from new suppliers.

When selecting a third-party marketing, promotion and sales service provider, pharmaceutical companies typically regard quality of service as a determining factor. With our proven track record of introducing and positioning a number of pharmaceutical products in China, we are a strong partner for specialty pharmaceutical companies looking to introduce new products to the market. With the aim of maximising the potential of each product, we carry out a detailed pre-market entry analysis on each in-licensed product based on a number of factors, taking into consideration the prevailing treatment protocols and the demographic profile of the relevant patient pool including prevalence rates in China. Since we obtained the exclusive right to promote and sell Deanxit and Ursofalk in 2002, sales of these products have grown by a CAGR of 28.8% and 47.6%, respectively, through 2009. Since inception, the renewal rate of our supply agreements for the products we decided to continue in-licensing has been 100%. Further, Dr. Falk Pharma GmbH, the manufacturer of Ursofalk has granted us the exclusive promotion and selling right of a second in-licensed product, Salofalk. We believe these facts attest to pharmaceutical companies' satisfaction with our marketing, promotion and sales services and reflect the value we bring to them.

We have the ability to effectively bridge the gap faced by pharmaceutical companies in introducing their products to the end market due to constraints on their capital, marketing expertise or other resources. We have been listed on AIM since 2007 and have established strong corporate governance procedures. We therefore are transparent and have strong corporate governance, which we believe provides us with an advantage when competing for new products from overseas pharmaceutical companies. As our reputation as a leading pharmaceutical service company providing marketing, promotion and sale services in China becomes more widely recognised, we believe we will continue to attract new and existing suppliers to engage us to promote and distribute their products in China.

We have a highly-qualified and professional marketing, promotion and sales team, which effectively promotes our products to end customers.

We recognise that awareness and understanding of our products among medical practitioners is one of the key factors to successfully introducing a product to the market. Accordingly we adopt an academic, physician-oriented approach when we promote our products and direct our marketing efforts at medical practitioners. To achieve this, we employ professional team that is equipped with the relevant industry background and possesses thorough product knowledge and a good understanding of physicians' practices and treatment protocols in China. Over the years, we have built up a stable, highly-qualified and experienced promotion and sales team which consists of over 950 staff. Our promotion and sales team has been with us for an average period of about three years, and among them the mid-level to senior members have been with us for an average period of approximately nine years. Over 70% of our promotion and sales team have educational backgrounds in medicine or pharmacology, and a number of them practised medicine and hence possess first-hand clinical experience. Their professional background and experience in the pharmaceutical industry have enabled us to successfully implement our promotion and sales strategy, which requires a substantial level of interfacing with physicians and focuses on educational training in the specific therapeutic areas of our products. Apart from managing our marketing, promotion and sales activities, senior and seasoned members of our promotion and sales team also take part in training and provide guidance and leadership to their junior counterparts. Such training further reinforces our professionalism and our academic approach to marketing, promoting and selling pharmaceutical products, as reflected in our corporate culture. We offer compensation packages that we consider to be competitive to retain and attract talent in the market and devote significant resources to training and rotation programmes for our employees with the aim of ultimately equipping the most promising among them to participate in the management of our

Group. For more information on our strategy to attract and retain high calibre individuals, please refer to the paragraph headed "Our strategy — Continue to invest in training facilities and programmes to help our marketing, promotion and sales employees grow" below in this prospectus.

Our successful product selection strategy contributes to our continuing steady growth and high profit margins.

We have a proven track record of expanding our product portfolio by obtaining exclusive promotion and selling rights of products in China while increasing our turnover and profitability. From 2007 to 2009, our total turnover increased at a CAGR of 36.5%, and our net profit rose at a CAGR of 55.0%, while our net profit margin improved from 16.8% to 21.6%. In the six months ended 30 June 2010, our total turnover and net profit increased by 30.8% and 45.2%, respectively, over the same period in 2009, and our net profit margin further increased to 25.1%. Since late 2006, we expanded our portfolio of key in-licensed products from two products to eight. Our Directors believe our success in growing our business and maintaining high profit margins has been largely attributable to the market driven approach that we have adopted in selecting new products for our portfolio. When we select new pharmaceutical products, we employ strict selection criteria which include whether the product:

- has significant market potential or addresses unmet medical needs in China;
- has unique features that help to differentiate it from competitive products; and
- is difficult to imitate and market in China, thus creating barriers, such as time, cost and technical know-how, to competitors who might imitate our products.

The success of our product selection and promotion strategies is demonstrated by, amongst other things, the continued growth recorded by the sales of Deanxit and Ursofalk, which we started to promote and sell in 2002. Our revenue from the sales of these products represented a significant portion of our revenue during the Track Record Period. After over 10 years of sales in China, sales of Deanxit and Ursofalk continued to grow by 21.1% and 34.4%, respectively in 2009, or at CAGRs of 28.8% and 47.6%, respectively since 2002, partly due to the difficulty for competitors to imitate them and market similar products in China. In addition, since late 2006, we have added six new key in-licensed products to our portfolio. These products cover different therapeutic areas, and have brought us additional revenue growth. Sales of these recently introduced products have grown significantly in the last few years, from US$5.6 million in 2007 to US$20.5 million in 2009, representing a CAGR of 91.2%. We believe our market-oriented product selection and promotion strategies will enable us to identify additional appropriate products, further expand our business operations and diversify our revenue streams.

We have developed in-house an advanced information management system for managing our marketing, promotion and sales network and our overall operations, which allows us to effectively control our promotion and sales activities and operate our business in an efficient and cost-effective manner.

We place particular emphasis on developing and maintaining our information management systems to manage our growing business and to ensure that our business is operated efficiently and cost-effectively, with the aim of further improving our profitability. In particular, our in-house information technology team has developed a tailor-made information technology system, CMSERP, to cater for our management and operational needs. CMSERP is configured based on key performance indicators drawn from our management's experience and knowledge gained from managing our business in the past and is customised to suit our particular operational model. It comprises a large database which, among other functions, tracks our marketing, promotion and sales activities and receives and processes orders from distributors on a timely basis. It provides a centralised system for our management to monitor and co-ordinate our overall marketing, promotion and sales activities. In particular, it allows us to access up-to-date data on conferences and professional education sessions that we organise, as well as feedback from doctor visits. By

tracking the activities of our promotion and sales team, CMSERP also serves an internal control function helping us to monitor and ensure that promotion and sales plans and activities are executed as planned. Data collected by CMSERP, and the analysis and forecasts it generates, provide a key source of data which assists us in developing and reviewing our periodical sales and business plans.

CMSERP is upgraded periodically to cater for our expanding business. As this is a proprietary system, all upgrades are carried out by our in-house information technology team, which helps to ensure the cost effectiveness and efficiency of the system. As we add new products to our portfolio, we believe our sophisticated and proprietary CMSERP will enable us to effectively manage our growing business and will at the same time continue to assist us in improving our operational efficiency, decision-making process, risk management and profitability.

We have an experienced, dedicated and stable management team.

Our executive Directors and senior management have an average of more than 15 years of experience in the Chinese pharmaceutical industry and have worked with us for many years. Our management team is led by our chairman and CEO, Mr. Lam Kong, and comprises the other executive Directors and senior managers referred to in the section headed "Directors and Senior Management" in this prospectus. Mr. Lam Kong received a bachelor's degree in clinical medicine in 1986 from Zhanjiang Medical College, which today is known as Guangdong Medical College. He possesses clinical experience and has over 15 years of experience in pharmaceutical marketing, promotion and sale in China. Other members of our senior management team have also contributed to our success. Mr. Chen Hongbing, our Chief Operating Officer, graduated from Nanjing Medical College with a bachelor's degree in clinical medicine in 1990 and had about four years of clinical experience prior to joining us in 1995. Ms. Chen Yanling, our Chief Financial Officer, who also joined us in 1995, received her accountancy qualification in 1997 and from 1997 to 1999 studied and completed an MBA course recognised by the Administration of Foreign Experts Affairs of Guangdong Province. Dr. Ma Jonathan Zheng, our Chief International Operations Officer, joined us in 2005. Earlier in his career, he worked at Pfizer in the United States, and we have leveraged his overseas work experience and relationships with overseas pharmaceutical companies to source potential in-licensed products. He received a PhD from Yale University in 1995. Dr. Wong Wai Ming, our Chief Technical Officer, joined us in 2000 and is the co-inventor (along with Mr. Lam) of CMS024. He studied biochemistry and received his bachelor's degree in science and his PhD from the University of Hong Kong in 1983 and 1993, respectively. His R&D experience and knowledge of the PRC pharmaceutical industry assist us in formulating strategies for selecting and positioning our products. We believe our experienced, dedicated and stable management team will continue to drive us forward.

OUR STRATEGY

Our aim is to consolidate our position as the leading independent pharmaceutical service company providing marketing, promotion and sale services in China. We intend to maximise opportunities available in one of the fastest growing sectors in China to further enhance our profit. To achieve our goal, we plan to implement the following strategies:

Increase our penetration of the Chinese pharmaceutical market by further expanding our marketing, promotion and sales team, broadening our marketing, promotion and sales network, and increasing our hospital and medical doctor bases.

We believe there are numerous growth opportunities for our products in the rapidly growing Chinese pharmaceutical market. To further develop our business in the pharmaceutical market in China, we intend to expand our marketing, promotion and sales team to over 1,000 employees by 2011. We also aim to expand our sales to cover a greater number of hospitals and medical doctors. As substantially all of our products are sold to hospitals through our distributors, in order to successfully expand the geographic coverage of our business, a critical aspect of our strategy is to

broaden our network of hospital end customers. Since our academic, physician-oriented marketing model has helped us gain significant market share for our products, we plan to replicate our success by using the same marketing techniques when developing new geographic markets. We also plan to construct new training and conference centres, in which we will hold physician training, medical conferences and other promotion activities, so that we will be able to organise conferences that better suit the needs of our target physicians and enhance the effectiveness and quality of our promotion activities. By further expanding our marketing, promotion and sales team, increasing our network coverage and increasing the size of our hospital and medical doctor bases, we believe we will be able to capture significant growth opportunities presented by the rapidly growing PRC healthcare market and increase our penetration of the Chinese pharmaceutical market.

Continue to expand our product portfolio and therapeutic focus by obtaining exclusive rights to promote and sell new pharmaceutical products with high growth potential in China through our marketing, promotion and sales platform.

As part of our growth strategy, we seek to expand our product portfolio by obtaining exclusive promotion and selling rights from international and domestic pharmaceutical companies for new in-licensed products with high growth potential. We currently aim to add an average of two additional products to our portfolio every year. We will actively seek and select products that present high growth potential by adhering to our tested product selection strategy. Furthermore, we will leverage on our established marketing, promotion and sales platform to introduce new products to the market. With our strong marketing, promotion and sales platform, we are confident that we will be able to replicate the success we have had in launching new products in the Chinese market.

Increase our product portfolio and market penetration by forming strategic alliances with suitable partners or acquiring suitable pharmaceutical products.

We will explore opportunities to collaborate with suitable partners in related fields through strategic alliances or acquisitions that provide synergies or otherwise strengthen our current market leading position. We may also acquire agency rights to suitable products with high growth potential to expand our product portfolio. Our objective in such alliances or acquisitions is to secure exclusive promotion and selling rights, with fewer conditions attached, for high quality pharmaceutical products with strong growth potential. We believe that our experience and expertise in product selection helps us to understand industry trends and identify market opportunities, which will assist us in forming such alliances or acquisitions. We have in the past executed this strategy by acquiring the agency rights of Augentropfen Stulln Mono eye-drops in China. While we currently have not identified any specific targets or opportunities, we believe we will be able to identify appropriate partners, products or targets with high growth potential that complement our existing product portfolio and business and help us to increase our market penetration and continue to grow.

Continue to invest in our advanced information management system to improve the management of our marketing, promotion and sales network, operating efficiencies and cost effectiveness.

We intend to continue investing resources to maintain and upgrade our information management system to enhance our operating efficiency. In particular, we intend to deploy approximately US$7.4 million, which will be funded from the net proceeds from the Global Offering, to upgrade and improve both hardware and software of our information management system. Currently, our Group's operations are primarily supported by our CMSERP system, which enables us to record, analyse and review our marketing, promotion and sales activities, which in turn helps us effectively manage our business and operations, and assists us in improving our internal control, decision-making process and risk management. For more information about CMSERP, please refer to the paragraph headed "— Our competitive strengths — We have developed in-house an advanced information management system for managing our marketing, promotion and sales network and our overall operations, which allow us to effectively control our promotion and sales activities and

operate our business in an efficient and cost-effective manner" in this section of this prospectus. We believe that the improvement in our performance over the past three years has been due in part to the deployment of our information management system, and that the continuous improvement of our system in respect of its stability, security, accuracy and efficiency will further enhance our effective and timely management and contribute to our future growth.

Continue to invest in training facilities and programmes to help our marketing, promotion and sales employees grow.

As the contribution made by our experienced senior management and professional sales, marketing and promotion employees has been critical to our success to date, we plan to continue to attract and retain professional employees. We will continue to provide the management of our marketing, promotion and sales team with compensation packages that we consider to be competitive. We will provide our talented and promising employees who have potential to become management members with training and rotation programmes to help them develop professionally and broaden their work exposure to become competent managers. In addition, we plan to further strengthen our corporate culture and enhance the product knowledge and marketing, promotion and sales expertise of our employees by continuing to invest in employee training. We plan to construct new training and conference centres to hold employee training programmes. These centres will be used as a centralised forum for our employees to share their work experience, knowledge and other work-related concerns in an open atmosphere and to have greater interaction with other members of the team, as well as for members of our management team to hone their leadership and management skills and to grow further. With all these strategies, we believe we will be successful in retaining our professional and experienced management team and attracting more high-calibre individuals to join us.

OUR BUSINESS SEGMENTS

We are a leading provider of sales, marketing and promotion services in China for prescription drugs of overseas and domestic specialty pharmaceutical companies. We derive revenue from the following two business segments:

- *Marketing, promotion and sale of pharmaceutical products*. This is our principal business. We derive revenue from the marketing, promotion and sale of in-licensed pharmaceutical products in China.
- *Other business*. Our other business comprises the manufacture and sale of a number of prescription drugs.

The following table sets out the turnover, cost of goods sold and gross profit in respect of each of our business segments, and the percentage these items represented to our total revenue, total cost of goods sold and profit for the year/period, respectively, during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	US$ '000	%	US$ '000	%	US$ '000	%	US$ '000 (unaudited)	%	US$ '000	%
Turnover										
Marketing, promotion and sale of pharmaceutical products	47,013	90.9	69,595	95.9	93,752	97.2	45,188	96.6	60,389	98.7
Other business (note)	4,734	9.1	3,005	4.1	2,702	2.8	1,587	3.4	806	1.3
Total	51,747	100.0	72,600	100.0	96,454	100.0	46,775	100.0	61,195	100.0
Cost of goods sold										
Marketing, promotion and sale of pharmaceutical products	17,753	97.8	27,358	98.3	35,333	99.3	17,004	99.2	23,684	98.8
Other business	396	2.2	477	1.7	263	0.7	135	0.8	286	1.2
Total	18,149	100.0	27,835	100.0	35,596	100.0	17,139	100.0	23,970	100.0
Gross profit										
Marketing, promotion and sale of pharmaceutical products	29,260	87.1	42,237	94.4	58,419	96.0	28,184	95.1	36,705	98.6
Other business	4,338	12.9	2,528	5.6	2,439	4.0	1,452	4.9	520	1.4
Total	33,598	100.0	44,765	100.0	60,858	100.0	29,636	100.0	37,225	100.0

Note:
Turnover and gross profit for "Other business" included the sale of our in-house manufactured products and medical devices for the three years ended 31 December 2007, 2008 and 2009. We disposed of the manufacture and sale of medical devices business in December 2009. Therefore, for the six months ended 30 June 2010, turnover and gross profit for "Other business" included the sale of our in-house manufactured products only.

PHARMACEUTICAL MARKETING, PROMOTION AND SALES SERVICES

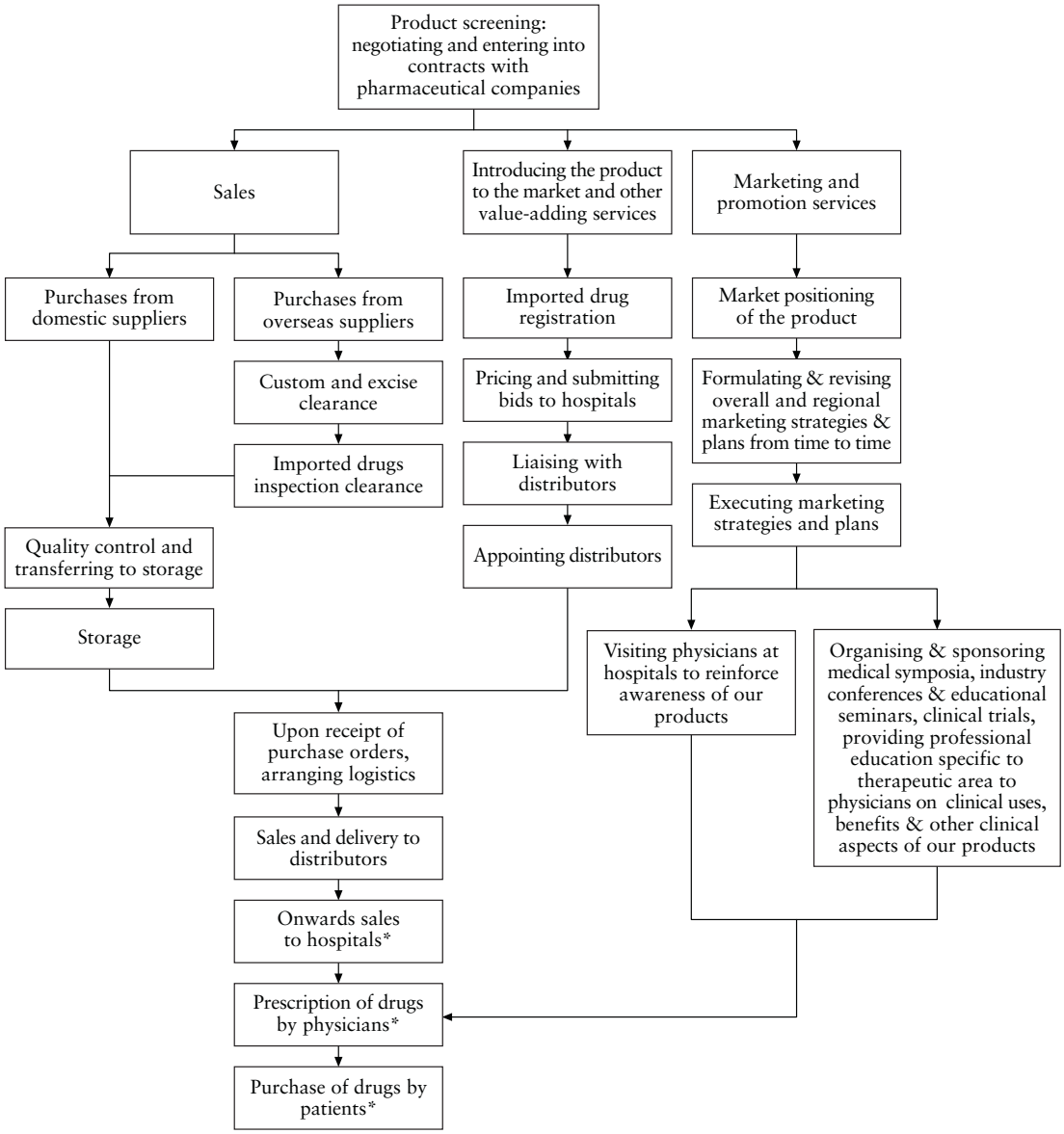
Description

Our core business is the marketing, promotion and sale of overseas and domestic in-licensed prescription drugs in China. According to the Frost & Sullivan Report, we are the largest pharmaceutical services company focusing on the marketing, promotion and sale of prescription pharmaceutical products in China, and we operate the largest third-party promotion network in China in terms of hospital coverage, therapeutic focus and number of salespeople. Currently, we have the exclusive rights to promote and sell eight key in-licensed products in China in a number of therapeutic areas including the central nervous system (or CNS), hepatology, gastroenterology, urology, ophthalmology, cardiovascular, oncology and paediatrics. Our marketing, promotion and sales team actively seeks to strengthen our product recognition among physicians through various academic, physician-orientated marketing and promotion activities, with the ultimate aim of increasing demand for and sales of our products. As at 31 July 2010, we had more than 950 marketing, promotion and sales staff, making ours the largest pharmaceutical promotion team in China and enabling our services to reach close to 6,000 hospitals located across 30 provinces, 97%

of the provincial capitals and 86% of prefecture level cities in China. In the seven months ended 31 July 2010, over 40,000 of our target physicians had prescribed our in-licensed products and over 35,000 of our target physicians had directly participated in promotion activities that we had organised, such as medical symposia, industry conferences and educational seminars.

Operating process

The bulk of our resources are spent on various marketing, promotion and sales activities. The following diagram illustrates the key steps involved in our marketing, distribution and sales operations:



Note:

* Not part of our Group's process.

Product screening

We have three sources to identify prospective product candidates: internal research, third-party agents' referral and existing suppliers' referral. Our international operations team primarily looks for prospective drug candidates among overseas as well as domestic pharmaceutical companies with a focus on those therapeutic areas which we perceive to be in large demand in the Chinese market. In particular, for product candidates from overseas pharmaceutical companies, we primarily focus on drug candidates that have fulfilled regulatory requirements and received imported drug licences from the SFDA to be marketed in the PRC. In the mean time, we also consider in-licensing product candidates that have not received imported drug licence from the SFDA if they are complementary to our existing product portfolio or therapeutic focus, and if they have patents or other protection that will enable them to maintain its market exclusivity in China. We are introduced to new pharmaceutical products by third-party agents or our existing suppliers from time to time. We will then carry out a pre-market entry analysis on a potential product, including research on differentiating clinical aspects, features that cannot be easily imitated, potential market demand, prevalence rates of the relevant diseases, regulatory environment (such as pricing limitations and mandatory tendering process requirements), availability of substitute products and potential competitive landscape.

Once a suitable product is identified, we will negotiate with the relevant pharmaceutical company to procure the exclusive promotion and selling rights in respect of such product for the Chinese market. Our aim is to secure long-term promotion and selling rights on an exclusive basis.

Market positioning

When we introduce a new pharmaceutical product to the Chinese pharmaceutical market, we primarily focus on identifying the following aspects of the product: (i) the prevailing treatment protocols, (ii) the demographic profile of the relevant patient pool including prevalence rates in China, and (iii) potential competitive advantages. We use these factors to facilitate our formulation of marketing and promotion strategies. We believe our market positioning strategy, coupled with our academic, physician-oriented promotion strategy which emphasises educating physicians on diagnosis and treatment of the target therapeutic areas, reinforces our professional image and provide us with a strong foundation to promote and sell our products.

Formulating or adjusting marketing strategies and plans

According to the market positioning strategy that we choose for the product, we then formulate or adjust marketing strategies and plans to introduce the product to the market. We formulate our overall marketing strategies and plans for the year, which contain details for each region and each quarter of the year, and such plans are reviewed periodically. We formulate our overall marketing and promotion objectives and long-term direction for the product in an annual plan, set out more detailed steps and short-term goals in a quarterly plan, and fine-tune the marketing strategies to suit the regional needs and concerns in a regional plan. In this way, for each product, we strive to achieve a balance between a centralised marketing strategy and plan so as to have overall control of our marketing and promotion activities, and regional flexibility so as to cater for the regional needs.

Executing marketing strategies and plans

Given the nature of prescription drugs, the use of which is prescribed by physicians, our marketing and promotion activities are targeted at hospitals and physicians who are the decision makers in choosing which drugs to prescribe to patients. We recognise that a better awareness and deeper understanding of the product among physicians is a key factor in successfully positioning the product in the market. Accordingly, we adopt an academic, physician-oriented marketing and promotion model in promoting our in-licensed products to physicians directly and focus on promoting the features and usage of our products.

Our marketing and promotion activities consist of one-on-one hospital visits, such as educating physicians on the clinical uses, benefits, side effects and other clinical aspects of our in-licensed products, as well as co-ordinating post-market clinical trials and other promotion activities. These activities are carried out by our marketing, promotion and sales team, 70% of whom have a professional qualification in medicine or pharmacology and are therefore better positioned to understand the related therapeutic knowledge and effectively communicate with the doctors. Additional marketing and promotion activities include contributing to journal articles, single-issue publications and slide presentations. We also receive academic support from specialist networks comprising over 4,000 key opinion leaders in various therapeutic areas, who help us introduce our products to other physicians and hence raise awareness of our products. We frequently organise and sponsor seminars, panel discussions and medical conferences with medical associations in which physicians are the participants. During such seminars and conferences, through the discussions on particular diseases and the development of the pharmaceutical market as a whole, physicians are able to gain a better understanding of the features and usages of our products. In 2009 and the seven months ended 31 July 2010, we sponsored or organised more than 600 and 400 provincial and municipal seminars and conferences in China, respectively. Our marketing strategies are reviewed and adjusted based on feedback we obtain from hospitals and physicians from time to time.

We have established a highly qualified and professional marketing, promotion and sales team to take charge of creating, planning, organising and executing our marketing and promotion plans. Our marketing, promotion and sales team members also visit hospitals, doctors and specialists frequently for one-on-one sessions and in-depth discussions to reinforce product awareness, as well as to obtain their feedback on the relevant product usage. As at 31 July 2010, our national marketing, promotion and sales team comprised more than 950 full time staff, approximately 30 of whom worked at our headquarters in Shenzhen and approximately 920 of whom worked outside Shenzhen, covering 30 provinces, 97% of the provincial capitals and 86% of prefecture level cities in China.

The following map illustrates the geographic coverage of our products by province and city ranked by revenue contribution to our Group for the year ended 31 December 2009:

During the year ended 31 December 2009, the top five cities and provinces contributing to our turnover were Zhejiang province, Guangdong province, Shanghai, Beijing and Jiangsu province.

The following table sets out the number and the percentages of different classes of hospitals covered by our marketing, promotion and sales team during the Track Record Period:

	For the year ended 31 December								For the seven months ended 31 July		
	2007			2008			2009			2010		
Hospitals	Total	Coverage	%	Total	Coverage	%	Total	Coverage	%	Total	Coverage	%
Total	298,113	3,779	1.3	287,076	4,355	1.5	267,525	5,092	1.9	267,525	5,968	2.2
Class-three	1,045	928	88.8	1,182	994	84.1	1,192	1,074	90.1	1,192	1,091	91.5
Class-two	5,151	1,745	33.9	6,608	2,032	30.8	6,780	2,394	35.3	6,780	2,345	34.6
Class-one and others	291,917	1,106	0.4	279,286	1,329	0.5	259,553	1,624	0.6	259,553	2,532	1.0

For the three-year period from 2007 to 2009, the total number of hospitals we covered increased from 3,779 to 5,092, which was further increased to 5,968 as at 31 July 2010, with more than 91% coverage of class-three hospitals and more than 34% of class-two hospitals at the end of this period.

As at 31 July 2010, over 70% of our marketing, promotion and sales team have a professional qualification in medicine or pharmacology. Our highly qualified marketing, promotion and sales team helps us to effectively communicate with doctors and professional personnel at hospitals when marketing and promoting our products, which we believe not only enhances our sales but also enables us to provide high-standard professional services. The management in our marketing, promotion and sales team generally are very experienced and have been with us for a long time. As at 31 July 2010, over 80% of our 155 managers at district manager level or above with our marketing, promotion and sales team have worked with us for five years or more and over 50% of these managers have been with us for 10 years or more. Our strong, experienced, professional and dedicated management team plays a critical role in driving our business forward. We intend to further increase our marketing, promotion and sales team's capability by hiring additional staff so that we can strengthen our marketing and promotion activities to cover a greater number of hospitals and physicians and to cover more products in different therapeutic areas.

Other value-added services

We provide other ancillary value-added services to our suppliers including handling registration for imported drugs new to China, renewal of expiring imported drugs registrations, bidding in collective tender processes, customs clearance, coordination for inspection of imported drugs and other managerial aspects of our products. We have a professional team responsible for handling the registration and renewal of our imported pharmaceutical products with the SFDA. We prepare and submit bids to qualify our products to be sold to hospitals. Under applicable PRC law, non-profit medical organisations established by county or higher level government or state-owned enterprises in the PRC are required to implement collective tender processes for the purchase of drugs. Typically, hospital bidding process is carried out by a tender coordinator, who will invite tenders by first publishing an invitation to bid and relevant clarification (if any). We, as one of the interested bidders, will then submit a bid and the relevant documents to the tender coordinator. The tender coordinator will review and verify the documents and information related to all bidders' qualifications. Only when a bidder is considered qualified will it be allowed to submit its bidding price. The tender coordinator will form an expert review committee to review documents and information on various products submitted by the qualified bidders. Once a successful bidder has been selected, the tender coordinator will announce the bidding result and the successful bidder will select distributors to handle distribution of the relevant products to the hospital. For further details on the legal requirements relating to collective tender processes, please refer to the section headed "Regulatory Framework — Legal supervision relating to the pharmaceutical industry in the PRC — Centralised tendering system for drug purchases by medical organisations" in this prospectus. After a product is marketed, we continue to manage the licensing aspects of it to ensure that our products remain in full compliance with applicable laws and regulations in China.

Product portfolio

We currently have the exclusive rights to promote and sell eight key in-licensed products in China. In 2010, we also obtained a right to promote and sell one shipment of Exacin imported under its one-time permit in China, with its imported drug licence being under renewal. We are currently exploring an opportunity to obtain a long-term exclusive right to promote and sell Exacin in China, however, we may or may not be able to obtain such right and therefore Exacin is not currently regarded as one of our key in-licensed products. Our portfolio of in-licensed products is diversified in terms of therapeutic applications. Our in-licensed products are applied in a number of therapeutic areas, such as central nervous system (or CNS), hepatology, gastroenterology, urology, ophthalmology, cardiovascular, oncology and paediatrics. Since we obtained the exclusive right to promote and sell Deanxit and Ursofalk in 2002, we have been able to generate strong sales growth for these products, and they currently represent the largest contributors to our turnover. Since 2002, sales of Deanxit and Ursofalk have grown at CAGRs of 28.8% and 47.6%, respectively. Since late 2006, we have added six new key in-licensed products, the most recent of which is Bioflor, for which we secured the in-licence right to exclusively promote and sell the product in China commencing in 2010. Sales of these recently added products have grown significantly in the last few years, from US$5.6 million in 2007 to US$20.5 million in 2009, representing a CAGR of 91.2%.

The following table sets out a breakdown of our turnover by product for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June	
	2007		2008		2009		2010	
	US$ '000	%	US$ '000	%	US$ '000	%	US$ '000	%
In-licensed products								
Deanxit	26,144	55.6	36,710	52.7	44,468	47.4	26,029	43.1
Ursofalk	14,756	31.4	21,074	30.3	28,327	30.2	16,937	28.1
Augentropfen Stulln Mono eye-drops	3,011	6.4	4,394	6.3	6,146	6.6	3,814	6.3
GanFuLe	2,599	5.5	3,910	5.6	4,780	5.1	2,004	3.3
XinHuoSu	—	—	2,839	4.1	7,253	7.7	5,697	9.4
Cystistat	—	—	66	0.1	515	0.5	319	0.5
Salofalk	—	—	133	0.2	1,824	1.9	1,684	2.8
Exacin	—	—	—	—	—	—	3,367	5.6
Bioflor	—	—	—	—	—	—	282	0.5
Others	503	1.1	469	0.7	439	0.6	256	0.4
	47,013	100.0	69,595	100.0	93,752	100.0	60,389	100.0

As these products progressively mature into the growth stage, we expect that they will bring us steadily increasing revenue streams. The diversification of our product portfolio through the introduction of new products reduces the concentration risk of relying on a few products, and we believe it enables us to maintain sustainable growth in the longer term. Based on our research carried out on the website of the SFDA as at the Latest Practicable Date, most of our in-licensed products enjoy product exclusivity. Our product exclusivity is generally reflected in the absence of competing products under the same generic name, or in the case of GanFuLe, a traditional Chinese medicine, where generic name is not applicable, the product exclusivity is reflected in administrative protection under the National Second Grade Traditional Chinese Medicine Protection. We believe that our product selection strategy, which places emphasis, among other things, on the absence of major competitive products in the genre will help to contribute to the success of these products.

The following table sets out certain information about our key in-licensed products:

Product	Supplier	Indication	Product exclusivity[1]	Exclusive sales region	Insurance Catalogue
Deanxit (Flupentixol and Melitracen)	H. Lundbeck A/S, Denmark	Mild to moderate depression and anxiety	√	PRC	In Class B of the Insurance Catalogue
Ursofalk (Ursodeoxycholic acid)	Dr. Falk Pharma GmbH, Germany	Dissolution of cholesterol gallstones, cholestatic liver disease and gastritis	—	PRC	In Class A of the Insurance Catalogue
Augentropfen Stulln Mono eye-drops (Escuilin and digitalisglycosides eye-drops)	Pharma Stulln GmbH, Germany	Ocular asthenopia and Senile Macular Degeneration	√	PRC	—
GanFuLe	Sino-TCM Lengshuijiang Pharmaceutical Co. Ltd. 國葯葯材冷水江製葯有限公司, the PRC	Liver cancer, hepatitis B and cirrhosis	√	PRC[2]	In Class B of the Insurance Catalogue
XinHuoSu (Nesiritide or rhBNP)	Tibet Rhodiola Co. Ltd. (西藏諾迪康股份有限公司), the PRC	Acutely decompensated congestive heart failure	√	PRC	—
Cystistat (sterile hyaluronate solution)	Bioniche Teoranta, Ireland	Interstitial Cystitis	√	PRC	—
Salofalk (Mesalazine)	Dr. Falk Pharma GmbH, Germany	Ulcerative colitis and Crohn's disease	—	PRC	In Class B of the Insurance Catalogue
Bioflor (Saccharomyces boulardii)	Biocodex, France	Acute infectious diarrhoea, antibiotic-associated colitis and diarrhoea	√	PRC	—

Notes:

(1) For western drugs, product exclusivity refers to the absence of competing products under the same generic name as determined by our research carried out on the website of the SFDA as at the Latest Practicable Date. In the case of GanFuLe, it is protected by a seven-year National Second Grade Traditional Chinese Medicine Protection expiring in July 2013 pursuant to which its manufacturer has the exclusive right to the product formulations during the validity period of the protection.

(2) In the case of GanFuLe, we have the exclusive rights to promote and sell the product in China excluding Heilongjiang, Jilin, Liaoning, Beijing, Inner Mongolia, Tianjin, Hebei, Shanxi, Shaanxi, Gansu, Ningxia, Qinghai and Xinjiang.

The following table sets out a breakdown of our revenue from the sale of each of our in-licensed products for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June	
	2007		2008		2009		2010	
	US$ '000	%	US$ '000	%	US$ '000	%	US$ '000	%
In-licensed products								
Deanxit	26,144	55.6	36,710	52.7	44,468	47.4	26,029	43.1
Ursofalk	14,756	31.4	21,074	30.3	28,327	30.2	16,937	28.1
Augentropfen Stulln Mono eye-drops	3,011	6.4	4,394	6.3	6,146	6.6	3,814	6.3
GanFuLe	2,599	5.5	3,910	5.6	4,780	5.1	2,004	3.3
XinHuoSu	—	—	2,839	4.1	7,253	7.7	5,697	9.4
Cystistat	—	—	66	0.1	515	0.5	319	0.5
Salofalk	—	—	133	0.2	1,824	1.9	1,684	2.8
Exacin	—	—	—	—	—	—	3,367	5.6
Bioflor	—	—	—	—	—	—	282	0.5
Others	503	1.1	469	0.7	439	0.6	256	0.4
	47,013	100.0	69,595	100.0	93,752	100.0	60,389	100.0

Deanxit (Flupentixol and Melitracen)

Deanxit is one of our top two best selling drugs and was our first in-licensed product. It is currently the second best selling anxiolytic anti-depressant in China, after its sales surpassed its competitive product Prozac in 2009. According to the WHO, it is estimated that 5% to 10% of the population at any given time is suffering from identifiable depression and requires psychiatric treatment or psychosocial intervention. Despite the seriousness of depression as a disease and the availability of effective treatment, only 30% of cases worldwide receive appropriate care. As the general awareness of mental health continues to improve, we anticipate large unmet demand for the treatment of depression. According to the Frost & Sullivan Report, the anti-depression market in China was US$393.5 million in 2009, and is expected to grow at a CAGR of 17.9% from 2005 to 2016. We believe this provides significant growth potential for our product Deanxit. Further, according to the Frost & Sullivan Report, since 2005, Deanxit has maintained a market share of about 11% of the Chinese market for anti-depressant drugs and it was ranked the second in terms of sales value in 2009 amongst other similar competitive products. We attributed its growth to our extensive promotion network and focus of the promotion on treatment of psychosomatic diseases, which has expanded the targeted departments in hospitals to include neurology, obstetrics and gynecology, cardiovascular and gastroenterology. Deanxit has been included in the Insurance Catalogue Class B since 2009, which has reduced the costs to patients. The following table sets out the ranking and percentage market share of Deanxit and its key competing products in China in each of the last five years:

	2005		2006		2007		2008		2009	
Product	Ranking	Market share	Ranking	Market share	Ranking	Market share	Ranking	Market share	Ranking	Market share
Seroxat	2	16.8%	1	16.3%	1	16.4%	1	16.8%	1	17.0%
Deanxit	3	11.0%	3	10.5%	3	10.5%	2	10.9%	2	11.3%
Prozac	1	18.2%	2	15.1%	2	13.4%	2	10.9%	3	9.8%
Zoloft	5	4.8%	5	5.2%	5	6.5%	3	7.4%	4	7.5%
Cipramil	4	6.3%	4	6.9%	4	8.0%	4	7.1%	5	7.3%

Source: Frost & Sullivan Report

In 1997, East Kingdom obtained the exclusive right to promote and sell Deanxit in the PRC. In 2002, we entered into a five-year agreement with H. Lundbeck A/S of Denmark to promote and sell Deanxit in China (excluding Hong Kong and Macau) on an exclusive basis, and in 2008, we renewed the agreement for another five years. For the seven months ended 31 July 2010, Deanxit was sold to over 4,500 hospitals across 29 provinces in China. Since 2002, sales of Deanxit have grown at a CAGR of 28.8% to US$44.5 million for the year ended 31 December 2009, contributing approximately 46.1% of our total turnover for 2009.

Ursofalk (Ursodeoxycholic acid)

Ursofalk, another key product of ours, is used for the treatment of cholesterol gallstones, cholestatic liver disease and bile reflux gastritis. According to the Frost & Sullivan Report, Ursofalk represented 98.0% of the UDCA market in China in 2009. UDCA's efficacy in treating cholestatic liver diseases has been recognised in recent years. We therefore have expanded our promotion of Ursofalk to cover the treatment of cholestatic liver disease as well as continuing to promote Ursofalk for the treatment of cholesterol gallstones. According to the Frost & Sullivan Report, the overall cholagogue market in China was US$50.7 million in 2009 and is expected to grow at a CAGR of 21.6% from 2005 to 2016. Further, according to the Frost & Sullivan Report, Ursofalk has maintained a market share of more than 50% of the Chinese market for cholagogue drugs since 2007 and was ranked first by market share since 2005 amongst other similar competing products. Ursofalk is included in the Insurance Catalogue Class A and the National List of Essential Drugs.

The following table sets out the ranking and percentage cholagogue market share of Ursofalk and its key competing products in China in each of the last five years:

	2005		2006		2007		2008		2009	
Product	Ranking	Market share	Ranking	Market share	Ranking	Market share	Ranking	Market share	Ranking	Market share
Ursofalk	1	45.5%	1	48.7%	1	51.9%	1	52.7%	1	55.9%
DanWeiTa	2	37.6%	2	30.0%	2	21.9%	3	16.6%	3	12.0%
Mite	3	3.7%	3	9.6%	3	16.5%	2	19.5%	2	20.4%
Galle-Donau	4	3.1%	4	2.0%	4	2.2%	4	2.3%	4	1.2%

Source: Frost & Sullivan Report

In 1998, East Kingdom obtained the exclusive right to promote and sell Ursofalk in China. In 2002, we entered into an exclusive agreement with Dr. Falk Pharma of Germany for the sale and promotion of Ursofalk in China. We renewed the agreement with Dr. Falk Pharma in August 2010 for a term of about eight years. For the seven months ended 31 July 2010, Ursofalk was sold to approximately 2,300 hospitals in 30 provinces in China. Since 2002, our sales of Ursofalk have grown at a CAGR of 47.6% to US$28.3 million for the year ended 31 December 2009 and contributed approximately 29.4% of our total turnover for 2009.

Augentropfen Stulln Mono eye-drops (Escuilin and digitalisglycosides eye-drops)

Augentropfen Stulln Mono eye-drops are used to treat age-related macula degeneration (AMD) and, based on our research carried out on the website of the SFDA as at the Latest Practicable Date, are the only imported esculin and digitalisglycosides eye-drops approved by the SFDA. According to the Frost & Sullivan Report, the AMD market in China was US$63.4 million in 2009 and is expected to grow at a CAGR of 15.2% from 2009 to 2016. Augentropfen Stulln Mono eye-drops had a market share of about 7.0%, 8.3% and 9.7% of the Chinese AMD market in 2007, 2008 and 2009, respectively. Augentropfen Stulln Mono eye-drops are also approved by the SFDA to treat all forms of ocular asthenopia. According to Tianjin Daily dated 22 December 2008, it is estimated that ocular asthenopia affects about 46% of heavy computer users in China. There are a number of over-the-counter eye-drops in the market to treat ocular asthenopia. However, most of them contain preservatives which are alleged to cause side effect such as tear deficiency. Augentropfen Stulln Mono eye-drops are preservative-free and are clinically proven to be effective in treating all forms of ocular asthenopia. We are currently exploring the possibility of changing the product from a prescription drug to an over-the-counter eye-drop product, which we believe will significantly increase our market share in China.

Augentropfen Stulln Mono eye-drops are a product of Pharma Stulln GmbH, Germany and were introduced to the Chinese market in 1999 by another domestic pharmaceutical company. We first obtained an exclusive right to promote and sell Augentropfen Stulln Mono eye-drops in China in 2006 and then acquired the exclusive agency right in China in 2008 for a term of ten years. Since 2007, we have sponsored numerous nationwide academic conferences and seminars to build brand awareness. As a result, we successfully expanded the number of hospitals that prescribe Augentropfen Stulln Mono eye-drops from less than 200 in 2006 before we obtained the exclusive distribution right to over 1,600 hospitals in the seven months ended 31 July 2010. According to data provided by Pharma Stulln GmbH, the volume of Augentropfen Stulln Mono eye-drops (boxes of 10) imported into China increased from approximately 600,000 boxes in 2006, to approximately 1,680,000 boxes in 2009.

GanFuLe

GanFuLe is a traditional Chinese medicine with exclusive formulations used to treat liver cancer, hepatitis B and cirrhosis. It has been granted a seven-year National Second Grade Traditional Chinese Medicine Protection expiring on 22 July 2013. GanFuLe is included in the Insurance Catalogue Class B, which helps to promote wider prescription in the market. According to the Study for Opportunities Assessment for Hepatitis B Therapeutics in China prepared by Frost & Sullivan in 2008, the number of carriers of hepatitis B virus (HBV) in China in 2007 was 54 million, which is expected to increase to 60 million by 2012. Chronically HBV infected persons are at a high risk of death from cirrhosis of the liver and liver cancer, making HBV the second leading cause of death in China. Further, according to the statistics provided by Frost & Sullivan in December 2009, the number of liver cancer cases in China rose from approximately 360,000 in 2004, to approximately 400,000 in 2009 and is expected to reach over 450,000 in 2014. GanFuLe is clinically proven to delay the progression of hepatic fibrosis and reduce the probability of developing liver cirrhosis, and hence the probability of developing liver cancer.

GanFuLe was first sold in China in 1994 by its manufacturer, Sino-TCM Lengshuijiang Pharmaceutical Co. Ltd. 國葯葯材冷水江製葯有限公司 (previously known as Huahe Pharmacy Lengshuijiang Pharmaceutical Co. Ltd.). We entered into an exclusive agreement with Huahe Pharmacy Lengshuijiang Pharmaceutical Co. Ltd. to promote and sell GanFuLe in China in late 2006. The agreement was renewed in 2010 for a term of five years, under which we have an exclusive right to promote and sell GanFuLe in China excluding Heilongjiang, Jilin, Liaoning, Beijing, Inner Mongolia, Tianjin, Hebei, Shanxi, Shaanxi, Gansu, Ningxia, Qinghai and Xinjiang. Our revenue from sales of GanFuLe in China in 2007, 2008 and 2009 was US$2.6 million, US$3.9

million and US$4.8 million, respectively, representing a CAGR of 35.6% for the three years from 2007 to 2009. Sales of GanFuLe decreased by 10.7% from US$2.2 million in the six months ended 30 June 2009 to US$2.0 million in the six months ended 30 June 2010 because the territorial exclusivity under the renewed agreement with Huahe Pharmacy Lengshuijiang Pharmaceutical Co. Ltd. in 2010 was reduced.

XinHuoSu (Nesiritide, Lyophilized Recombinant Human Brain Natriuretic Peptide, "rhBNP")

XinHuoSu is a National Class One New Drug, and is a cardiovascular product used to treat acute heart failure (AHF) patients who have dyspnea at rest or with minimal activity. rhBNP is included in the Guideline for Diagnosis and Treatment of Acute Heart Failure issued by the Chinese Medical Association of Cardiovascular Department as the treatment for AHF and XinHuoSu is the only rhBNP drug in the China market, based on our research carried out on the website of the SFDA as at the Latest Practicable Date. With China's growing ageing population and increasing incidence rate of cardiovascular diseases such as hypertension and coronary heart disease, the prevalence rate of heart failure has gradually increased in recent years. According to an article published by the Chinese Journal of Cardiology in January 2003, the prevalence rate of heart failure in China amongst adults was about 0.9% (with 0.7% applicable to men and 1.0% applicable to women) and four million adult patients aged from 35 to 74 suffered from heart failure, which showed a rising trend year by year.

XinHuoSu was first sold in China by Tibet Rhodiola Co. Ltd., in 2005. We entered into an exclusive agreement with Tibet Rhodiola Co. Ltd. to promote and sell XinHuoSu in China in 2008 for a term of three years, which has been renewed in 2010 for another term of three years. In 2008, we initiated a multi-centre phase IV clinical trial for XinHuoSu, which was coordinated by eight centres and involved 2,184 patients. Phase IV trials, also known as post marketing surveillance trials, involve the safety surveillance of a drug after it receives approvals to sell in the market. The safety surveillance is designed to detect any rare or long-term adverse effects over a much larger patient population and longer time period than was possible during the phase I to III clinical trials. The phase IV clinical trial for XinHuoSu was completed in April 2010 and the results provide clinical evidence that substantiates the efficacy of XinHuoSu. It is proven to effectively improve heart failure symptoms with good safety record. From the time we obtained the agency rights in 2008 to July 2010, we expanded the coverage of hospitals prescribing XinHuoSu from less than 70 to approximately 400. According to Tibet Rhodiola Pharmaceutical Co. Ltd., before we took over the exclusive rights, sales of XinHuoSu were less than RMB5.0 million (equivalent to approximately US$0.7 million) in 2007. Our revenue from the sale of XinHuoSu reached US$2.8 million in 2008 and US$7.3 million in 2009, representing an increase of 155.5% over the two years' period. Sales of XinHuoSu increased by 91.0% from US$3.0 million in the six months ended 30 June 2009 to US$5.7 million in the six months ended 30 June 2010.

Cystistat (sterile hyaluronate solution)

Cystistat is used with a medical device for the temporary replacement of the glycosaminoglycan (GAG) layer in the bladder caused by interstitial cystitis and painful bladder syndrome. Based on our research carried out on the website of the SFDA as at the Latest Practicable Date, we believe that Cystistat is the only imported sterile hyaluronate solution approved by the SFDA for interstitial cystitis. According to the report "Screening, treatment and management of IC/PBS" published by the Association of Reproductive Health Professionals in April 2008, the prevalence rate of interstitial cystitis in the general population in the United States has been estimated to be about 60 per 100,000

people. We believe that interstitial cystitis is under-diagnosed and under-treated in China. By increasing the product awareness through educating physicians about the disease, available treatments and the clinical advantages of Cystistat in treating interstitial cystitis, we believe there is growth potential for Cystistat.

We first obtained the exclusive right from Bioniche Teoranta to promote and sell Cystistat in China in 2008 for a term of five years, and this will be automatically renewed provided that certain conditions, principally the minimum order quantities are met. According to the data from Bioniche Teoranta, the volume of Cystistat imported into China increased from 550 bottles in 2007 to 1,000 bottles in 2008 and 4,000 bottles in 2009.

Salofalk (Mesalazine)

Salofalk is used to treat ulcerative colitis and the acute phase of Crohn's disease. According to the IMS Health analysis, Salofalk was the fifth best-selling anti-inflammatory agent globally for the 12 months ended 31 March 2010, with total sales of US$204 million. According to Datamonitor, the global sales volume of Salofalk is expected to grow at a CAGR of 20% from 2008 to 2013. We believe that sales of Salofalk in China will also increase in the coming years. According to "Analysis of incidence of inflammatory bowel disease in China" (Chinese Journal of Digestion, December 2008 Vol. 28, No. 2: 818-821), the prevalence rates of ulcerative colitis and Crohn's disease in China were about 11.6 out of 100,000 people and 1.4 out of 100,000 people respectively, with an upward trend in recent years. Salofalk is included in the Insurance Catalogue Class B.

Salofalk was first introduced to the Chinese market in 2003 by another pharmaceutical company. We obtained the exclusive right from Dr. Falk Pharma to promote and sell Salofalk in China in 2008 for a term of five years. Since 2008, we have sponsored many national or regional medical conferences to introduce the product to physicians. We also leverage off our established relationships with key opinion leaders in the GI area to quickly build up an expert network for Salofalk, which will help to establish brand awareness of Salofalk amongst Chinese healthcare specialists. Sales of Salofalk in China reached US$0.1 million in 2008 and US$1.8 million in 2009, representing an increase of 1,271.4% over the two-year period. Sales of Salofalk increased by 155.9% from US$0.7 million in the six months ended 30 June 2009 to US$1.7 million in the six months ended 30 June 2010.

Bioflor (Saccharomyces boulardii)

Bioflor, a type of probiotic, is used to treat acute infectious diarrhoea, antibiotic-associated colitis and diarrhoea (AAD). According to its manufacturer, Bioflor has been launched in the international market for more than 49 years and is currently sold in about 100 countries. According to an article entitled "Diarrhoea in developed and developing countries: magnitude, special settings, and etiologies" published by Rev Infect Dis. in 1990, diarrhoeal diseases are major causes of morbidity, with attack rates ranging from two to 12 or more illnesses per person per year in developed and developing countries. By projecting the low end of such attack rate of two times per person per year in developed and developing countries to the population of 1.3 billion in China, the attack rates of diarrhoea would be 2.6 billion times per year in China. In addition, according to the article "Antibiotic resistance in China — a major future challenge" published by the Lancet in 2009, the rate of antibiotic prescription to inpatients in China is 80%. With extensive use of antibiotics in China, the estimated prevalence rate of antibiotic-associated diarrhoea is about 9.3% among adult patients according to a study published on the World Chinese Journal of Gastroenteritis. Saccharomyces boulardii, along with lactobacillus rhamnosus GG and probiotic mixtures, is clinically proven to significantly reduce the development of AAD based on "Meta-analysis of probiotics for the prevention of antibiotic associated diarrhoea and the treatment of Clostridium difficile disease" published by PubMed in 2006. We believe that there is significant market potential in China for Brioflor as a treatment for acute infectious diarrhoea and AAD.

Bioflor was introduced to the Chinese market in 1998. We obtained an exclusive right from Biocodex to promote and sell Bioflor in China in 2010 for a term of five years. The SFDA accepted our application for the renewal of the imported drug licence for Bioflor in June 2009 and we currently expect to obtain the licence by the end of 2010.

Exacin (Isepamicin Sulfate)

Exacin (Isepamicin Sulfate) is an aminoglycoside antibiotic product used to treat septicaemia caused by sensitive bacteria, secondary infections caused by trauma, burns and surgery, chronic bronchitis, bronchiectasis, pneumonia, pyelonephritis, cystitis and peritonitis. Bloodstream infection (BSI) includes septicaemia and bacteremia. The average incidence rate of BSI increased from about 1.6% in 1986 to 3.1% in 2006, according to an article entitled "Etiology, diagnosis and treatment development of BSI" published in the Journal of Practical Medicine 2009. Exacin is included in the Insurance Catalogue Class B.

We obtained the right to promote and sell one shipment of Exacin imported into China under its one-time permit in 2010 and its imported drug licence is currently under renewal. We are currently exploring an opportunity to obtain a long-term exclusive right to promote and sell Exacin in China, however, we may or may not be able to obtain such right and therefore Exacin is not currently regarded as one of our key in-licensed products. We expect Exacin to become one of our key in-licensed products if we successfully obtain the exclusive right of promotion and sale.

Product pipeline

In order to maintain sustainable growth in the long term, we continue to look for prospective in-licensed drug candidates for marketing, promotion and sale from overseas as well as domestic pharmaceutical companies with a focus on those therapeutic areas which we perceive to be in large demand in the Chinese market. Although our primary focus is on those candidates that already have received relevant licences and permits from the SFDA to be marketed in China, we also consider in-licensing or acquiring those that have not yet been marketed in China if they are complementary to our existing product portfolio or therapeutic focus, and if they have strong intellectual property or other administrative protection that will enable them to secure their market exclusivity in China.

As at the Latest Practicable Date, we were in the process of negotiating the supply agreement for Budenofalk, an imported drug candidate which requires us to apply for the relevant imported drug licence in China. In addition, we have acquired the production, marketing and sales rights and the related patents of CMS024, a new drug candidate, which is still in clinical development stage and is expected to be launched by 2016.

Budenofalk (Budesonide)

Budenofalk is manufactured by Dr. Falk Pharma GmbH and is approved in Germany for the treatment of inflammatory bowel disease and Crohn's disease. Budenofalk is an oral gastro-resistant capsule, and has demonstrated its efficacy in treating mildly to moderately active Crohn's disease involving the ileum and ascending colon. The drug's effectiveness in treating this disease has been proven in multiple, placebo-controlled trials, where it has been shown to be superior to prednisone and placebo. Budenofalk is under patent protection for its controlled release formulation and the process for producing the formulation that creates effective barrier for the new entrants. Upon launch, we expect to be able to leverage off our established promotion and sales platform for Salofalk and Ursofalk. We believe the fact that Dr. Falk Pharma GmbH is discussing with us the possibility of our in-licensing a third product from them demonstrates their satisfaction with our marketing, promotion and sales services and reflects the value we bring to them.

We are finalising the negotiation for the exclusive agency and distribution agreement with Dr. Falk Pharma GmbH to promote and sell Budenofalk in China. Although we expect to enter into the agreement by end of 2010, we cannot assure you that such agreement will eventually be entered into between Dr. Falk Pharma GmbH and us.

Product candidate under development

CMS024 (Tyroserleutide)

CMS024, with the generic name of Tyroserleutide, is a tripeptide compound indicated for the treatment of primary liver carcinoma. The product has been granted one invention patent of the compound, composition and utility, and one invention patent for process of preparation. The mechanism study on CMS024 was financially supported in part by the National High-Technology R&D Programme in China in July 2004. During the period from October 2003 to April 2005, CMS024 completed phase I, phase IIa and phase IIb clinical trials successively in China. The CMS024 phase IIb clinical trial results indicate that CMS024 can prolong patients' survival periods, with mild side effects and toxicity. The Kaplan-Meier Survival Curves shows that patients who received medium and high doses had statistically longer survival periods compared to those receiving lower doses. On 9 June 2005, we submitted a new-drug application for CMS024 to the SFDA for marketing approval based on the phase IIb clinical trial results, and at the end of 2007, we received an assessment notice from the SFDA, in which the SFDA requested us to further enlarge the patient sample size of the treatment group in the next clinical trial in order to provide better proof of the drug's clinical efficacy. We will therefore initiate an expanded, randomised, double-blind, multi-centre clinical trial including at least 300 patients in the treatment group in the second half of 2010, which we expect to complete in 2015. We aim to submit the new-drug application to the SFDA and obtain the approval for production and the new drug registration of CMS024 in 2016. In light of the positive phase IIb chemical trial results and the significant market potential of the drug arising from the large number of people in China suffering from primary liver carcinoma, our Directors expect that there will be considerable demand for CMS024. We intend to manufacture CMS024 after we have obtained the necessary new-drug registration permit. Consistent with our business strategy of adding to its product portfolio quality pharmaceutical products for distribution in China, our Directors believe that CMS024 presents potential growth opportunities to us and is a good fit to our existing portfolio.

In 2004, we acquired the production, marketing and sales rights and the related patents of CMS024 from Kangzhe R&D, which is a subsidiary of Healthlink, our R&D subsidiary prior to late 2009. We disposed Healthlink in late 2009 as we decided to re-focus our resources to our key business area, that is marketing, promotion and sale of prescription drugs. We have appointed Kangzhe R&D to carry out further research and development related to CMS024, and Kangzhe R&D has undertaken to complete all the clinical trials and prepare the documents necessary for and assist us in the application for a new-drug permit for CMS024. In consideration for the transfer of the rights to and interest in CMS024 and the research and development services to be provided by Kangzhe R&D, we agreed to reimburse Kangzhe R&D all research and development related costs which it may incur in relation to the development of CMS024. We paid to Kangzhe R&D a total of US$3.1 million representing the R&D fees it actually incurred. No further fees are payable by us until sale of CMS024 commences. If CMS024 is successfully launched, we agree to pay Kangzhe R&D a royalty fee representing 13% of the quarterly sales revenue generated by us in respect of the sale of CMS024. For further details, please refer to the paragraph headed "Research and development" in this section and the section headed "Connected Transactions — Exempt continuing connected transactions — Royalty payments in respect of CMS024 payable to Kangzhe R&D" in this prospectus.

Purchases

All of our supply agreements of the key in-licensed products (except for that of GanFuLe) grant us the exclusive rights to promote and sell our suppliers' pharmaceutical products in China, and in the case of GanFule in China excluding Heilongjiang, Jilin, Liaoning, Beijing, Inner Mongolia, Tianjin, Hebei, Shanxi, Shaanxi, Gansu, Ningxia, Qinghai and Xinjiang. The contractual term of our supply agreements is typically five years or more with automatic renewal rights provided that certain conditions, principally the minimum order quantities, are met. If we do not meet the agreed annual minimum order quantity in any given year for any of our products, our supplier may either terminate the supply agreement by giving us one to six months' written notice or we may be required to pay the supplier a certain amount of compensation. Generally, our supply agreements may also be terminated by either party upon written notice of the other party's breach of the contract if such breach is not remedied within a certain period of time, or if the other party becomes bankrupt, goes into liquidation or is placed in receivership. During the Track Record Period, none of our supply agreements was terminated by any of our suppliers, nor were we required to pay any compensation to our suppliers, for our failure to reach the minimum order quantities or for any other reason.

Generally, in relation to our key in-licensed products, we are remunerated by our suppliers granting long-term exclusive rights for us to promote and sell the relevant products in China or in a specific region in China, which in turn would permit us to make a margin from selling the relevant products. Such margin already takes into account the value of our marketing and promotion services provided to our suppliers, and hence we do not usually receive any additional promotion fees from our suppliers.

We are not required to pay any licence fees to our suppliers other than the costs of purchases of our in-licensed products. Payment to our overseas suppliers is made in either US Dollars or Euro. Most of our overseas suppliers have agreed to compensate a certain portion of our foreign exchange loss due to any movements, or any movements over a certain percentage (which can range from 2% to 10%), in the value of Renminbi from the specified foreign exchange rate. In exchange, we are obliged to share a portion of our foreign exchange gains if Renminbi appreciates against the relevant foreign currency. There are different terms of payment for our different key in-licensed products: (i) by way of a 60 to 120 days' letter of credit, (ii) payment be made within 45 to 60 days after arrival of products at Hong Kong, or (iii) one to five days' advance payment prior to delivery of products by our suppliers.

Under PRC law, we may be liable to product liability claims from the end users of our in-licensed products. Where we are not the cause of the relevant defect subject to the claim but are nonetheless held by relevant PRC authorities to be responsible for such claim, we may seek compensation from the relevant supplier of the product if the supplier is at fault or from the relevant distributor if the distributor is at fault. In addition, our major suppliers explicitly give us a product warranty or undertake to indemnify and hold us harmless from and against all claims and damages to or from any third party arising out of or in connection with any defect in their products where the supplier is at fault. These supply agreements do not provide any monetary limit of the warranty claim or indemnity given by our major suppliers in respect of product safety issues. To ensure product safety, the facilities at which our inventory is stored comply with GSP standards. In addition, we impose stringent quality assurance procedures pursuant to which all products are inspected upon delivery to our warehouse to ensure that they are undamaged and in satisfactory conditions. During the Track Record Period, there were no material complaints, product liability claims or product recalls in respect of any of our in-licensed products, and we did not experience any prolonged delay or significant disruption to the supply of our in-licensed products that had a material adverse effect on our business or financial condition. The majority of our supply agreements also stipulate that our suppliers are and shall remain the owner of all existing and future trademarks (already registered or for which registrations are or will be applied), except for the registration of trademark of Ursofalk

by us in the PRC, details of which is set out in the sub-paragraph headed "Intellectual property rights" in the paragraph headed "Further information about the business" in Appendix VI to this prospectus. In that case, Dr. Falk Pharma GmbH and we agreed that we should register the trademark of Ursofalk in Chinese characters in China to protect Ursofalk and to facilitate our marketing and promotion activities for Ursofalk in China. The trademark is held by us for the benefit of Dr. Falk Pharma GmbH.

In each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our purchases of in-licensed products in respect of our five largest suppliers accounted for approximately 96.8%, 93.7%, 90.1% and 88.9% of our total purchases for the respective periods. Purchases in respect of our single largest supplier accounted for approximately 67.9%, 43.2%, 47.5% and 41.5% of our total purchases for the respective periods.

All of our five largest suppliers are independent third parties. None of our Directors, their respective associates and any shareholder who, to the knowledge of our Directors, owns more than 5% of the issued share capital of our Company have any interest in any of these suppliers.

Customers

We sell our pharmaceutical products to domestic distributors, who on-sell the products to hospitals in China by handling the logistics. We are not a party to the contracts entered into between our distributors and hospitals in relation to the onwards sale of our products. We do not sell our products directly to hospitals for the following reasons:

- It is a common practice in China among international and domestic pharmaceutical companies to sell pharmaceutical and healthcare products to distributors, who then on-sell such products to hospitals.
- Hospitals generally expect their orders of products to be delivered within 24 to 48 hours. If we were to handle the sales and product deliveries to hospitals directly across China, we would need to establish an extensive network of sales points and warehouses in various localities so as to maintain sufficient level of inventory to meet demand from hospitals within the required delivery timeframe. Our Directors believe that the costs of establishing and maintaining a network of sales points and warehouses across China with a scale that is sufficient to serve the hospital customers would far outweigh any additional profits that may be captured by our Group if we were to sell our products directly to hospitals. By selling to our distributors, we are able to make use of individual distributors' sales points and warehouse, which collectively form a cost-efficient logistics platform for our Group to effectively sell and dispatch products to hospitals in various localities in China.
- We consider that it is easier to administer and collect accounts receivables vis-à-vis distributors, rather than hospitals. As each distributor generally covers and sells our products to a number of hospitals, we believe we are able to collect accounts receivables on a timely basis. In addition, hospitals normally settle their payments by cheque, clearance of which usually requires the recipients to have bank accounts in the same locality as the issuing banks of the cheques. Accordingly, we believe we are able to better manage cash-related risks when we collect accounts receivables from our distributors, and the sales and accounts receivable collection cycles with respect to sales to our distributors, as compared with direct sales to hospitals by us, would be more stable and even.

In light of the above, our Directors believe that the operational and management risks and costs to our Group would increase and outweigh any additional profits that may be captured by our Group if we were to sell our products directly to hospitals. All our distributors are independent third parties and licensed pharmaceutical distribution companies. Our major customers include subsidiaries of Sinopharm Group Co. Ltd. and Guangzhou Pharmaceutical Co. Ltd.

Pricing of our products is affected by the bidding process of hospitals. We have adopted a standard pricing policy and, when setting the selling price for each product offered to our distributors, we take into account a number of factors including our current and previous bidding price and the maximum retail price set by the PRC government (where applicable), the average of the local distributors' trade receivable turnover days vis-à-vis their hospital purchasers and our average trade receivable turnover days vis-à-vis our local distributors, and the level of profit margin that we believe is generally acceptable to the local distributors, which normally reflects the competitive landscape prevailing in the local market.

We generally enter into a sales contract with our distributors for a term of one year and specify the type, price, specifications of products and sales territory. Depending on the credit rating of the distributors, the length of our relationships with them, the historic sales achieved by the distributor and the target sales in the forthcoming year, we typically grant a credit period of 90 days. As part of our debtor control, our marketing, promotion and sales team monitors the credit quality of our trade receivables and closely follows up on any outstanding receivables. In determining impairment losses, we conduct regular reviews of ageing analyses and evaluate collectibles on an individual basis. Our provision for bad and doubtful debts as at 31 December 2007, 2008 and 2009 and 30 June 2010 was US$0.3 million, US$0.2 million, US$0.2 million and US$0.2 million, respectively, representing 2.1%, 1.3%, 1.0% and 0.8% of our trade receivables balance (before allowances for bad and doubtful debts), respectively. For the each of the years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010, we wrote off as uncollectible trade receivables of nil, US$0.1 million, US$0.1 million and US$nil, respectively. However, such estimates involve inherent uncertainties and the actual uncollectible amounts may be higher or lower than the amount estimated.

According to our sales contracts, we are generally responsible for the quality of our products (except for quality issues caused by or attributed to the distributors or any other third party or force majeure events) during the validity period of the products, and the distributors are required to store our products according to the relevant GSP standards. Distributors are responsible for any loss suffered due to their improper storage. Our sales return policy allows distributors to return products that they received if the packages are damaged on delivery, and provided that a notice is given to us within 10 days of receipt of the delivery. Detailed return procedures are subject to our final agreement. For each of the year ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, we recorded sales returns of US$243,000, US$223,000, US$304,000 and US$125,000, respectively. Our revenue is recorded net of sales returns. We do not generally impose any restrictions in the sales contracts with our distributors to prevent them from selling pharmaceutical products sourced from other suppliers.

As we adopt a physician-oriented academic promotion approach as part of our marketing and promotion strategy, we keep close contact with hospitals and physicians and attach significant importance to the eventual sale of our products by our distributors to hospitals. In our standard sales contracts, we require our distributors to provide us on a regular basis with information about their sales of our products to hospitals. Such information is recorded in our CMSERP system, which is able to run analysis on the inventory level of our products held by our distributors by comparing such information against our sales volume to the distributors and the timing of settlement of their purchase. Such analysis enables us to understand our distributors' stocking pattern and to monitor the level of inventory of our products held by our distributors. Should it come to our attention that there is any abnormal increase in the level of inventory of our products held by a distributor, we will make necessary enquiries with the distributor to ensure that there is not any abnormal stockpiling of inventory. Based on the analysis of the distributors' inventory level compiled by our CMSERP system, we did not notice any abnormal pile up of inventory by our distributors during the Track Record Period. We also noted that while the sales of our Group's products by our top five distributors increased during the Track Record Period, the level of inventory maintained by such distributors remained relatively stable over the same period.

We deliver and sell our products directly to our distributors and receive payments directly from our distributors. Revenue from the sale of goods is recognised when goods are delivered and title has passed to our distributors. We select distributors primarily based on factors such as their sales experience, reputation, credit history, market coverage and position in the industry. We also review and assess periodically the performance of our distributors based on these criteria.

The following table sets out the total number of our distributors at the end of 2007, 2008 and 2009, respectively, and the number of new distributors and the number of distributors that were terminated by us during the period indicated:

	For the year ended 31 December			For the seven months ended 31 July
Distributors	**2007**	**2008**	**2009**	**2010**
Total number of distributors as at the end of the respective period	365	351	351	319
New distributors engaged during the respective period	89	56	65	38
Number of distributors ceased to be our distributors during the respective period *(note)*	86	70	65	70

Note:

These distributors ceased to be our distributors because we decided not to renew their contracts following our periodical performance review of the distributors, which take into account their distribution network coverage, credit history and pricing policies. During the Track Record Period, no distributor unilaterally terminated its distribution agreement with us.

The following table sets out the geographical coverage of our distributors in China as at the date indicated:

	As at 31 December			As at 31 July
Region	**2007**	**2008**	**2009**	**2010**
Eastern	135	141	151	140
Northern	61	64	71	61
Southern	37	32	26	21
Central	37	33	31	30
South-western	64	53	37	32
North-eastern	24	21	26	22
North-western	7	7	9	13
Total	**365**	**351**	**351**	**319**

Notes:

Eastern region includes Zhejiang Province, Shanghai, Jiangsu Province, Fujian Province, Shandong Province and Anhui Province.
Northern region includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia.
Southern region includes Guangdong Province, Guangxi and Hainan Province.
Central region includes Henan Province, Hubei Province, Hunan Province and Jiangxi Province.
South-western region includes Yunnan Province, Chongqing, Sichuan Province, Tibet and Guizhou Province.
North-eastern region includes Liaoning Province, Heilongjiang Province and Jilin Province.
North-western region includes Shaanxi Province, Xinjiang and Gansu Province.

Our sales to our five largest customers accounted for approximately 21.1%, 20.6%, 21.1% and 22.3% our total turnover for each of the three years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010. The relationships with most of our five largest customers during the Track Record Period started in 2001, which reflects our stable relationships with our key customers. Our sales to our largest customer accounted for approximately 5.6%, 6.6%, 6.2% and 6.0% of our total revenue for the respective periods. All of our five largest customers are independent third parties. We have been advised by The China Fund, Inc., a Shareholder holding more than 5% of our issued share capital, that as at 31 August 2010, it had interest in some of our top five customers, in each case through its interest in a public company listed in Hong Kong. The China Fund, Inc. advised that as at 31 August 2010, it had no more than 5% of the issued share capital of that public company. Save as disclosed above, none of our Directors, senior management, their respective associates and any shareholder who, to the knowledge of our Directors, owns more than 5% of the issued share capital of our Company have any interest in any of these customers, and none of our Directors, senior management, their respective associates and our controlling shareholders have any present or past relationship (other than their relationship through our Group) with any of these customers.

OTHER BUSINESS

Description

In addition to the provision of marketing, promotion and sale services for prescription drugs, we also manufacture and sell in-house manufactured prescription drugs. Our in-house manufactured prescription drugs are generic non-patented drugs that are not developed by our Group and are manufactured based on publicly available formulae. They do not compete, directly or indirectly, with any of our in-licensed products. Sales of our in-house manufactured products accounted for 9.1%, 4.1%, 2.7% and 1.3% of our total revenue for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. Prior to late 2009, we also manufactured two medical devices through our two medical device companies, namely,

Shenzhen Shenke and Shandong Baolihao. As we did not have control over Shenzhen Shenke, it was accounted for as an associate in our consolidated financial statements. The medical devices which Shenzhen Shenke and Shandong Baolihao manufactured included (i) infusion pumps, injection pumps and infusion supervision systems in relation to an integrated infusion system for hospital use and (ii) a non-invasive cardiac hemodynamic monitoring system for monitoring the mechanical function of the heart. These medical devices were developed by us. We disposed of our interests in Shenzhen Shenke and Shandong Baolihao in December 2009. We sold our interests in Shenzhen Shenke to Shenzhen Kangzhe Enterprise Investment Co. Ltd., which was held as to 95% by Mr. Lam Kong, and other shareholders of Shenzhen Shenke, who (save for their interest in Shenzhen Shenke) are independent third parties. We sold our interests in Shandong Baolihao to independent third parties. Since then, we have not engaged in the manufacture of medical devices. We do not hold any patents related to the production of the medical devices manufactured by Shenzhen Shenke and Shandong Baolihao. Our R&D function was previously carried on by Healthlink (and its subsidiaries), which we disposed of in late 2009 in the Distribution of Healthlink as part of our Group's overall strategic re-alignment. For further information on the Distribution of Healthlink, please refer to the section headed "History and Development — Disposed Business Operations" in this prospectus. The following table sets out the turnover of our other business (including the disposed business of Shenzhen Shenke and Shandong Baolihao) and the percentage of these items to our total turnover for the periods indicated:

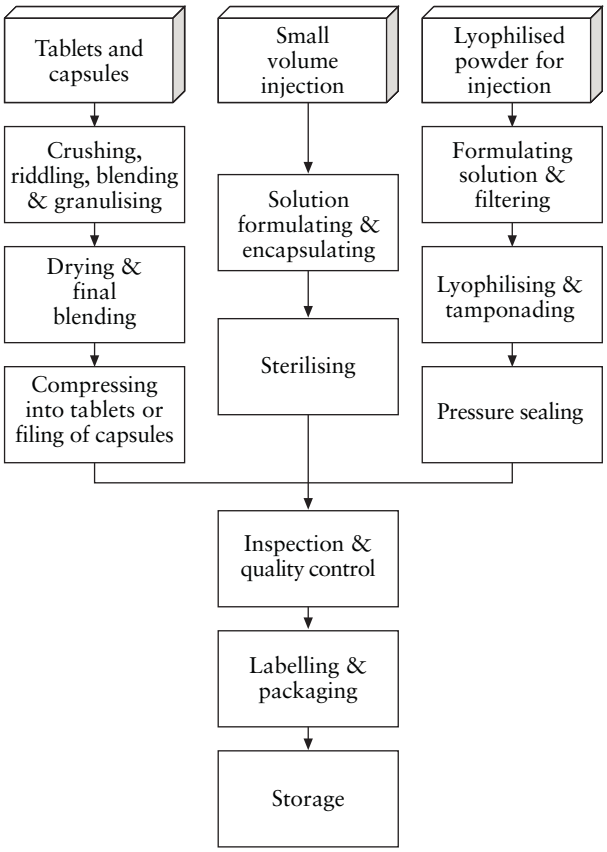
	For the year ended 31 December						For the six months ended 30 June	
	2007		2008		2009		2010	
	US$ '000	%	US$ '000	%	US$ '000	%	US$ '000	%
Other business								
Self-manufactured products	4,689	9.1	2,950	4.1	2,571	2.7	806	1.3
Self-manufactured medical devices	45	—	55	—	131	0.1	—	—
Total	4,734	9.1	3,005	4.1	2,702	2.8	806	1.3

Production facility

Our business of manufacturing in-house pharmaceutical products is carried out by Kangzhe Hunan. Kangzhe Hunan has a manufacturing facility in Hunan located at Danyang Villagers' Committee, (also known as No. 7 Linjiang Road West) Liyang Town, Li Prefecture, Changde City, Hunan Province with a site area of approximately 35,014.68 square metres and a total gross floor area of approximately 11,955.85 square metres. All our in-house produced prescription drugs are manufactured at this facility. Our manufacturing plant has GMP certificates for the production of various dosage forms including tablets, capsules, small volume injection and lyophilised powder for injection. Kangzhe Hunan has a Pharmaceutical Manufacturing Permit (藥品生產許可證) issued by the Hunan food and drugs administration authority; the current permit is for a term of five years, expiring on 31 December 2010. We plan to renew our permit before its expiration. Based on current PRC laws and regulations, our PRC legal adviser is not aware of any material legal impediment to such renewal. There were no material occupational health and safety incidents relating to our employees during the Track Record Period.

Production process

The following diagram summarises the key steps of our production processes, from extraction of ingredients from certain raw materials to the production of our pharmaceutical products which we manufacture in various dosages including tablets, capsules, small volume injection and lyophilised powder for injection:



Product portfolio

We currently produce and sell nine non-patented generic prescription drugs which are applied in the therapeutic areas of respiratory disease, immunology, oncology, cardiovascular, neurology and digestion. The following table sets out some details of our in-house manufactured products:

Product	Indication	National List of Essential Drugs	Insurance Catalogue
JinErLun (金爾倫) (Naloxone Hydrochloride injection (鹽酸納洛酮注射液))	For detoxification of narcotic analgesics in acute poisoning and relieving acute alcohol intoxication	√	Class A
ShiErXing (施爾星) (Somatostatin for injection (注射用生長抑素))	Acute esophageal varix bleeding, acute stomach and duodenum ulcer bleeding	—	Class B
Theophylline Sustained-release Tablets (茶鹼緩釋片)	For reduction in wheezing and shortness of breath associated with acute bronchial asthma, chronic bronchitis and emphysema	√	Class A
Gelishu (格利舒) Glipizide Tablets (格列吡嗪片)	Type II diabetes (non-insulin-dependent diabetes)	—	Class A
Simvastatin (辛伐他汀片)	For controlling hypercholesterolemia, decreasing low density lipoprotein	√	Class A
YouSuPing (優速平) (Thymopetin for injection (注射用胸腺五肽))	Chronic hepatitis B, primary or sequential T-cell deficiency, autoimmune disease and lower cellular immune function diseases	—	—
RuiLuoSu (瑞洛素) (Famotidine injection (法莫替丁注射液))	Peptic ulcers (stomach or duodenal ulcers), acute gastric mucosal lesion, reflux esophagitis and gastrin adenoma	√	Class A
Ethylenediamine Diaceturate injection (二乙醯氨乙酸乙二胺注射液)	Surgical bleeding, respiratory tract bleeding, facial bleeding, gynaecdogical haemorrhage, bleeding hemorrhoids, urinary tract bleeding, cancer related bleeding, alimentary tract haemorrhage and cerebral haemorrhage	—	—
LiErNuo (利爾諾) Doxycyline Hyclate Capsulate (鹽酸多西環素膠囊)	Rickettsia disease, mycoplasma infection, bedsonia infection, relapsing fever, brucellosis, cholera, rabbit fever, plague and venereal ulcers	—	Class A

All of our products produced in-house have the required production approvals (藥品生產批件) from the SFDA. Among the above products, we re-package and sell in China an imported product, Doxycyline, which we source from Sunpharma GmbH. Re-packaging of pharmaceutical products in China requires regulatory approval and is considered as part of the manufacturing process. As Doxycyline does not fit our product selection strategy for our marketing, promotion and sale of pharmaceutical products business, we do not carry out any marketing and promotion activities for Doxycyline. Accordingly we classify Doxycyline as one of our in-house manufactured products. Mr. Lam Kong, our Chairman, indirectly holds a majority interest in Sunpharma GmbH, the manufacturer of Doxycyline. Sunpharma GmbH is incorporated in Germany with a registered share

capital of €25,000 and is based in Wardenburg, Germany. Sunpharma GmbH currently manufactures and sells only one non-patented generic product, Doxycyline, and does not have any plan to manufacture or sell any other pharmaceutical products. The manufacture of Doxycyline is outsourced to a third party in Europe. Doxycyline is currently sold only in China and Sunpharma GmbH does not have any plan to sell Doxycyline in any other countries. Further details of Mr. Lam's interest in Sunpharma GmbH are set out in the sections headed "Controlling shareholder — Non-compete undertaking" and "Connected Transactions — Exempt continuing connected transactions — Purchases of Doxycyline from Sunpharma GmbH" in this prospectus. As advised by our PRC legal adviser, Zhong Lun Law Firm, under PRC law, pharmaceutical manufacturing enterprises are allowed to re-package imported drugs provided that they have obtained the approvals from the relevant authorities. We have obtained the required re-packaging approval (藥品分包裝生產批件) for Doxycyline from the SFDA. Our arrangement of re-packaging Doxycyline for sale in China complies with the relevant laws and regulations.

Raw materials

The raw materials that we use for our manufacturing process are primarily the key ingredients of our in-house manufactured products listed in the above table. During the Track Record Period, purchases of pharmaceutical raw materials represented a minimal amount of our total cost of goods sold. We source our raw materials, which are primarily chemical compounds for use as ingredients for our in-house manufactured products, from various pharmaceutical companies in China. Apart from Sunpharma GmbH, all of our suppliers of raw materials are independent third parties.

Sale of in-house manufactured products

Our in-house manufactured products are sold through a number of channels, including independent third parties as well as Guangdong Lantai and Kangzhe Shenzhen, each of which then on-sells our products mainly to independent third party distributors. For those products which fit our product selection strategy for our sale and promotion of pharmaceutical products business, we adopt our standard marketing and promotion strategy. For other products, marketing and sale are primarily handled by Kangzhe Hunan or Guangdong Lantai.

RESEARCH AND DEVELOPMENT

Prior to late 2009, we also engaged in the research and development in pharmaceutical products through Healthlink and its subsidiaries. Following a strategic review of our business, we concluded that our business would benefit by focusing our resources on our key business area, that is marketing, promotion and sale of prescription drugs. Accordingly, we decided to dispose of our non-core businesses, including our R&D operations. On 16 December 2009, we disposed of Healthlink by effecting the Distribution of Healthlink, whereby after Healthlink repurchased 17.9% of its issued share capital, our Company distributed all the remaining issued shares of Healthlink to our Shareholders. Upon the Distribution of Healthlink, we ceased to hold any interest in Healthlink and its subsidiaries. For further details, please see the section headed "History and Development — Disposed Business Operations" in this prospectus.

Prior to the Distribution of Healthlink, Kangzhe Shenzhen, our subsidiary, pursuant to a transfer Agreement dated 16 February 2004 (as supplemented by a supplemental agreement dated 2 November 2004) and a further agreement dated 16 December 2007 acquired the production, marketing and sales rights and the related patents of CMS024 from Kangzhe R&D, a subsidiary of Healthlink. Under the agreements, the consideration payable by us to Kangzhe R&D comprises all of the R&D costs actually incurred by Kangzhe R&D in relation to CMS024, being US$3.1 million, and a royalty fee of 13% of the quarterly sales revenue generated by us after CMS024 is successfully launched. CMS024, with the generic name of Tyroserleutide, is a tripeptide compound indicated for the treatment of primary liver carcinoma and is being developed by Kangzhe R&D. During the period from October 2003 to April 2005, CMS024 completed phase I, phase IIa and phase IIb

clinical trials successively in China. The CMS024 phase IIb clinical trial results indicate that CMS024 can prolong patients' survival periods, with mild side effects and toxicity. In light of the positive phase IIb chemical trial results and the significant market potential of the drug arising from the large number of people in China suffering from primary liver carcinoma, our Directors expect that there will be considerable demand for CMS024. Under IFRS, the Company is not required to make, and accordingly has not made, any provision in its accounts for these future capital expenditures. On 9 June 2005, we submitted a new-drug application for CMS024 to the SFDA for marketing approval based on the phase IIb clinical trial results, and at the end of 2007, we received an assessment notice from the SFDA, in which the SFDA requested us to further enlarge the patient sample size of the treatment group in the next clinical trial in order to provide better proof of the drug's clinical efficacy. We will therefore initiate an expanded, randomised, double-blind, multi-centre clinical trial including at least 300 patients in the treatment group in the second half of 2010, which we expect to complete in 2015. Following completion of such clinical trial, we aim to submit a new-drug application to the SFDA for the production of CMS024 and we expect to receive the SFDA's approval in 2016. We intend to manufacture CMS024 after we have obtained the necessary new-drug registration permit. Consistent with our business strategy of adding to our product portfolio quality pharmaceutical products for distribution in China, our Directors believe that CMS024 presents potential growth opportunities to us and is a good fit to our existing portfolio.

We have appointed Kangzhe R&D to carry out further research and development related to CMS024, and Kangzhe R&D has undertaken to complete all the clinical trials and prepare the documents necessary for and assist Kangzhe Shenzhen in the application for a new-drug permit for CMS024. In consideration for the transfer of the rights to and interest in CMS024 and the research and development services to be provided by Kangzhe R&D, Kangzhe Shenzhen agreed to reimburse Kangzhe R&D all research and development related costs which it may incur in relation to the development of CMS024. Kangzhe Shenzhen has paid to Kangzhe R&D US$3.1 million, representing the R&D costs actually incurred by Kangzhe R&D. No further fees are payable by us until sale of CMS024 commences. If CMS024 is successfully launched, Kangzhe Shenzhen agreed to pay Kangzhe R&D a royalty fee representing 13% of the quarterly sales revenue generated by Kangzhe Shenzhen in respect of the sale of CMS024. Save for the US$3.1 million paid and the 13% royalty payments, there are no other fees paid or payable to Kangzhe R&D under these agreements. On 26 May 2010, the parties entered into a further supplemental agreement to fix the term of the agreement to expire on 31 December 2022, being the year in which the relevant CMS024 patent will expire.

CMS024 has been the core research and development project of Kangzhe R&D (and of ours prior to the Distribution of Healthlink) and it has always been part of our plan to acquire the rights to CMS024 and manufacture the product in-house, thus capitalising on our Group's production capability with the aim of increasing the potential return the product may bring to us. On this basis, Kangzhe Shenzhen acquired the production, marketing and sales rights and certain patents related to CMS024. To better manage the risks and rewards associated with the research and development and the eventual successful commercialisation of CMS024, we and Kangzhe R&D have structured the consideration for the transfer of the rights to CMS024 to be payable in a series of payments. The payments are partly payable in upfront lump sums and partly by way of recurring royalty payments payable only upon the successful commercialisation of CMS024 and to be determined by reference to the amount of revenue generated from the sale of CMS024 from time to time. With this payment structure, we managed to avoid a large upfront investment while the results of the research and development were still uncertain and at the same time secured the production, marketing and sales rights to CMS024. Our Directors consider that the structure and amounts of the royalty payments

are fair and reasonable and are in the best interests of the Shareholders of the Company as a whole. For further details on these arrangements, please refer to the section headed "Connected Transactions — Exempt continuing connected transaction — Royalty payments in respect of CMS024 payable to Kangzhe R&D" in this prospectus.

Following the Distribution of Healthlink, we do not intend to carry on the business of research and development although we will continue to engage in research and development ancillary to our sales marketing and promotion business. If we identify any developing product which we believe has market potential, we may engage a third party such as Healthlink or one of its subsidiaries to conduct the necessary research and development. For each of the three years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010, our research and development expenses were US$1.6 million, US$2.3 million, US$2.0 million and nil, respectively.

COMPETITION

The competition that we face in our operation is twofold: we face competition from other pharmaceutical marketing, promotion and sale service providers and competition from other pharmaceutical products.

The Chinese pharmaceutical marketing, promotion and sale service market is made up of a number of independent third-party service providers. We compete with other pharmaceutical service providers to obtain the exclusive rights from overseas and domestic specialty pharmaceutical companies to promote and sell their products in China. We believe that we compete on the basis of size and demonstrated capability. According to the Frost & Sullivan Report, we are the largest company among our competitors and operate the largest promotion network in China in terms of hospital coverage, therapeutic focus and number of salespeople. We maintained our leading position over our competitors in the three years from 2007 to 2009. We have the proven capability to introduce and market new products and reposition and enhance sales of existing products in China, as demonstrated by the growth in the sales of Deanxit and Ursofalk in China since we obtained their in-licences.

We also compete for market share for our in-licensed products among competing pharmaceutical products in the respective therapeutic areas. Our in-licensed products are chosen based on our product selection strategy that emphasises, among other things, the degree of difficulty which competitors may face when trying to imitate and market similar products in China. In particular, Deanxit, our first in-licensed product, has maintained its top three position since 2005 according to the Frost & Sullivan Report, and became the second best-selling anxiolytic anti-depressant in China after its sales surpassed its competitive product Prozac in 2009. In addition, Ursofalk, our second in-licensed product, not only dominated the UDCA market with 98.0% share in 2009, it was also the best-selling drug in the overall cholagogue market in China for the same year, accounting for 55.9% of the market share based on the Frost & Sullivan Report.

While none of our in-licensed products has patent protection, six of them enjoy product exclusivity in China, which is reflected in the absence of competing products under the same generic name.

EMPLOYEES

As at 31 July 2010, we had 1,265 full-time employees. The table below sets out a breakdown of our total number of employees by function:

Department	Number of employees
Marketing, promotion and sale	973
Management, finance and administration	149
Manufacture	129
Others	14
Total	1,265

As at 31 July 2010, about 70% of our middle and senior level management, and about 70% of our marketing, promotion and sales team, had bachelor's degree or above.

We enter into written employment contracts with each of our employees. Our employees do not negotiate their terms of employment through any labour union or by way of collective bargaining agreements. The PRC government requires us to provide work-related injury insurance for each of our employees. Our Directors consider that we maintain good relations with our employees.

The remuneration packages of our employees generally include salary and bonuses. We conduct periodic performance reviews of our employees, and their remuneration is performance based. Employees also receive welfare benefits, including medical care, housing subsidies, a pension, occupational injury insurance and other miscellaneous benefits. We provide additional benefits to our key employees under the Key Employee Benefit Scheme. A summary of the principal terms of the Key Employee Benefit Scheme is set out in the paragraph headed "Share Capital — Key Employee Benefit Scheme" in this prospectus. As required by applicable PRC regulations, we participate in various employee benefit plans that are organised by municipal and provincial governments, including housing funds and 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 an amount specified by the respective local government authorities where we operate our businesses.

Kangzhe Hunan and Kangzhe Changde, both located in Changde of Hunan Province, have each registered with Li County Housing Fund Administration (澧縣住房公積金管理部) in May 2010, which is the relevant housing fund authority in Changde, paid the outstanding housing fund contributions for the period from 1 January 2010 to 30 May 2010 and since then have started regularly paying the relevant housing fund contributions. Before May 2010, Kangzhe Hunan and Kangzhe Changde had not registered with relevant housing authorities or paid the relevant housing fund contributions because Kangzhe Hunan and Kangzhe Changde have provided dormitories to their employees and it is not compulsory to make housing fund contribution according to local practice in Changde. We estimate that the aggregate amount of outstanding housing fund contribution for Kangzhe Hunan and Kangzhe Changde as at the end of 2009 is approximately RMB459,000 and RMB2,700, respectively. The maximum amount of potential fine levied by relevant authorities for each of these companies is RMB50,000. Li County Housing Fund Administration confirmed in writing on 30 May 2010 that there were no outstanding housing fund contributions in relation to Kangzhe Hunan and Kangzhe Changde and neither company has been penalised for non-compliance with applicable laws and regulations in this regard. According to enquiries made by our PRC legal adviser with the Hunan Changde Municipality Housing Fund Administration in March 2010, it is not compulsory to make housing fund contributions according to local practice in Changde.

Guangdong Lantai had not registered with relevant housing authorities or paid the relevant housing fund contributions because Guangdong Lantai is a jointly-controlled entity and we do not have absolute control over the operation of Guangdong Lantai. Guangdong Lantai has registered with Guangzhou Municipality Housing Fund Administration (廣州市住房公積金管理部) in May 2010 and since then has started regularly paying the relevant housing fund contributions. We estimate that the aggregate amount of outstanding housing fund contribution for Guangdong Lantai from December 2007 (we acquired 55% equity interest in Guangdong Lantai in November 2007) to April 2010 is less than RMB30,000. The maximum amount of potential fine by relevant authorities in this respect is RMB50,000.

By failing to register with the relevant housing authorities and to pay the relevant housing fund contributions, Kangzhe Hunan, Kangzhe Changde and Guangdong Lantai did not strictly comply with relevant PRC laws. This failure to strictly comply with those laws occurred mainly because certain employees indicated their preference for not making the housing fund contributions. To prevent future non-compliance in respect of housing fund contributions, our legal department has implemented internal rules to check and confirm that housing fund contribution has been made for each new employee of the Group.

The total amount of our staff costs including directors' remuneration for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 were US$8.7 million, US$11.8 million, US$14.7 million and US$6.3 million, respectively.

We provide regular training to employees, which is designed to strengthen staff commitment and improve staff knowledge in a number of important areas of our services, such as knowledge about our Company and our products and marketing, promotion and sales skills. We believe that these programmes have enhanced the productivity of our employees.

To deter corrupt practices and other malpractice among our employees, we have put in place stringent internal control policies with specific rules and guidelines governing our employees' conduct and practice. Non-compliance with such rules and guidelines may result in the employee's dismissal. Further, as part of our internal control policy, we have set up an anti-corruption management system which includes a whistle-blowing electronic mailbox which allows employees to submit complaints and to report any suspected corruption and other malpractice. In addition, employees' expenses will only be approved with the support of official receipts, and our comprehensive CMSERP system has been programmed to track such expenses, which helps us to effectively monitor and control employees' expenses. This monitoring system also helps to deter potential corrupt practices.

Our Directors and PRC legal adviser have confirmed that as at the Latest Practicable Date we had complied with all applicable employment laws and regulations in all material respects and there were no outstanding material labour related legal proceedings against us.

TRADEMARKS, PROPRIETARY RIGHTS AND PROTECTION

As at the Latest Practicable Date, we had registered three invention patents in the PRC in relation to CMS024. CMS024, with the generic name of Tyroserleutide, is a tripeptide compound indicated for the treatment of primary liver carcinoma. During the period from October 2003 to April 2005, CMS024 completed phase I, phase IIa and phase IIb clinical trials successively in China. On 9 June 2005, we submitted a new-drug application for CMS024 to the SFDA for marketing approval based on the phase IIb clinical trial results, and at the end of 2007, we received an assessment notice from the SFDA, in which the SFDA requested us to further enlarge the patient sample size of the treatment group in the next clinical trial in order to provide better proof of the drug's clinical efficacy. We will therefore initiate an expanded, randomised, double-blind, multi-centre clinical trial including at least 300 patients in the treatment group in the second half of 2010, which we expect to complete in 2015. We aim to submit the new drug application to the SFDA and obtain the approval for production of CMS024 in 2016. Please refer to the section headed "Connected Transactions — Exempt continuing connected transactions — Royalty payments in respect of CMS024 payable to Kangzhe R&D" in this prospectus for further details on the arrangements for the acquisition by Kangzhe Shenzhen of the patents related to CMS024.Our two other invention patents registered in the PRC are in relation to YouSuPing thymopentin for injection.

We are the registered owner of 46 trademarks in the PRC and two trademarks in Hong Kong, which are mainly related to our in-house manufactured products such as YouSuPing, ShiErXing, JinErLun and RuiLuoSu. We have six domain names in the PRC. We own the copyright to CMSERP, our in-house information management system, which is registered in the PRC. To protect our proprietary rights, we have entered into confidentiality agreements with key employees, pursuant to which the employees acknowledge that we own the rights to all inventions, technology, know-how and trade secrets generated in connection with their employment with us or their use of our resources or relating to our business or our property.

During the Track Record Period, we were not subject to any claims for infringement of intellectual property rights by any third party and had complied with all applicable intellectual property laws and regulations in China in all material respects. Our PRC legal adviser has confirmed that, after inquiry, it was not aware of any restrictions in respect of intellectual property which would have a material adverse effect on the normal operation of our PRC subsidiaries, nor was there any infringement by any of our PRC subsidiaries against any third party's intellectual property rights during the Track Record Period.

Details of our material intellectual property rights are set out in the section headed "Statutory and General Information — B. Further information about our business — Intellectual property rights" in Appendix VI to this prospectus.

LAND AND PROPERTIES

We currently have one manufacturing plant in Hunan held by us through Kangzhe Hunan with land use rights for a term expiring on 11 January 2047 to serve as our manufacturing sites for our production, storage and other ancillary facility needs. The site area and total gross floor area of the property are approximately 35,014.68 square meters and 11,955.85 square meters respectively. The property comprises a parcel of land together with 16 buildings of one to five storeys erected between 1980 and 2006. We have obtained state-owned land use rights certificate and building ownership certificates for this property on which our manufacturing facilities are situated.

We have another property in Luohu District, Shenzhen held by us through Kangzhe Shenzhen with land use rights for a term of 50 years expiring on 5 August 2031 for commercial and finance uses. The gross floor area of the property is approximately 179.35 square meters. The property comprises a unit on Level 14 of a 17-storey composite building completed in about 1986. The property is currently occupied by Kangzhe Pharmaceutical Technology for office and storage uses.

We acquired a piece of land in Pingshan New District, Shenzhen on 15 January 2010 for future development. Pursuant to a State-owned land use rights grant contract entered into between Pingshan Management Bureau of Shenzhen Planning and State-owned Land Resources Committee and Kangzhe Shenzhen dated 15 January 2010, the property was granted to us for a term of 50 years commencing on 15 January 2010 and expiring on 14 January 2060 for industrial use at a consideration of RMB19,300,500. The site area is approximately 36,422.4 square meters. We intend to build a production plant on this site for the manufacture of CMS024 and other pharmaceutical products. We estimate that the costs required to construct and complete the production plant is approximately US$21.5 million, approximately US$15.0 million of which will be funded from the net proceeds from the Global Offering and the remaining amount will be funded from internal resources.

We have leased a property in Nanshan Science & Technology Park, Shenzhen with a total gross floor area of approximately 2,451.14 square meters for a term commencing on 18 January 2010 and expiring on 7 March 2012 to serve as our headquarters. In addition, we have leased one other property in Shenzhen, one property in Guangzhou, one property in Changde and one property in Hong Kong for office and storage uses.

Please see the property valuation report set out in Appendix IV to this prospectus for further details regarding our properties.

LEGAL MATTERS AND PROCEEDINGS

We are subject to regular inspections, examinations, inquiries and audits by regulatory departments as part of the process of maintaining or renewing the various permits, licences and certifications required for the manufacture and distribution of pharmaceutical products. During the Track Record Period, our Group has not failed any of such inspections, examinations, inquiries or audits. The GSP certificate of Guangdong Lantai expired on 5 September 2010, and we submitted the relevant renewal application to the relevant PRC authority in August 2010. Our PRC legal adviser has confirmed that there is no legal impediment to our obtaining the renewed GSP certificate for Guangdong Lantai, and the business operations of Guangdong Lantai are lawful when its GSP certificate is under renewal.

During the Track Record Period, no member of our Group was engaged in any litigation, claim or administrative proceedings of material importance, and as at the Latest Practicable Date, no litigation, claim or administrative proceedings of material importance was known to our Directors to be pending or threatened against any member of the Group.

Our PRC legal adviser has confirmed that, save as disclosed in this sub-section, we have obtained all the permits, licence and approvals for our operations within the PRC, and our operations have complied in all material respects with all applicable laws and regulations in the PRC.

ENVIRONMENTAL MATTERS

Our business is subject to national, provincial and local environmental laws and regulations of the PRC. 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 waste before the waste is discharged. 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.

The main businesses of Kangzhe Shenzhen, Kangzhe Changde, Kangzhe Pharmaceutical Technology and Guangdong Lantai are to promote, market and sell pharmaceutical products, the nature of such business is not normally considered to have a material impact on the environment. The waste water, noise and smoke generated during the manufacturing process at Kangzhe Hunan might affect the environment. In order to mitigate environmental pollutions at Kangzhe Hunan, we have (i) utilised modern equipment, technology and measures to minimise environmental pollution at Kangzhe Hunan; (ii) selected products that create less environmental pollution for manufacturing at Kangzhe Hunan; and (iii) monitored and managed environmental protection compliance at Kangzhe Hunan. We believe that we have complied with all applicable environmental protection laws and regulations in all material aspects in the past and that our production facilities comply with laws and regulations applicable to pharmaceutical manufacturers in China, including GMP and GSP certification requirements and requirements governing the construction and expansion of our manufacturing plants and facilities. For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our costs incurred for compliance with PRC environmental protection laws and regulations were approximately RMB37,060, RMB45,060, RMB37,060 and RMB26,000, respectively. Assuming that there are no changes to the environmental laws and regulations in the PRC applicable to our Group and based on the existing scale of operation of Kangzhe Hunan, we expect that our environmental compliance cost will be around RMB50,000 in 2010.

Our PRC legal adviser has confirmed that as at the Latest Practicable Date, it was not aware of any non-compliance by us with any applicable laws and regulations relating to production safety and environmental requirements in all material respects. We have not been penalised for any violation of applicable environmental laws or regulations. As at the Latest Practicable Date, there had been no claim, administrative penalty or other kind of proceeding made against us in respect of production safety or environmental protection.

CONTROLLING SHAREHOLDER

Immediately after the completion of the Global Offering, without taking into account (a) any Shares that may be issued under the Existing Share Options and (b) any Shares that may be issued or sold upon the exercise of the Over-allotment Option, Mr. Lam Kong will own and control indirectly through Treasure Sea (which is wholly owned by Mr. Lam Kong) approximately 57.8% of our issued share capital and will remain as our controlling shareholder under the Listing Rules. Mr. Lam Kong was brought up and has spent a substantial amount of time living in China and in Hong Kong. He is not and has not been a full time government official of any country or a full time employee of any state or government-owned or operated entity. For details of the background of Mr. Lam Kong, please refer to the information set forth in the section headed "Directors and Senior Management" in this prospectus.

INDEPENDENCE FROM CONTROLLING SHAREHOLDER

Management independence

Although Mr. Lam Kong will remain our controlling shareholder upon completion of the Global Offering, the day-to-day management of our business is primarily rested with our Board of Directors. Our Board has eight Directors comprising four executive Directors, including Mr. Lam Kong, one non-executive director and three independent non-executive Directors.

Operational independence

Except for Doxycyline, all the in-licensed products that we sell and the raw materials required for our production are sourced from independent third parties and have our own clientele. All in-licence contracts are entered into with members of our Group. We operate independently through our own marketing, promotion and sales network. We also have our own capabilities and personnel to perform all essential administrative functions, including financial and accounting management, invoicing and billing, human resources and information technology.

Mr. Lam is indirectly interested in 70% of the issued share capital of Sunpharma GmbH, the manufacturer of Doxycyline. Our revenue generated from the sale of Doxycyline was US$9,000, US$16,000, US$41,000 and US$44,000 for each of the years ended 31 December 2007, 2008 and 2009, and for the six months ended 30 June 2010, respectively, representing an insignificant amount of our revenue during the Track Record Period. As at 30 June 2010, our inventory of Doxycyline amounted to US$172,000 and since we expected that the inventory may become obsolete, full provision was made for this inventory. Our Directors are of the view that the sale of Doxycyline did not have any material effect on our results of operations and our operations are not dependent on the supply of Doxycyline. Further details of Mr. Lam's interest in Sunpharma GmbH are set out in the paragraph headed "Non-compete undertaking" below.

Financial independence

Our Directors are of the view that our Directors and senior management are able to maintain financial independence from Mr. Lam Kong and his associates. Our Company has historically had, and will following completion of the Global Offering, continue to have, its own internal control and accounting systems, its own finance department responsible for discharging the treasury function for cash and receipts and payments, accounting, reporting and internal control functions independent from Mr. Lam Kong. As at 30 June 2010, Kangzhe Shenzhen has obtained two banking facilities with an amount of US$16 million and RMB90 million, respectively, with two licensed banks in the PRC which are primarily used to facilitate settlement of our purchases by issue of letters of credit. A portion of each such credit facility is available for draw down by our Group as working capital but which has never been utilised. One of the banking facilities is guaranteed by Mr. Lam Kong and the other is guaranteed by all the directors of Kangzhe Shenzhen, being Mr. Lam Kong, Mr. Chen Hongbing, Ms. Chen Yanling, Ms. Hou Xiaoxuan and Ms. Sa Manlin. All these guarantees are

provided free of charge. As an alternative to the guarantees provided by Mr. Lam Kong and the directors of Kangzhe Shenzhen to secure our obligations under the banking facilities, it may be possible for us to pledge our cash deposits as security for the facilities as an alternative to the directors' guarantees. In the absence of such banking facilities, we are able to use cash generated from operations to settle our purchases. While there is security arrangement available to our Group, the use of guarantees provided by Mr. Lam Kong and the directors of Kangzhe Shenzhen presents the most attractive option, as it has no costs to us and saves us from tying up our cash which could be better utilised to finance our working capital. One of these two banking facilities, being the one in the amount of US$16 million, expired on 13 July 2010. To demonstrate that our Group is able to operate independently from our controlling shareholders, we terminated the other banking facility in the amount of RMB90 million on 30 July 2010. Save as disclosed above, our Group did not have any loan, guarantee or other financial assistance provided by Mr. Lam Kong during the Track Record Period and as at the Latest Practicable Date, our Group has no outstanding loans owed to, and no outstanding guarantees from, Mr. Lam Kong.

In light of the above, our Directors are of the view that our Directors and senior management are capable of carrying on our business independently of, and do not place undue reliance on, Mr. Lam Kong and his associates after the Listing.

NON-COMPETE UNDERTAKING

Undertaking by Mr. Lam Kong

Mr. Lam Kong is interested in 70% of the issued share capital of Sunpharma GmbH, a German company. The 70% interest in Sunpharma GmbH is held by Pepharm R&D Limited, a company incorporated in Hong Kong on 19 January 2001, and owned as to 70% by East Kingdom, which in turn is a company owned as to 99% by Mr. Lam. The remaining 30% interest in Sunpharma GmbH is held by two independent third parties, one of which is Synda Limited. Save for business relationships, Mr. Lam Kong does not have any other relationships with Synda Limited. Sunpharma GmbH is incorporated in Germany with a registered share capital of Euro 25,000 and is based in Wardenburg, German. The sole business of Sunpharma GmbH is the manufacture and sale of Doxycyline, a non-patented generic drug for the treatment of rickettsia disease, mycoplasma infection, bedsonia infection, relapsing fever and brucellosis. Doxycyline is currently the only product which Sunpharma GmbH manufactures, and substantially all of the sales of Doxycyline are made in China. Sunpharma GmbH has no current plan to sell Doxycyline in any other countries to manufacture or sell other pharmaceutical products. Sunpharma GmbH has a small business operation and owns no substantial assets. According to the accounts of Sunpharma GmbH for each of the years ended 31 December 2007, 2008 and 2009, its revenue was €81,712.1, €5,408.1 and €110,017.9 and it incurred net profit/(loss) of (€18,972.2), (€62,697.5) and €280.2. Its operation is managed by a local manager employed in Germany, who is not a member of our staff or management team. Sunpharma GmbH has no production plant and the manufacture of Doxycyline, the only product of Sunpharma GmbH, is outsourced to a third party manufacturer in Europe. We have obtained the exclusive agency right to distribute Doxycyline in the PRC from Sunpharma GmbH in 2006. We import, re-package and sell Doxycyline in China. For further information on the grant of the exclusive agency right by Sunpharma GmbH to us, please refer to the paragraph headed "Connected Transactions — Exempt continuing connected transactions — Purchases of Doxycyline from Sunpharma GmbH" in this prospectus. Our purchase of Doxycyline from Sunpharma GmbH, which was based on our forecast sales volume, during the Track Record Period was US$107,000, nil, US$157,000 and nil for each of the years ended 31 December 2007, 2008 and 2009, and for the six months ended 30 June 2010, respectively. For the same respective periods, our revenue generated from the sale of Doxycyline was US$9,000, US$16,000, US$41,000 and US$44,000, respectively.

The sales amount does not match with the purchase in the corresponding period because actual sales differ from our expected sales. Since Doxycyline requires re-packaging in China and is not one of the key in-licensed products that we promote, our revenue for the sale of Doxycyline is classified under "Other Business" in our financial statements set out in Appendix I to this prospectus.

Our Directors are of the view that the business of Sunpharma GmbH is different from the core business of our Group and there is clear delineation between the two businesses in terms of management, operation and business focus. The sole business of Sunpharma GmbH is the manufacture of a non-patented drug, Doxycyline, while our core business is the provision of marketing, promotion and sale services in China for pharmaceutical products in-licensed from specialty pharmaceutical companies. The operation of Sunpharma GmbH and the manufacture of Doxycyline are in Germany and Sunpharma GmbH is managed by a locally hired manager who is not a member of our staff or management team. Doxycyline has no overlapping curative effect with any of our other current in-licensed or self-manufactured products. Sunpharma GmbH has a four-member board which comprises of (i) the locally hired manager, (ii) a director who represents the other shareholder of Sunpharma GmbH, who is not a member of our staff, (iii) Mr. Lam Kong and (iv) Dr. Wong Wai Ming, one of our senior management. However, both Mr. Lam Kong and Dr. Wong Wai Ming only assume a non-executive role and are not involved in the day-to-day management of Sunpharma GmbH. Being the supplier-customer relationship, Sunpharma GmbH and we supplement each other's business. Based on the above, our Directors are of the view that the business of Sunpharma GmbH does not actually or potentially compete with the core business of our Group.

In addition, our Directors do not believe that an acquisition of Mr. Lam Kong's interest in Sunpharma GmbH would be in the best interests of our Company and of our shareholders. Our core business is the provision of marketing, promotion and sale services in China for pharmaceutical products in-licensed from specialty pharmaceutical companies (which accounted for more than 90% of our total revenue during the Track Record Period), whilst Sunpharma GmbH is engaged in the manufacture of Doxcyline. In particular, after selling Doxcyline in China for a few years, we consider that Doxycyline does not fit into our portfolio of in-licensed pharmaceutical products and hence we do not intend to deploy additional resources in marketing and promoting Doxycyline in China. According to its accounts, Sunpharma GmbH incurred losses of €18,972.20 and €62,697.50 in 2007 and 2008, and recorded net profits of €280.20 in 2009. In addition, the day-to-day management of Sunpharma GmbH and the manufacture of Doxycyline are located in Europe. Therefore, our Directors do not consider an acquisition of Mr. Lam Kong's interest in Sunpharma GmbH would be in the best interests of our Company and of our Shareholders.

In addition, Mr. Lam holds approximately 87.4% of the issued share capital of Healthlink indirectly through Treasure Sea. Our Directors are of the view that the business of Healthlink is different from and hence does not compete with the core business of our Group. Healthlink is engaged in R&D of prescription drugs, while we have decided to focus on the marketing, promotion and sale of prescription drugs. We disposed of our non-core businesses, including R&D as carried on by Healthlink and its subsidiaries, following our strategic review of our businesses in late 2009. For further information on our disposal of non-core businesses, please refer to the section headed "History and Development — Disposed Business Operations" in this prospectus. We have acquired intellectual property and production rights from Kangzhe R&D, a subsidiary of Healthlink, in relation to CMS024, details of which are set out in the sections headed "Business — Research and development" and "Connected Transactions — Exempt continuing connected transactions — Royalty payments in respect of CMS024 payable to Kangzhe R&D", respectively of this prospectus. We may acquire the rights to other new products to be developed by Healthlink and its subsidiaries in the future to expand our product portfolio. Kangzhe R&D has granted us (1) all the rights and intellectual properties in CMS024 and any new substances derived therefrom relating to the

treatment of liver diseases; and (2) a first right of refusal if Kangzhe R&D seeks business partners in the PRC for any new substances derived from CMS024 or if Kangzhe R&D seeks to transfer or implement such new substances. Save for the above, neither Kangzhe R&D nor Healthlink has granted us any other first rights of refusal. We have not acquired rights of other R&D products of Kangzhe R&D or Healthlink because our Directors do not consider there is any other R&D product which has been developed to a stage which is sufficiently advanced, fits our product profile and has good growth potential. Further, the operation and other continuing R&D projects of Healthlink require funding. Healthlink recoded a loss of US$1.9 million, US$2.3 million and US$1.1 million for the years ended 31 December 2007, 2008 and 2009, respectively. Following the Distribution of Healthlink in December 2009, we are not responsible for the funding of Healthlink. If Healthlink develops any products which suit our business in the future and are available on terms acceptable to us, we may consider acquiring certain rights to these products. To the extent that any such transactions constitute connected transactions of our Company, they will only be entered into subject to compliance with the applicable Listing Rules. Healthlink also benefits from employing our expertise in marketing, promotion and sale of pharmaceutical products and broad distribution network in China. Our Directors are of the view that Healthlink and our Group supplement each other's business and there is no competition, directly or indirectly, between Healthlink's business and ours.

Nevertheless, our controlling shareholders Mr. Lam Kong and Treasure Sea, have executed a deed of non-compete undertaking dated 14 September 2010 in favour of our Company for itself and as trustee of other members of our Group. Pursuant to the deed of non-compete, our controlling shareholders have undertaken to our Company that they will not, whether directly or indirectly (including through any of his associates) carry on, engage, invest, participate or otherwise be interested in any business which competes or is likely to compete with any of the existing and/or future businesses carried on by any member of our Group in relation to the marketing, promotion and sale of in-licensed pharmaceutical products in China (the "Restricted Business").

Notwithstanding the foregoing, our controlling shareholders may:

- carry on, engage, invest, participate or otherwise be interested in such Restricted Business where the opportunity to carry on, engage, invest, participate or otherwise be interested in such Restricted Business has first been offered or made available to our Company, and our Company, after review and approval by our independent non-executive Directors or Shareholders as required under relevant laws and regulations, has declined such opportunity, provided that the principal terms by which any of our controlling shareholders or any of their respective associate subsequently engages, invests, participates or otherwise is interested in such Restricted Business are not more favourable in any material aspect than those offered or made available to our Company;
- have interests in shares or other securities representing not more than 10% of a company conducting any Restricted Business whose shares are listed on the Hong Kong Stock Exchange or any other stock exchange provided that our controlling shareholders are not in a position to control the board of directors of such company and that the controlling shareholders are not the single largest shareholder of such company; and
- continue to hold their interests in any of those companies in which any of them has an interest as at the date of the non-compete undertaking and as disclosed in this section of the prospectus, provided that these companies do not expand to carry on the Restricted Business.

The non-competition undertakings will terminate on the earlier of the date on which (i) our controlling shareholders and their respective associates in aggregate cease to hold 30% or more of our entire issued share capital or otherwise ceases to be a controlling shareholder, and (ii) the Shares ceases to be listed and traded on the Hong Kong Stock Exchange.

Corporate governance measures

We will adopt the following corporate governance measures to manage any potential conflicts of interest arising from any future potential competing business of and to safeguard the interests of our Shareholders:

- Our independent non-executive Directors will review, at least on an annual basis, the compliance with the non-competition undertakings by Mr. Lam Kong and Treasure Sea.
- Mr. Lam Kong and Treasure Sea have undertaken to us to provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the non-competition undertakings.
- We will disclose the review by our independent non-executive Directors relating to the compliance with, and the enforcement of, the non-competition undertakings in our annual report.
- Each of Mr. Lam Kong and Treasure Sea will make an annual declaration of his compliance with the non-competition undertakings in our annual reports.

Our Directors believe that the scope of the non-compete undertaking is appropriate. The core business of our Group is the provision of marketing, promotion and sale services for pharmaceutical products in-licensed from overseas and domestic specialty pharmaceutical companies in China. Although we also manufacture and sell in-house manufactured prescription drugs, this line of business only represents a small portion of our business. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our revenue generated from the marketing, promotion and sale business accounted for approximately 90.9%, 95.9%, 97.2% and 98.7% of our Group's turnover in the respective year/period, whereas our revenue generated from other business only accounted for approximately 9.1%, 4.1%, 2.8% and 1.3% of our Group's turnover in the respective year/period. The results of our other business during the Track Record Period included the sale of medical devices, which was disposed of in late 2009. Further, we do not intend to expand our in-house manufacturing business, except for the intended manufacture and sale of CMS024, which is expected to occur in 2016.

CONNECTED TRANSACTIONS

We have entered into certain transactions with entities and individuals which will become our connected persons upon Listing and such transactions will, upon completion of Listing, constitute continuing connected transactions of our Company under the Listing Rules.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Purchases of Doxycyline from Sunpharma GmbH

CMS International entered into an exclusive agency agreement and a supplementary agreement for Doxycyline with Sunpharma GmbH, Germany on 1 December 2006 and 16 April 2007, respectively (collectively, the "Doxycyline Agreement"), pursuant to which Sunpharma GmbH agreed to grant the exclusive agency right to CMS International to distribute Doxycyline in the PRC. The Doxycyline Agreement is for an indefinite term until terminated by mutual agreement between the parties. For each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our Group purchased Doxycyline from Sunpharma GmbH for a total amount of US$107,000, nil, US$157,000 and nil, respectively. Our Directors estimate that we will purchase Doxycyline from Sunpharma GmbH under the Doxycyline Agreement in an amount not exceeding US$130,050 for each of the years ending 31 December 2010, 2011 and 2012, respectively.

Sunpharma GmbH is a company incorporated in Germany owned as to 70% by Pepharm R&D Limited, a company incorporated in Hong Kong and owned as to 70% by East Kingdom, which in turn is owned as to 99% by Mr. Lam Kong. Mr. Lam Kong is our controlling shareholder and hence Sunpharma GmbH is a connected person of our Company for the purposes of the Listing Rules. Accordingly, purchases of Doxycyline under the Doxycyline Agreement will constitute continuing connected transactions of our Company following Listing. These continuing connected transactions are undertaken on an arms' length basis and on normal commercial terms and each of the percentage ratios (other than the profits ratio) on an annual basis is expected to be less than 0.1%, therefore these continuing connected transactions are exempted from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

Royalty payments in respect of CMS024 payable to Kangzhe R&D

Kangzhe Shenzhen has entered into an agreement dated 16 February 2004 (as supplemented by a supplemental agreement dated 2 November 2004) (the "R&D Agreement") with Kangzhe R&D in relation to the transfer of certain rights in CMS024 (tyroserleutide) including the right to the commercial applications as well as the conduct of further R&D on CMS024. On 16 December 2007, Kangzhe Shenzhen and Kangzhe R&D entered into a further agreement whereby the parties agreed to expand the scope of R&D on CMS024 (together with the R&D Agreement, "Transfer Agreements").

Pursuant to the Transfer Agreements, Kangzhe R&D agreed to transfer to Kangzhe Shenzhen all the rights to and interests in CMS024, including all the rights in the clinical trial results, the production, marketing and sales rights and the following two related patent applications made in the PRC:

	Patent name	Type of patent	Application number	Date of application
(i)	Biologically active peptides with SEQ ID No. 16 (序列號16的生物活性肽)	Invention patent of compound, composition and utility	ZL02141038.0	11 July 2002
(ii)	Method of tyrosyl-seryl-leucyl tripeptide preparation (製備酪-絲-亮三肽的方法)	invention patent for process of preparation	ZL03117845.6	9 May 2003

Further, Kangzhe R&D has undertaken to complete all the R&D and clinical trials and prepare the documents necessary for and assist Kangzhe Shenzhen in the application for a new drug permit for CMS024. In consideration for the transfer of the rights to and interest in CMS024 and the R&D and development services to be provided by Kangzhe R&D, Kangzhe Shenzhen agreed to reimburse Kangzhe R&D all R&D fees which it incurred in relation to the development of CMS024. Kangzhe Shenzhen has paid total R&D fees of US$3.1 million to Kangzhe R&D. In addition, Kangzhe Shenzhen agreed to pay Kangzhe R&D on a quarterly basis a royalty fee representing 13% of the quarterly sales revenue generated by Kangzhe Shenzhen in respect of the sale of CMS024 for the transfer of the patent application ZL02141038.0 referred to above (the "royalty payments"). Except for the royalty payments, no further R&D fee or any other consideration is payable pursuant to the Transfer Agreements. As requested by the SFDA, Kangzhe R&D will conduct further clinical trials for CMS024, which will commence in the second half of 2010 and are expected to complete in 2015. As agreed by the parties, we are not responsible for any further R&D fees incurred by Kangzhe R&D in relation to these clinical trials. For more information on these clinical trials, please refer to the section headed "Business — Research and development" in this prospectus.

For the purposes of carrying out research activities, Kangzhe R&D is entitled to use the research results, technical know-how and invention patents of CMS024 free of charge.

On 26 May 2010, a further supplemental agreement was entered into between Kangzhe Shenzhen and Kangzhe R&D pursuant to which the parties agreed to fix the term of the R&D Agreement to expire on 31 December 2022, and thereafter renewable for another term of 20 years subject to applicable laws, rules and regulations including the Listing Rules. The 2010 Supplemental Agreement further clarifies that any new compounds discovered resulting from the R&D CMS024 shall belong to Kangzhe R&D, except that if the compound is for the treatment of hepatocellular carcinoma or other liver diseases the rights to such compound shall belong to Kangzhe Shenzhen. Further, Kangzhe R&D has granted Kangzhe Shenzhen the right of first refusal in the event that Kangzhe R&D proposes to sell the rights to or seek partner to commercialise any of such compounds related to CMS024 which belong to Kangzhe R&D.

Pursuant to the Transfer Agreements, R&D fees in an aggregate amount of US$3.1 million have been paid to Kangzhe R&D. Such R&D fees are for the R&D of CMS024 generally and not limited to the R&D of hepatocellular carcinoma or other liver diseases. Recurring royalty payments will be payable quarterly only following the successful introduction of CMS024 to the market in China and such payments will continue for so long as our Group generates revenue from the sale of CMS024. Save for the US$3.1 million already paid and the 13% royalty payments, no other fees are required to be paid or payable under the Transfer Agreements. No royalty payment had been made as at the Latest Practicable Date. We aim to submit the new drug application to the SFDA and obtain the approval for CMS024 in 2016.

As production of CMS024 is not expected to commence until 2016, we do not expect to pay any royalty fee to Kangzhe R&D under the Transfer Agreements for any of the years ending 31 December 2010, 2011 and 2012. With respect to the transactions under the Transfer Agreements, we will comply with the provisions of Chapter 14A of the Listing Rules.

Kangzhe R&D is a company established in the PRC and is a wholly owned subsidiary of Healthlink. Following the Distribution of Healthlink, Mr. Lam Kong, our chairman and the controlling shareholder of the Company, through Treasure Sea, is interested in approximately 87.4% of the issued share capital of Healthlink. Therefore, Kangzhe R&D is a connected person of our Company for the purposes of Rule 14A.11(4) of the Listing Rules and the royalty payments under the Transfer Agreements will constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules following the Listing.

In the event that the terms of these continuing connected transactions are modified or we enter into any new transactions or agreements with any connected person in the future, we will comply with the provisions of Chapter 14A of the Listing Rules.

NON-EXEMPT CONNECTED TRANSACTIONS

Issue of new Shares to the Key Employee Benefit Scheme

Our Company adopted the Key Employee Benefit Scheme on 31 July 2009 following its approval by our Shareholders in general meeting. It is a long term incentive plan for our key employees and is aimed at aligning the interests of our key employees and Shareholders in the long term growth and development of our Company. Under the scheme, our Board may, at its sole discretion, invite select employees (including our Directors) of our Group, who (i) is a key employee of our Group; (ii) has been employed by us for ten years or more; and (iii) has made outstanding contributions to our business development, to participate in the scheme. The selected key employee will become a member of the scheme upon his completion of an application form prescribed by the trustee of the scheme to its satisfaction. A member of the scheme will be entitled to a monthly pension payment payable in cash upon his retirement (or, if our Board approves, before the normal retiring date as defined in the scheme) in accordance with the terms of the scheme for a period up to ten years. Such period is subject to adjustment by reference to the aggregate value of the trust fund as at the normal retiring date (as defined in the scheme), or before the normal retiring date as defined in the scheme, with the consent of the Board, of the relevant member and the aggregate amount of the contributions made by us. Entitlement to the monthly pension payments of a member will lapse automatically under certain circumstances, including (i) engagement or involvement of the member in any pharmaceutical related business activities, or in any capacity similar to that as with us, in competition with our business; (ii) a material breach by the member of any provisions under his employment contract or our rules and regulations; and (iii) a material breach of any confidentiality undertaking by the member in relation to our confidential information or materials. The scheme is funded by annual contributions made by our Company, subject to our Board's approval. The amount of the annual contribution is a sum equal to 0.5% to 3% of our after tax profit, with the final amount to be determined by our Board. Alternatively, we may issue Shares to Fully Profit as the payment of such annual contribution to be made by our Company to fund the scheme. Save for such annual contribution, our Company has no further obligation or liability under the scheme. On 31 July 2009, we issued 162,528 Shares of US$0.10 each to Fully Profit at 168.3 pence per Share (representing the average closing price of the Shares of the 5 trading days from 21 July 2009 to 27 July 2009 quoted on AIM). On 14 May 2010, we allotted and issued 11,835 Shares of US$0.10 each at 598.9 pence per Share (being the average closing price of the Shares of 20 trading days from 15 April 2010 to 13 May 2010 quoted on AIM) to Fully Profit. Upon Listing, we will refer to the price being the higher of (i) the closing price of the Shares quoted on the Hong Kong Stock Exchange on the date of issue, and (ii) the average closing price of the Shares quoted on the Hong Kong Stock Exchange for the five business days immediately preceding the date of issue to determine the issue price of the Shares under the scheme. These Shares are held on trust for the beneficiaries of the scheme. As at 31 December 2009, there were 14 employees of the Group who participated in the scheme. During the six months ended 30 June 2010, an additional seven employees joined the scheme resulting in a total of 21 members as at 30 June 2010. All of these scheme members are our mid-level or senior managers and include three of our Directors, namely, Mr. Chen Hongbing, Ms. Chen Yanling and Ms. Hou Xiaoxuan and two directors of our subsidiaries, Ms. Sa Manlin and Mr. Ma Lieyi. Save as disclosed above, none of the connected persons of the Company is currently a member of the Key Employee Benefit Scheme. For further details on the Key Employee Benefit Scheme set out in the paragraph "Share Capital — Key Employee Benefit Scheme" in this prospectus.

The scheme has an initial term of 20 years and it is renewable on a yearly basis thereafter subject to the approval of our Board. Our Board may at any time after the adoption date of the scheme resolve to terminate it.

Fully Profit is a BVI private trust company wholly owned by Mr. Lam Kong, our Chairman and controlling shareholder, and hence Fully Profit is a connected person of our Company under the Listing Rules. In addition, three of our Directors, namely, Mr. Chen Hongbing, Ms. Chen Yanling and Ms. Hou Xiaoxuan and two directors of our subsidiaries, Ms. Sa Manlin and Mr. Ma Lieyi, are members of the Key Employee Benefit Scheme and hence issue of new Shares by us to the Key Employee Benefit Scheme will constitute connected transactions of our Company under the Listing Rules.

Following the Listing, if we propose to allot and issue any Shares to Fully Profit for the Key Employees Benefit Scheme, we will seek the prior approval from our independent Shareholders in accordance with Note 1 to the Rule 13.36(2)(b) of the Listing Rules.

DIRECTORS

Our Board consists of eight members, three of whom are independent non-executive Directors. The following table provides certain information about our Directors:

Name	Age	Position
Mr. LAM Kong (林 剛 先生)	46	Executive Director, Chairman and Chief Executive Officer
Mr. CHEN Hongbing (陳洪兵 先生)	44	Executive Director, Chief Operating Officer
Ms. CHEN Yanling (陳燕玲 女士)	40	Executive Director, Chief Financial Officer
Mr. HUI Ki Fat (許祺發 先生)	69	Executive Director
Ms. HOU Xiaoxuan (侯瀟璇 女士)	44	Non-executive Director
Mr. CHEUNG Kam Shing, Terry (張錦成先生)	47	Independent non-executive Director
Dr. PENG Huaizheng (彭懷政 博士)	48	Independent non-executive Director
Mr. WU Chi Keung (胡志強 先生)	53	Independent non-executive Director

The following table provides information about members of our senior management team:

Name	Age	Position
Dr. MA Jonathan Zheng (馬政 博士)	44	Chief International Operations Officer
Mr. WONG Wai Ming (王偉明 先生)	50	Chief Technical Officer
Mr. HUI Vincent Wing Sin (許永善 先生)	38	Company secretary and Chief Investor Relations Officer

Executive Directors

Mr. Lam Kong, aged 46, is the Chairman and Chief Executive Officer of our Group and was appointed as our executive Director on 18 December 2006. He is also a director of all of our Company's subsidiaries, other than Kangzhe Hunan, Kangzhe Changde and Guangdong Lantai. He acquired Kangzhe Shenzhen through his company over 15 years ago, building the business from a small company engaged in trading of pharmaceutical products to a leading pharmaceutical service company providing marketing, promotion and sale services. Mr. Lam is responsible for the creation, implementation and management of our development strategy and growth and the management of the overall operation of our Group. Mr. Lam possesses clinical experience and has over 15 years of experience in marketing, promotion, sale and other value-added services for pharmaceutical products in China. He is the co-inventor (along with Dr. Wong Wai Ming) of CMS024. He received his bachelor's degree in medicine from Zhanjiang Medical College in 1986, the name of which was changed to Guangdong Medical College in 1992. Mr. Lam has not been a director in any public company (other than our 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 prospectus. Mr. Lam is a member of our nomination committee.

Mr. Lam is a director of Healthlink, our previous subsidiary before completion of the Distribution of Healthlink in December 2009. Healthlink mainly engages in the R&D of CMS024 and its day-to-day operation and research and development activities are handled by full-time staff of Healthlink. We acquired the production, marketing and sales rights and the related patents of CMS024 from Kangzhe R&D, a subsidiary of Healthlink, in 2004 and Kangzhe R&D is carrying on certain clinical trials of CMS024 for and providing other services to our Group. Subject to favourable clinical development of CMS024, the successful launch of CMS024 in the market will benefit our business. Mr. Lam Kong's role in Healthlink is limited to its overall strategic planning of Healthlink and Mr. Lam does not expect to be required to spend a considerable amount of time on the management of Healthlink. Having considered the roles played by Mr. Lam in both our Group and Healthlink, we believe that Mr. Lam's responsibilities undertaken for Healthlink will not in any material respect affect his ability to properly discharge his duties to our Group.

Mr. Chen Hongbing, aged 44, is the Chief Operating Officer of our Group and was appointed as an executive Director on 18 December 2006. He is also a director of a number of our Company's subsidiaries, including CMS International, Sino Talent, Sky United, Kangzhe Shenzhen, Kangzhe Pharmaceutical, Kangzhe Pharmaceutical Technology and Guangdong Lantai. He joined Kangzhe Shenzhen in 1995 and has remained with our Group since then. Mr. Chen is responsible for the operation of our marketing, promotion and sale business and office administration. He had acquired about four years' clinical experience as a resident doctor with Nanjing Gulou Hospital from 1990 to 1994 prior to joining us in 1995. He graduated from Nanjing Medical College with a bachelor's degree in clinical medicine in 1990. Mr. Chen has not been a director in any public company (other than our 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 prospectus.

Ms. Chen Yanling, aged 40, is the Chief Financial Officer of our Group and was appointed as an executive Director on 18 December 2006. She is also a director of a number of our Company's subsidiaries, including CMS International, Sino Talent, Kangzhe Shenzhen and Kangzhe Pharmaceutical. She joined Kangzhe Shenzhen in 1995 and has remained with our Group since then. Ms. Chen is responsible for our Group's financial controlling, financial integration and financial management. She received her accountancy qualification in 1997 from the Ministry of Personnel of the PRC and from 1997 to 1999 studied and completed an MBA course recognised by the Administration of Foreign Experts Affairs of Guangdong Province. Ms. Chen has not been a director in any public company (other than our 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 prospectus.

Mr. Hui Ki Fat, aged 69, was appointed as our executive Director on 26 April 2007. He has also been a director of our subsidiary, Sky United, since 1999. Prior to his career in Sky United, he was a director and general manager of Jebsen & Company Ltd. in Tianjin, China for which he worked from 1968 to 1981 and from 1983 to 1998. He is primarily responsible for the business of Sky United, which engages in the import and trading of pharmaceutical products for the Group. Mr. Hui has not been a director in any public company (other than our 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 prospectus. Mr. Hui is the father of our Company Secretary and Chief Investor Relations Officer, Mr. Hui Vincent Wing Sin.

Non-executive Director

Ms. Hou Xiaoxuan, aged 44, was appointed as our executive Director on 18 December 2006 and re-designated as a non-executive Director on 4 June 2010. She is also a director of a number of our Company's subsidiaries, including CMS International, Sino Talent, Sky United, Kangzhe Shenzhen, Kangzhe Hunan, Kangzhe Pharmaceutical and Kangzhe Pharmaceutical Technology. Ms. Hou joined Kangzhe Shenzhen in 1995 and has remained with our Group since then. She was primarily responsible for product regulatory affairs and office administration until the end of 2009. Owing to family reasons, Ms. Hou expressed her wish to take a less active role in the management of our Group and accordingly Ms. Hou and we agreed that she would not be responsible for overseeing the day-to-day operations of the Group. She was re-designated as a non-executive director on 4 June 2010 to reflect her less active management role in the Group. She is currently mainly involved in the overall strategic development of our business. Before joining us, she was a teacher at Kunming Medical College from 1989 to 1992 and was a human resources supervisor at Xinglong Enterprise (Shenzhen) Limited from 1992 to 1995. Ms. Hou received a bachelor's degree in clinical medicine from Kunming Medical College in 1989, a master's degree in accountancy from Renming University

of China in 2000 and an EMBA from the Guanghua School of Management of Peking University in 2006. Ms. Hou has not been a director in any public company (other than our 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 prospectus.

Independent non-executive Directors

Mr. Cheung Kam Shing, Terry, aged 47, was appointed as our independent non-executive Director on 18 August 2010. Mr. Cheung has more than 20 years' experience in securities broking, investment banking, fund management, private equity and other financial areas. He is currently a director of Greater China Corporate Consultancy & Services, being a professional services company providing corporate governance, accounting, tax and other corporate advisory services, since July 2010. The companies he served in after graduating from the University of Hong Kong in 1984 included Sanyo Securities (Asia) Limited, Fidelity International Investment Management Limited, Kerry Securities Limited, Sassoon Securities Limited, and Core-Pacific Yamaichi International (HK) Limited from 1984 to 2000. Mr. Cheung served as Managing Director at Culturecom Holdings Limited (a company listed on the Hong Kong Stock Exchange with stock code 0343) from 2000 to 2005. He later served as Managing Director of Nouveau Investment Group Limited from 2005 to mid 2010. Mr. Cheung received his bachelor's degree in social sciences from the University of Hong Kong in 1984 and his master's degree in science (financial economics) from the University of London in 1995. Mr. Cheung is the chairman of our nomination committee and a member of our audit committee and of our remuneration committee.

Dr. Peng Huaizheng, aged 48, was appointed as our independent non-executive Director on 4 May 2010. He is currently a partner of Northland Bancorp responsible for global life sciences industry and Asia/European investment opportunities. Prior to this, he was a director of corporate finance and head of life sciences at Seymour Pierce (an London-based investment banking firm), and prior to that Dr. Peng was a portfolio manager of global life science and technology funds at Reabourne Technology Investment Management Limited (now part of Close Brothers Asset Management Company). He also served as a non-executive director of China Medstar, which was an AIM-listed company, from 2006 until the company was delisted from AIM in 2008. He was a speaker at various international conferences in relation to investment in bio-technology industry. He received his bachelor's degree in medicine from Hunan Medical College (now Central South University Siangya School of Medicine, China) in 1984, his master's degree in medicine from Hunan Medical College in 1989 and his doctoral degree of philosophy in molecular pathology from University College London Medical School in London, UK in 1998. Dr. Peng is the chairman of our remuneration committee and a member of our audit committee and of our nomination committee.

Mr. Wu Chi Keung, aged 53, was appointed as our independent non-executive Director on 25 June 2010. Mr. Wu has more than 29 years of experience in financial audit and specialises in providing auditing and assurance services, financial due diligence reviews, support services for merger and acquisitions, corporate restructuring and fund raising engagements. Mr. Wu worked as an audit assistant at Touche Ross & Co. from 1980 to 1982 and as an accountant at Bylamson & Associates (Enterprises) Limited from 1982 to 1983. In 1983, he joined Kwan Wong Tan & Wong until it merged with Deloitte Touche Tohmatsu in 1997. Mr. Wu was a partner of Deloitte Touche Tohmatsu when he resigned in December 2008. Mr. Wu is currently the managing director of a family-owned private company in Hong Kong engaging in property and other investment activities. Mr. Wu is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Chartered Association of Certified Accountants in the United Kingdom. Mr. Wu graduated from Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) in November 1980 with a higher diploma in accountancy. Mr. Wu is the chairman of our audit committee and a member of our remuneration committee and of our nomination committee.

Please refer to the paragraph headed "Directors' remuneration" in this section and the section headed "Statutory and General Information — C. Further information about our Directors and substantial shareholders — 3. Interests and/or short positions of Directors in the shares, underlying shares or debentures of the Company and its associated corporations" in Appendix VI to this prospectus for details of our Directors' interests in the Shares of our Company (within the meaning of Part XV of the SFO), particulars of our Directors' service agreements and our Directors' remuneration.

Save as disclosed in the section headed "Controlling Shareholder" in this prospectus, none of the Directors (other than the independent non-executive Directors) are interested in any business apart from the business of our Group, which competes or is likely to compete, either directly or indirectly, with our business.

Save as disclosed above, each of our Directors has confirmed that there are no other matters relating to his appointment as a Director that need to be brought to the attention of our Shareholders and there is no other information in relation to his appointment which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Our senior management comprises our executive Directors, our Company Secretary and the following persons:

Dr. Ma Jonathan Zheng, aged 44, has been our Chief International Operations Officer since 2007. He joined Kangzhe Shenzhen as an officer responsible for our international operations in 2005. He is primarily responsible for looking for and introducing new products to our Group. Earlier in his career, Dr. Ma worked at Pfizer in the United States. Dr. Ma received his bachelor's degree in statistics of the mathematics department from Peking University in 1988, a PhD from Yale University in 1995 and a master's degree in science from University of Texas at El Paso in 1991.

Dr. Wong Wai Ming, aged 50, has been our Chief Technical Officer since 2010. He first joined us in 2000 and then became the Chief R&D Officer in 2007. He is responsible for dealing with technical issues in introducing products and providing technical advice to our Group for selecting pharmaceutical products. He is also the co-inventor (along with Mr. Lam) of CMS024. Prior to this, Dr. Wong worked as manager of China pharma department for Jebsen Co. Ltd. He studied bio-chemistry and received his bachelor's degree in science and PhD from the University of Hong Kong in 1983 and 1993, respectively.

Dr. Wong is a R&D officer of Healthlink, our previous subsidiary before completion of the Distribution of Healthlink in December 2009. We acquired the production, marketing and sales rights and the related patents of CMS024 from Kangzhe R&D, a subsidiary of Healthlink, in 2004 and Kangzhe R&D is carrying on certain clinical trials of CMS024 for and providing other services to our Group. Subject to favourable clinical development of CMS024, the successful launch of CMS024 in the market will benefit our business. Having considered the roles played by Dr. Wong in both our Group and Healthlink, we believe that Dr. Wong's responsibilities undertaken for Healthlink will not in any material respect affect his ability to properly discharge his duties to our Group.

COMPANY SECRETARY

Mr. Hui Vincent Wing Sin, aged 38, has been our Company Secretary since 2007 and is also our Chief Investor Relations Officer. He is the finance manager of CMS Pharmaceutical Agency, responsible for accounting and financial planning. Mr. Hui is a member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public

Accountants. Prior to joining us, he worked for Ernst & Young, Hong Kong. Mr. Hui received a bachelor's degree in biochemistry with nutrition and a master's degree in accounting and management science from the University of Southampton in the UK in 1994 and 1997, respectively.

DIRECTORS' REMUNERATION

Each of the executive Directors has entered into an appointment letter with us with effective from the Listing Date for an initial term of three years which may be terminated by either party by serving on the other party a prior written notice of not less than three months.

The aggregate amount of fees, salaries, allowances and retirement benefits scheme contributions we paid to our Directors in respect of each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 were US$513,000, US$533,000, US$516,000 and US$240,000 respectively. Further information on the remuneration of each Director during the Track Record Period is set out in note 8 to the accountants' report as set out in Appendix I to this prospectus.

During the Track Record Period, no remuneration was paid to our Directors as an inducement to join or upon joining our Group. No compensation was paid to, or receivable by, our Directors or past Directors during the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the Track Record Period.

Under the arrangements currently in force, the aggregate amount of remuneration (excluding any discretionary bonus which may be paid) payable by our Group to our Directors for the year ending 31 December 2010 will be approximately US$499,000.

The five highest paid individuals of our Group for the Track Record Period included four Directors for the years ended 31 December 2007, 2008 and 2009 and three Directors for the six months ended 30 June 2010, whose remunerations are included in the aggregate amount of fees, salaries, allowances and retirement benefits scheme contributions we paid to the relevant Directors set out above. The aggregate amount of fees, salaries, allowances and retirement benefits scheme contributions paid to the five highest paid individuals by our Group in respect of each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 were US$484,000, US$493,000, US$474,000 and US$244,000, respectively.

During the Track Record Period, no remuneration was paid to the five highest paid individuals of our Group as an inducement to join or upon joining our Group. No compensation was paid to or receivable by such individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any member of our Group.

We provide benefits to our key employees under the Key Employee Benefit Scheme. A summary of the principal terms of the Key Employee Benefit Scheme is set out in the paragraph headed "Share Capital — Key Employee Benefit Scheme" in this prospectus. We also maintain directors and officers liability insurance for our Directors, which covers certain payments, costs and expenses resulting from a management error claim or an employment practice error claim as stipulated in the insurance policy.

Save as disclosed above, no other payments have been paid or are payable in respect of the Track Record Period to our Directors by our Group.

CORPORATE GOVERNANCE

Audit committee

We established an audit committee on 26 June 2007. The primary duties of the audit committee are to provide our Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as assigned by our Directors. The audit committee is chaired by Mr. Wu Chi Keung and comprises Mr. Cheung Kam Shing, Terry and Dr. Peng Huaizheng.

Remuneration committee

We established a remuneration committee on 26 June 2007. The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to our Directors on our policy and structure for remunerations of all our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of our Directors and senior management; (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time; and (iv) considering and approving the grant of benefits to eligible participants pursuant to the Key Employee Benefit Scheme. The remuneration committee is chaired by Dr. Peng Huaizheng and comprises Mr. Cheung Kam Shing, Terry and Mr. Wu Chi Keung.

Nomination committee

We established a nomination committee on 26 June 2007. The primary duties of the nomination committee are to make recommendations to our Directors on all new appointments of Directors and senior management, interviewing nominees, to take up references and to consider related matters. The nomination committee is chaired by Mr. Cheung Kam Shing, Terry and comprises Mr. Lam Kong, Dr. Peng Huaizheng and Mr. Wu Chi Keung.

COMPLIANCE ADVISER

We have appointed CMB International Capital Limited, as our compliance adviser, pursuant to Rule 3A.19 of the Listing Rules to advise us on the following matters in accordance with Rule 3A.23 of the Listing Rules:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Group deviate from any forecast, estimate or other information in this prospectus; and

(d) where the Hong Kong Stock Exchange makes an inquiry of us of unusual movements in the price or trading volume of our listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

The term of the appointment will commence on the Listing Date and end on the date on which we send our financial results as required under Rule 13.46 of the Listing Rues for the first full financial year commencing after the Listing Date.

SHARE CAPITAL

As at the date of this prospectus, our Company has an authorised share capital of US$100,000,000 divided into 20,000,000,000 Shares of nominal value US$0.005 each. Assuming the Over-allotment Option and the Existing Share Options are not exercised, the share capital of our Company immediately after the Global Offering will be as follows:

Number of Shares	Description of Shares	Aggregate nominal value of Shares	Approximate percentage of issued share capital
		(US$)	
953,691,440	Shares in issue	4,768,457.20	84.9%
170,000,000	Shares to be issued under the Global Offering	850,000.00	15.1%
1,123,691,440	Total	5,618,457.20	100.0%

Assuming the Over-allotment Option and the Existing Share Options are exercised in full, the share capital of our Company immediately after the Global Offering will be as follows:

Number of Shares	Description of Shares	Aggregate nominal value of Shares	Approximate percentage of issued share capital
		(US$)	
953,691,440	Shares in issue	4,768,457.20	82.4%
190,000,000	Shares to be issued under the Global Offering	950,000.00	16.4%
14,173,900	Shares to be issued pursuant to the Existing Share Options	70,869.50	1.2%
1,157,865,340	Total	5,789,326.70	100.0%

The above table assumes that the Global Offering has become unconditional. It takes no account of any Shares which may be allotted, issued or repurchased by us under the general mandates granted to our Directors as referred to below.

Save as disclosed in this prospectus, no share or loan capital of our Company or any of its subsidiaries is under any option or is agreed conditionally or unconditionally to be put or called under any option.

Other than the Global Offering, we do not propose to carry out a public or private issue or to place securities simultaneously with the Global Offering or within the next six months. We have not approved any share issue plan other than the Global Offering, the issue of Shares under the Key Employee Benefit Scheme and the Existing Share Options. We have given certain undertakings in respect of the issuance of our Shares and other securities. See "Underwriting — The Hong Kong Public Offer — Undertakings".

RANKING

The Offer Shares will rank pari passu in all respects with all Shares now in issue or to be issued as mentioned in this prospectus, and will qualify in full for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus.

EXISTING SHARE OPTIONS

As part of the commission for underwriting the placing of shares conducted by our Company in relation to the admission of our Shares to trading on AIM in 2007, we granted the Existing Share Options to Evolution, the underwriter for the placing, for a consideration of GBP1.0. The Existing Share Options are exercisable into 14,173,900 Shares of nominal value US$0.005 each at an exercise price of 6.9 pence per Share. These options are exercisable over a period of five years from 26 June 2007 and will expire on 25 June 2012. In addition to the Existing Share Options, we paid a cash underwriting commission of approximately US$1.2 million to Evolution. On 9 March 2009, Evolution transferred all the Existing Share Options to Mr. Chen Hongbing, a Director and whose address is set out in the section headed "Director and Parties Involved in the Global Offering" in this prospectus, for a cash consideration of GBP148,825.95. As at the date of this prospectus, none of the Existing Share Options have been exercised.

GENERAL MANDATES

General mandate to issue Shares

On 20 August, our Directors were granted a general unconditional mandate to allot and issue new Shares up to 20% of the aggregate nominal value of the issued Shares in the capital of our Company on such date. Immediately following the completion of the Global Offering and assuming that the Over-allotment Option is exercised in full, the number of Shares that remain available for issue under the general unconditional mandate will be 738,222 Shares.

The Issuing Mandate does not apply to situations where our Directors allot, issue or deal with Shares by way of rights, or an issue of Shares upon the exercise of any rights of subscription or conversion under the terms of any existing warrants, bonds, debentures, notes or other securities issued by the Company or any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in the Company in accordance with the articles of association of the Company as amended from time to time, or a specific authority granted by our Shareholders in our general meeting.

The Issuing Mandate will expire at the earlier of:

- at the conclusion of the next annual general meeting of our Company; and
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

For further details of the Issuing Mandate, see the paragraph headed "A. Further Information about our Company — 3. Resolutions of the Shareholders of our Company" in Appendix VI to this prospectus.

General mandate to repurchase our own securities

Subject to the Listing occurring, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase our own securities with nominal value up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering and excluding the Shares which may be issued under the Over-allotment Option and the Existing Share Options.

The Repurchase Mandate only relates to repurchases made on the Hong Kong Stock Exchange, or on any other stock exchange on which the Shares are listed (and which are recognised by the SFC and the Hong Kong Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "A. Further Information about our Company — 5. Repurchase of our own securities" in Appendix VI to this prospectus.

The Repurchase Mandate will expire at the earlier of:

- at the conclusion of the next annual general meeting of our Company; and
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

For further details of the Repurchase Mandate, see the paragraph headed "A. Further Information about our Company — 3. Resolutions of the Shareholders of our Company" in Appendix VI to this prospectus.

KEY EMPLOYEE BENEFIT SCHEME

We have introduced the Key Employee Benefit Scheme for the key employees of our Group. The scheme was adopted by our Shareholders on 31 July 2009. It is a long term incentive plan for our key employees and is aimed at aligning the interests of our key employees and Shareholders in the long term growth and development of our Company.

Under the scheme, our Board may, at its sole discretion, invite select employees (including a Director) of our Group, who (i) is a key employee of our Group; (ii) has joined us for ten years or more; and (iii) has made outstanding contributions to our business development, to participate in the scheme. The selected key employee will become a member of the scheme upon his completion of an application form prescribed by the trustee of the scheme to its satisfaction. A member of the scheme will be entitled to a monthly pension payment payable in cash upon his retirement (or, if our Board approves, before the normal retiring date as defined in the scheme) in accordance with the terms of the scheme for a period up to ten years. Such period is subject is to adjustment by reference to the aggregate value of the trust fund as at the normal retiring date (as defined in the scheme) of the relevant member and the aggregate amount of the contributions made by us. Generally, the monthly pension payment which a scheme member is entitled to receive on or after the normal retiring date (as defined in the scheme) is calculated according to the amount of the initial retiring salary, which may be adjusted in each of the following years during which the member remains employed by us as determined by our Directors by reference to our profitability in a relevant year, general performance of the scheme member in the relevant year, and the sales amount or other performance target achieved by the scheme member in the relevant year (the "annual retiring salary"). The annual retiring salary is adjustable upward or downward within a 20% range of the initial retiring salary. Entitlement to the monthly pension payments of a member will lapse automatically if any of the following circumstances occurs before the retiring date: (i) engagement or involvement of the member in any pharmaceutical related business activities, or in any capacity similar to that as with us, in competition with our business; (ii) a material breach by the member of any provisions under his employment contract or our rules and regulations; and (iii) a material breach of any confidentiality undertaking by the member in relation to our confidential information or materials. During the period in which the member receives the monthly pension payments, his entitlement to the remaining monthly pension payments will lapse if he engages or is involved, directly or indirectly, in any business activities which compete with our then business.

The scheme is funded by annual contributions made by our Company, subject to our Board's approval. To afford our Company's flexibility in managing our funding obligations towards the Key Employee Benefit Scheme, our Board has wide discretion to suspend and/or delay contribution and/or payment to the beneficiaries at any time and in such manner as it thinks appropriate. We are only obliged to make the annual contribution equal to 0.5% to 3% of our after tax profit, with the final amount to be determined by our Board, which is payable in cash or by way of issuance of the Shares to the trustee of the scheme. Previously, shares issued to the trustee under the Key Employee Benefit Scheme were issued under the general mandate obtained from our Shareholders from time to time. Following the Listing, any Shares that may be issued under the Key Employee Benefit Scheme will be subject to our independent Shareholders' approval and in compliance with the Listings Rules. Save for such annual contribution, our Company has no further obligation or liability under the

scheme. Upon Listing, we will refer to the price being the higher of (i) the closing price of the Shares quoted on the Hong Kong Stock Exchange on the date of issue, and (ii) the average closing price of the Shares quoted on the Hong Kong Stock Exchange for the five business days immediately preceding the date of issue to determine the issue price of the Shares under the scheme. We contributed approximately US$451,000 and US$104,000 to the scheme in 2009 and 2010, respectively, which funds were applied to subscribe for new Shares in our Company as discussed below. The trustee of the scheme may, at its sole discretion, apply the fund to acquire existing Shares in the market or subscribe for new Shares. Fully Profit, a company which is wholly owned by Mr. Lam Kong, is currently the trustee of the scheme. The sole business of Fully Profit is acting as the trustee of the scheme. On 31 July 2009 and 14 May 2010, we issued 162,528 Shares and 11,835 Shares, respectively, to Fully Profit under the general mandate given by our Shareholders. Fully Profit holds such Shares on trust for the members of the scheme.

As at 31 December 2009, there were 14 employees of the Group who participated in the scheme. During the six months ended 30 June 2010, an additional seven employees joined the scheme resulting in a total of 21 members as at 30 June 2010. All of these scheme members are our mid-level or senior managers and include three of our Directors, namely, Mr. Chen Hongbing, Ms. Chen Yanling and Ms. Hou Xiaoxuan and two directors of our subsidiaries, Ms. Sa Manlin and Mr. Ma Lieyi. Save as disclosed above, none of the connected persons of the Company is currently a member of the Key Employee Benefit Scheme.

The term of the scheme is initially set for 20 years and renewable on a yearly basis thereafter subject to the approval of our Board. Our Board may at any time after the adoption date of the scheme resolve to terminate it.

Historical trading prices and volumes of our Shares

The following table sets out the reported high, low, month end, and monthly average of the closing trading prices on AIM of our Shares for the period from 26 June 2007, being the first date on which the Shares were listed on AIM, to the Latest Practicable Date. Effective from 28 June 2010, each share of nominal value of US$0.10 in the capital of our Company was sub-divided into 20 shares of nominal value of US$0.005 each. Following the sub-division, the authorised share capital of our Company is US$100,000,000 divided into 20,000,000,000 shares of nominal value US$0.005 each. The share prices set out in the following table are based on the shares of nominal value US$0.10 each for the period from 26 June 2007 to 27 June 2010, and the shares of nominal value US$0.005 each for the period from 28 June 2010 to the Latest Practicable Date. Historical share prices may not be indicative of the prices at which the Shares will trade following completion of the Listing.

	High	Low	Month end	Monthly average
	(£)	(£)	(£)	(£)
2007 (Note 1)				
June (from 26 to 30 June 2007)	1.39	1.31	1.39	1.38
July	1.41	1.39	1.39	1.40
August	1.39	1.37	1.37	1.38
September	1.37	1.37	1.37	1.37
October	1.44	1.37	1.44	1.39
November	1.43	1.42	1.42	1.43
December	1.42	1.42	1.42	1.42
2008 (Note 1)				
January	1.43	1.21	1.21	1.36
February	1.21	1.18	1.18	1.20
March	1.18	1.02	1.02	1.08
April	1.05	0.99	1.00	1.01
May	1.06	0.99	1.06	1.02
June	1.11	1.04	1.11	1.06
July	1.27	1.15	1.22	1.22
August	1.25	1.22	1.24	1.23
September	1.27	1.24	1.27	1.24
October	1.27	1.12	1.12	1.18
November	1.17	1.12	1.14	1.15
December	1.17	1.02	1.13	1.11

	High	Low	Month End	Monthly average
	(£)	(£)	(£)	(£)
2009 (Note 1)				
January	1.22	1.15	1.18	1.19
February	1.19	1.18	1.19	1.19
March	1.19	1.17	1.19	1.19
April	1.20	1.19	1.20	1.19
May	1.70	1.19	1.47	1.46
June	1.61	1.46	1.55	1.54
July	2.27	1.48	2.22	1.65
August	2.29	2.12	2.27	2.23
September	2.34	2.21	2.31	2.26
October	3.66	2.29	3.66	2.78
November	4.18	3.30	3.83	3.80
December	4.83	3.90	4.75	4.56
2010 (Note 1)				
January	5.75	4.78	5.73	5.40
February	5.85	4.48	5.15	5.34
March	5.00	4.43	4.65	4.72
April	6.38	4.63	6.38	5.61
May	6.35	5.90	6.00	6.04
June (from 1 to 27 June 2010)	6.38	6.00	6.38	6.18
June (from 28 to 30 June 2010)	0.36	0.35	0.35	0.35
July	0.51	0.28	0.40	0.41
August	0.48	0.34	0.43	0.48
September (up to the Latest Practicable Date)	0.51	0.48	0.51	0.49

Source: Bloomberg

Note:

1. Effective from 28 June 2010, each Share of nominal value US$0.10 in the capital of our Company was sub-divided into 20 Shares of nominal value of US$0.005 each in order to reduce the trading price per Share quoted on AIM with the aim to improve the liquidity of our Shares. The share prices set out in the table above for the period up to 27 June 2010 are quoted on a pre-share sub-division basis and in respect of Shares of nominal value US$0.10 each, and the share prices for the period from 28 July 2010 are quoted on a post-share sub-division basis and in respect of Shares of nominal value US$0.005 each.

Solely for illustrative purposes, the following table sets out the high, low, month end, and monthly average of the closing trading prices of our Shares for the period from 26 June 2007, being the first date on which the Shares were listed on AIM, to 27 June 2010 (the last trading day immediately prior to the share sub-division), on the basis as if the shares of nominal value US$0.10 each in the capital of our Company had been sub-divided into 20 shares of nominal value US$0.005 each throughout the entire period.

	High	Low	Month End	Monthly Average
	(£)	(£)	(£)	(£)
2007				
June (from 26 to 30 June 2007)	0.07	0.07	0.07	0.07
July	0.07	0.07	0.07	0.07
August	0.07	0.07	0.07	0.07
September	0.07	0.07	0.07	0.07
October	0.08	0.07	0.08	0.07
November	0.08	0.07	0.07	0.08
December	0.07	0.07	0.07	0.07
2008				
January	0.08	0.06	0.06	0.07
February	0.06	0.06	0.06	0.06
March	0.06	0.05	0.05	0.06
April	0.06	0.05	0.05	0.05
May	0.05	0.05	0.05	0.05
June	0.06	0.05	0.06	0.06
July	0.07	0.06	0.06	0.06
August	0.07	0.06	0.06	0.06
September	0.07	0.06	0.07	0.06
October	0.07	0.06	0.06	0.06
November	0.06	0.06	0.06	0.06
December	0.06	0.05	0.06	0.06
2009				
January	0.06	0.06	0.06	0.06
February	0.06	0.06	0.06	0.06
March	0.06	0.06	0.06	0.06
April	0.06	0.06	0.06	0.06
May	0.09	0.06	0.08	0.08
June	0.08	0.08	0.08	0.08
July	0.12	0.08	0.12	0.09
August	0.12	0.11	0.12	0.12
September	0.12	0.11	0.12	0.12
October	0.19	0.12	0.19	0.14
November	0.22	0.17	0.19	0.20
December	0.24	0.20	0.24	0.23
2010				
January	0.29	0.24	0.29	0.27
February	0.29	0.22	0.26	0.27
March	0.25	0.22	0.23	0.24
April	0.32	0.23	0.32	0.28
May	0.32	0.30	0.30	0.30
June (from 1 to 27 June 2010)	0.32	0.30	0.31	0.32

The following table sets out the monthly average daily trading volume and turnover of the Shares on AIM for the period from 26 June 2007 to the Latest Practicable Date. The Shares commenced trading on AIM on 26 June 2007.

	Average daily volume	Average daily turnover
	(Shares)	(£)
2007 (Note 1)		
June (from 26 to 30 June 2007)	6,430	8,950
July	17,652	24,624
August	844	1,160
September	141	194
October	16,786	23,623
November	4,006	5,726
December	175	205
2008 (Note 1)		
January	3,287	4,309
February	204	243
March	6,195	6,408
April	3,594	3,726
May	32,239	32,053
June	9,233	9,756
July	7,226	8,854
August	1,085	1,336
September	2,079	2,593
October	47,193	54,880
November	3,751	4,360
December	6,999	7,667
2009 (Note 1)		
January	3,152	3,749
February	1,769	2,098
March	440	524
April	4,484	5,368
May	15,015	22,030
June	7,056	10,983
July	13,539	26,159
August	8,604	19,223
September	5,053	11,585
October	31,308	90,003
November	17,668	66,835
December	9,940	43,935
2010 (Note 1)		
January	8,419	45,822
February	5,975	29,629
March	5,450	25,276
April	9,630	53,818
May	5,999	34,138
June (from 1 to 27 June 2010)	5,254	32,476
June (from 28 to 30 June 2010)	8,367	2,942
July	151,792	62,907
August	145,645	63,454
September (up to the Latest Practicable Date)	241,352	118,556

Source: Bloomberg

Note:

1. Effective from 28 June 2010, each Share of nominal value US$0.10 in the capital of our Company was sub-divided into 20 Shares of nominal value US$0.005 each in order to reduce the trading price per Share quoted on AIM with the aim of improving liquidity of our Shares. The average daily trading volume and turnover set out in the table above for the period up to 27 June 2010 are quoted on a pre-share sub-division basis and in respect of Shares of nominal value US$0.10 each, and the average daily trading volume and turnover for the period from 28 July 2010 are quoted on a post-share sub-division basis and in respect of Shares of nominal value US$0.005 each.

You should read the following discussion in conjunction with the consolidated financial statements included in the accountants' report and the notes thereto included in Appendix I to this prospectus and the selected historical financial information and operating data included elsewhere in this prospectus. The consolidated financial statements have been prepared in accordance with IFRS.

Our historical results do not necessarily indicate results expected for any future periods. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in the sections headed "Forward-Looking Statements" and "Risk Factors" in this prospectus.

The financial information extracted from our consolidated financial statements as at and for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 included in this prospectus is audited. Financial information for the six months ended 30 June 2009 is unaudited and financial information as at or for any period subsequent to 30 June 2010 included in this prospectus is derived from management accounts and is therefore also unaudited.

OVERVIEW

We are a leading China-based pharmaceutical services company focusing on the marketing, promotion and sale of prescription drugs of overseas and domestic specialty pharmaceutical companies. We provide exclusive marketing, promotion and sale services that primarily include one-on-one visits to physicians, providing them with professional education specific to therapeutic areas related to our products, educating physicians on the clinical uses, benefits, side effects and other clinical aspects of our in-licensed products, organising medical symposia and sponsoring industry conferences. We also provide other ancillary services needed by our suppliers to bring their products to the market in China, including handling registration for imported drugs new to China, renewal of expiring imported drug registrations, bidding in collective tender processes, customs clearance, coordination for inspection of imported drugs and other managerial aspects of the products. We utilise local distributors' logistics networks to despatch and sell products to hospitals. By accurately positioning the products to target unmet medical needs and raising the awareness of our products among physicians, our services enable pharmaceutical companies lacking an effective commercialisation or promotion capability in China to bring their products to the market efficiently and generate demand for their products. According to the Frost & Sullivan Report, we are the largest pharmaceutical services company focusing on the marketing, promotion and sale of prescription drugs in China, accounting for 18% of the market in 2009, and we operate the largest third-party promotion network in China in terms of hospital coverage, therapeutic focus and number of salespeople. As at 31 July 2010, our marketing, promotion and sales team comprised more than 950 professionals, enabling our services to reach close to 6,000 hospitals located across 30 provinces, 97% of the provincial capitals and 86% of prefecture level cities in China. Our hospital network covers 91.5% of class-three hospitals and 34.6% of class-two hospitals in China. Our promotion network has identified over 100,000 target physicians who specialise in different therapeutic areas that are relevant to our product portfolio, including the central nervous system (or CNS), hepatology, gastroenterology, urology, ophthalmology, cardiovascular, oncology and paediatrics, and over 35,000 of them have directly participated in promotion activities that we organised, such as medical symposia, industry conferences and educational seminars. In the seven months ended 31 July 2010, over 40,000 of our target physicians had prescribed our in-licensed products.

Among our eight key in-licensed prescription pharmaceutical products in our current product portfolio, we have two strong in-licensed products, being Deanxit and Ursofalk. During the Track Record Period, a significant portion of our revenue was derived from sales of these two in-licensed products and our key in-licensed products were sourced from seven suppliers. Sales of our top two products, Deanxit and Ursofalk, accounted for approximately 79.0%, 79.6%, 75.5% and 70.2% of our total turnover for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. Further, total sales of the products from our top five suppliers represented approximately 90.9%, 95.1%, 96.2% and 94.0% of our total turnover for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. According to the Frost & Sullivan Report, Deanxit was the second-best selling anti-depressant and Ursofalk was the best selling drug for cholagogue treatment in China in 2009. Sales of Deanxit and Ursofalk, our current best-selling drugs, have grown at CAGRs of 28.8% and 47.6%, respectively, since we obtained the exclusive right to promote and sell these products in 2002.

We are a quality service provider and have stable relationships with our suppliers, as evidenced by the 100% renewal rates for the products that we decided to continue in-licensing. Prior to the Track Record Period, there were a few products that we did not renew when we decided to focus our resources on the development of CMS024. Dr. Falk Pharma GmbH, the manufacturer of Ursofalk has granted us the exclusive promotion and selling right of a second in-licensed product, Salofalk. We believe these facts attest to pharmaceutical companies' satisfaction with our marketing, promotion and sales services and reflect the value we bring to them. As we further expand our product portfolio, we believe our reliance on any single product or supplier will correspondingly reduce.

"Distributor" is a well-defined term in the context of the pharmaceutical industry. Unlike pharmaceutical distributors, whose primary goal is to ensure that pharmaceutical products are promptly and properly delivered to their customers in order to enhance the overall efficiency of the supply chain, our services are focused on the value creation aspects of marketing and promotion, such as elevating product profile, enlarging the pool of prescribing physicians and generating demand for a particular product by educating physicians on the clinical attributes of the product through one-on-one visits, and organising and sponsoring medical symposia, industry conferences, educational seminars and other promotional activities. We are therefore not a distribution service provider in the context of the pharmaceutical industry. We procure the exclusive rights to in-license, promote and sell select pharmaceutical products from overseas and domestic specialty pharmaceutical companies. We secure these exclusive rights by entering into long term supply agreements with our suppliers. Our revenue is primarily derived from the sale of the in-licensed pharmaceutical products that we purchase to our distributors, which then on-sell such products to hospitals. When setting the selling price for each product offered to our distributors, we take into account a number of factors including the bidding price at which the product will be supplied to hospitals and the level of profit margin that we believe is generally acceptable to distributors. Please refer to the section headed "Business — Pharmaceutical marketing, promotion and sales services — Customers" for further information on how we price our products. This business model is different from that in more developed markets, where third-party marketing and promotion service providers normally generate their revenues from sales commission at a pre-agreed percentage of total sales generated, according to the Frost & Sullivan Report. For additional details on the different roles played by promotion service providers and distributors in China's healthcare industry, please refer to the section headed "Industry Overview — Pharmaceutical marketing, promotion and sales services industry in China — The different roles played by promotion service providers and distributors in China's healthcare industry".

We operate in the following two business segments:

- *Marketing, promotion and sale of pharmaceutical products.* This is our principal business. We derive revenue from the marketing, promotion and sale of in-licensed pharmaceutical products in China.
- *Other business.* Our other business comprises the manufacture and sale of a number of prescription drugs.

We provide marketing, promotion and sales services for prescription pharmaceutical products of overseas and domestic specialty pharmaceutical companies. All of our supply agreements (except for that of GanFuLe) grant us the exclusive rights to promote and sell our suppliers' pharmaceutical products in China*, and our supply agreements are generally of a duration of five years or more, with automatic renewal rights provided that certain conditions, principally the agreed minimum order quantities, are met.

We believe that demand for our services will increase as the Chinese pharmaceutical market continues to expand. According to the Frost & Sullivan Report, China's pharmaceutical market grew by 21.9%, as compared to a 5% growth rate in the global pharmaceutical market in 2009, and China's spending on prescription drugs is expected to grow at a CAGR of 20.7% from 2005 to 2016, reaching US$110.7 billion by 2016. Drawn by such rapid growth and significant market potential in China, many overseas pharmaceutical companies are eager to bring their products to the Chinese market, and according to the Frost & Sullivan Report, sales of imported prescription drugs in China grew by 38% in 2009, eclipsing the growth of the overall prescription drugs market in China. This offers a significant growth opportunity for pharmaceutical marketing and promotion service providers which primarily focus on imported prescription drugs in China such as ourselves. According to the Frost & Sullivan Report, China's pharmaceutical marketing, promotion and sales services industry has grown substantially from US$231 million in 2007 to US$542 million in 2009, representing a CAGR of 53.1%. Frost & Sullivan also projects that such services market will further grow and reach US$4.6 billion in 2016. According to the Frost & Sullivan Report, large global pharmaceutical companies generally focus their resources on a limited portfolio of selective higher revenue-generating products and engage third-party service providers to market, promote and sell their other products. Most small and medium size overseas pharmaceutical companies have limited understanding of the Chinese market and culture and do not have the capability, expertise and experience to introduce their products to the Chinese market. These small and medium size overseas pharmaceutical companies also often choose to engage third-party service providers to launch and promote their products in China as a cost-efficient way to enter the market. In addition to these international companies, we anticipate that domestic pharmaceutical companies lacking the relevant marketing, promotion and sales capabilities will continue to rely upon third-party providers for these services. We expect to continue to capture the growth opportunities offered by the increasing demand from these overseas and domestic pharmaceutical companies by leveraging our expertise in providing marketing and promotion services and our broad promotion network in China.

We follow a rigorous product screening process to select products which have distinctive features that cannot be easily imitated and marketed in China, and which we expect will enjoy product exclusivity and a leading market position in the market. Our product exclusivity is reflected in the

Note:

* In the case of GanFuLe, we have the exclusive rights to promote and sell the product in China excluding Heilongjiang, Jilin, Liaoning, Beijing, Inner Mongolia, Tianjin, Hebei, Shanxi, Shaanxi, Gansu, Ningxia, Qinghai and Xinjiang.

absence of competing products under the same generic name, based on our research carried out on the website of the SFDA as at the Latest Practicable Date, or reflected in administrative protection in the case of GanFuLe, a traditional Chinese medicine. Our current product portfolio consists of eight key in-licensed prescription pharmaceutical products, six of which are imported:

- Deanxit is one of our top two revenue contributors and was our first in-licensed product. It is the only Flupentixol and Melitracen product in China and is currently the second-best selling anxiolytic anti-depressant in China, after its sales surpassed its competitive product Prozac in 2009.
- Ursofalk dominated the ursodeoxycholic acid (UDCA) market and the overall cholagogue market with a 98.0% and 55.9% share, respectively in 2009.
- Augentropfen Stulln Mono eye-drops, which are used for the treatment of age-related macula degeneration (AMD), are the only imported escuilin and digitalisgycosides eye-drops approved by the SFDA.
- GanFuLe is a traditional Chinese medicine with exclusive formulations used to treat liver cancer, hepatitis B and cirrhosis. It has been granted a seven-year National Second Grade Traditional Chinese Medicine Protection.
- XinHuoSu is a National Class One New Drug and the only rhBNP drug in the Chinese market.
- Cystistat is the only imported sterile hyaluronate solution approved by the SFDA used for interstitial cystitis.
- Salofalk was the fifth best-selling anti-inflammatory agent globally for the 12 months ended 31 March 2010.
- Bioflor is the only saccharomyces boulardii approved by the SFDA in China used to treat acute infectious diarrhoea, antibiotic-associated colitis and diarrhoea (AAD).

Since late 2006, the continuing expansion of our product portfolio has contributed significantly to our growth. Sales of the six key products we newly in-licensed since late 2006 have increased significantly. Such products contributed to approximately 11.9%, 16.3%, 21.9% and 22.9% of our sales of in-licensed products for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively, and their revenue growth contributed about 35.3%, 25.4%, 38.0% and 32.4% of the growth in the revenue of our in-licensed products in the respective period. As our product portfolio expands, we reduce the risks associated with our reliance on a limited number of products, and we expect our expanding portfolio to continue to contribute to our growth. Substantially all of our sales are made to pharmaceutical distributors, which provide logistics services and in turn sell our products to hospitals and other healthcare institutions in China. As at 31 July 2010, we had established an extensive distribution network comprising over 300 distributors selling our products to close to 6,000 hospitals across China.

In addition to providing pharmaceutical marketing, promotion and sales services, a small part of our business consists of the production and sale of prescription drugs in China. We have obtained SFDA approvals to manufacture 17 prescription drugs and we currently produce and sell nine out of these 17 drugs.

For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our total turnover was US$51.7 million, US$72.6 million, US$96.5 million and US$61.2 million, respectively, representing a CAGR of 36.5% over the three years from 2007 to 2009 and an increase of 30.8% in the six months ended 30 June 2010 over the same period in 2009. For each of these periods, our gross profit was US$33.6 million, US$44.8 million, US$60.9 million and US$37.2 million, respectively, representing a CAGR of 34.6% over the three years from 2007 to 2009 and an increase of 25.6% in the six months ended 30 June 2010 over the same period in 2009, and our gross profit margin was 64.9%, 61.7%, 63.1% and 60.8% in the respective period. For each of these

periods, our net profit was US$8.7 million, US$15.0 million, US$20.8 million and US$15.3 million, respectively, representing a CAGR of 55.0% over the three years from 2007 to 2009 and an increase of 45.2% in the six months ended 30 June 2010 over the same period in 2009, and our net profit margin was 16.8%, 20.7%, 21.6% and 25.1% in the respective period.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 18 December 2006. On 26 June 2007, our Shares were listed and admitted to trading on AIM. We derive revenue from two business segments:

(i) *Marketing, promotion and sale of pharmaceutical products*. This is our principal business. We derive revenue from the marketing, promotion and sale of in-licensed pharmaceutical products in China.

(ii) *Other business*. Our other business comprises of the manufacture and sale of a number of prescription drugs.

For the two years ended 31 December 2007 and 2008 and part of 2009, we also engaged in the business of research and development of pharmaceutical products through our then wholly-owned subsidiary Healthlink and its subsidiaries. On 11 December 2009, the Board passed a resolution declaring a dividend by way of distribution in specie of the entire issued share capital of Healthlink to its shareholders. Shareholders were given the choice to receive the dividend in cash or shares in Healthlink. Shareholders holding Shares representing 82.1% of our issued share capital elected to receive shares in Healthlink, and 17.9% chose cash. On 16 December 2009, Healthlink repurchased a total of 8,487,157 of its issued shares, representing 17.9% of its issued share capital for US$1,969,000. Our Company then distributed 38,921,747 shares, representing the entire issued share capital of Healthlink after the share repurchase, to Shareholders who had elected to take up shares in Healthlink. Following the Distribution of Healthlink, we ceased to engage in the business of research and development.

During the Track Record Period, we were engaged in the manufacture and sale of medical devices in China through our subsidiaries Shenzhen Shenke and Shandong Baolihao. We did not have control of Shenzhen Shenke and therefore it was accounted for as an associate in our consolidated financial statements. We sold all our interests in Shenzhen Shenke and Shandong Baolihao in December 2009, following which we ceased to engage in the manufacture and sale of medical devices in China. The results of operations of Shenzhen Shenke and Shandong Baolihao are included in our consolidated statements of comprehensive income during the Track Record Period.

For further information on the basis of presentation of our financial information, please see note 1 to the accountants' report set forth in Appendix I to this prospectus.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, financial position and results of operations are significantly affected by a number of factors, many of which may not be within our control. A discussion of these factors is set out below.

China's pharmaceutical market conditions

Our results of operations and growth will depend on the growth of the Chinese pharmaceutical market, which, in turn, depends on a number of factors that are largely outside our control, including continuing growth in China's economy, increasing income and health awareness of its population, government policies and increasing investment in the healthcare sector and China's demographics. If the growth of the Chinese pharmaceutical market fails to achieve the growth we expect, whether due to these factors or otherwise, our growth strategy and results of operations could be materially and adversely affected.

Market demand for our products

Our results of operations are significantly affected by the market demand for our in-licensed pharmaceutical products in China. Demand for our in-licensed pharmaceutical products is in turn affected by a number of factors such as the incidence rates of the various diseases treated by our products, the number of patients suffering from such diseases and being treated, the endorsement and prescription of our products by physicians and the availability of substitute products. We currently have eight key in-licensed products. For a description of each of our key in-licensed products, please refer to the section headed "Business — Pharmaceutical marketing, promotion and sale services" of this prospectus.

The following table sets out a breakdown of our turnover by product for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June	
	2007		2008		2009		2010	
	US$ '000	%	US$ '000	%	US$ '000	%	US$ '000	%
In-licensed products								
Deanxit	26,144	55.6	36,710	52.7	44,468	47.4	26,029	43.1
Ursofalk	14,756	31.4	21,074	30.3	28,327	30.2	16,937	28.1
Augentropfen Stulln Mono eye-drops	3,011	6.4	4,394	6.3	6,146	6.6	3,814	6.3
GanFuLe	2,599	5.5	3,910	5.6	4,780	5.1	2,004	3.3
XinHuoSu	—	—	2,839	4.1	7,253	7.7	5,697	9.4
Cystistat	—	—	66	0.1	515	0.5	319	0.5
Salofalk	—	—	133	0.2	1,824	1.9	1,684	2.8
Exacin	—	—	—	—	—	—	3,367	5.6
Bioflor	—	—	—	—	—	—	282	0.5
Others	503	1.1	469	0.7	439	0.6	256	0.4
	47,013	100.0	69,595	100.0	93,752	100.0	60,389	100.0

Our ability to maintain or increase the market demand for our in-licensed products will depend on a number of factors in addition to the growth of China's pharmaceutical market, many of which are also outside our control.

For example, all of our in-licensed products are generic pharmaceutical products based upon commonly known ingredients or formulae. Such ingredients and formulae do not constitute confidential information and are not protected by intellectual property law in the PRC. Accordingly, if other manufacturers in China obtain the required approvals from the SFDA, they may produce similar pharmaceutical products using the same ingredients, formulae and production techniques. Further, other pharmaceutical distribution companies may introduce similar in-licensed products from overseas pharmaceutical manufacturers that are comparable to our existing products. As result, demand for our products may decline and we may fail to maintain or grow our market share.

Furthermore, a substantial portion of our turnover is generated from the sale of two products, namely Deanxit or Ursofalk. During the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, turnover from sales of Deanxit and Ursofalk in aggregate amounted to US$40.9 million, US$57.8 million, US$72.8 million and US$43.0 million, respectively, accounting for 79.0%, 79.6%, 75.5% and 70.2% of our total turnover in the respective periods. If the market demand for Deanxit and Ursofalk declines in the future because, for example, substitute or replacement products at more favourable price terms or with better quality become available in the market or we fail to sustain the popularity of such products our results of operations would be materially and adversely affected.

As substantially all of our products are sold to hospitals through our distributors, our ability to generate and grow demand for our products will also depend on our ability to broaden the network of hospital end customers for our products. Although our marketing, promotion and sales techniques have in the past enabled us to grow such network and increase demand for our products, there can be no assurance that they will continue to be successful, particularly with respect to new products or new geographic areas as we seek to expand our business.

Whether pharmaceutical products are included on the Insurance Catalogue or not may also have an impact on the demand for the products. Currently, Deanxit, Ursofalk, GanFuLe and Salofalk are admitted to the Insurance Catalogue and its users are therefore entitled to reimbursement from the social medical fund. For additional details, please refer to the paragraph headed "— Insurance Catalogue" below.

Product portfolio

Our results of operations are affected by the number of in-licensed products we distribute and the product mix. A substantial portion of our revenue is generated from the sale of two products, namely Deanxit or Ursofalk. For further details, please refer to the paragraph headed "— Market demand for our products" above. As part of our growth strategy, we will seek to expand our product portfolio by obtaining exclusive promotion and selling rights from international and domestic pharmaceutical companies for new in-licensed products with high growth potential. Since late 2006, we added six new key in-licensed products and in doing so increased our product portfolio to include eight key in-licensed products as at 30 June 2010. In 2010, we also obtained a right to promote and sell one shipment of Exacin imported under its one-time permit in China, with its imported drug licence being under renewal. We are currently exploring an opportunity to obtain a long-term exclusive right to promote and sell Exacin in China, however, we may or may not be able to obtain such right and therefore Exacin is not currently regarded as one of our key in-licensed products. Our revenue increased from US$51.7 million in 2007 to US$96.5 million in 2009, representing a CAGR of 36.5% over a period of three years. In the six months ended 30 June 2010, our total turnover was US$61.2 million and increased by 30.8% over the same period in 2009. Sales of the six key products that we newly in-licenced during the Track Record Period have contributed approximately 11.9%, 16.3%, 21.9% and 22.9% of our sales of in-licensed products for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. We currently aim to add an average of two additional products to our portfolio every year.

Consequently, our results of operations will be affected by our ability to continue to expand our product portfolio by obtaining exclusive rights to market and sell new pharmaceutical products in China. The expansion of our product portfolio involves a number of risks and uncertainties, including but not limited to:

- our ability to identify suitable products and obtain exclusive promotion and selling rights from manufacturers on terms acceptable to us;
- our ability achieve the intended objectives or benefits, or to generate sufficient revenue to recover the costs and expenses, of an expanding product portfolio;
- the possible diversion of resources and management attention from our existing products to new in-licensed products;
- the costs of and difficulties in managing a larger product portfolio; and
- difficulties in upgrading or adjusting our information management systems to cater for our scope of operations resulting from the enlarged product portfolio.

Our results of operations will also be affected by whether the products we introduce to the market are well received. The primary factors which may affect the acceptance of our products by the market include efficacy, quality and price and the purchasing trends of our distributors and their customers. If any new product is not well received by the market because it is not as effective as competitive products or is too expensive compared to other substitutes, or for any other reason, our results of operations may be materially and adversely affected.

Insurance Catalogue

The PRC government publishes and updates the Insurance Catalogue from time to time. Patients purchasing pharmaceutical products included in the Insurance Catalogue are entitled to reimbursement of the whole of or a portion of their purchase costs from the social medical fund. Accordingly, pharmaceutical products which are included in the Insurance Catalogue are more economical to patients compared to those products which are not. The pharmaceutical products admitted to the Insurance Catalogue are determined by the PRC Ministry of Labour and Social Security based on various factors including treatment requirements, frequency of use, efficacy and price. Among our key in-licensed products, Deanxit, Ursofalk, GanFuLe and Salofalk are included in the Insurance Catalogue. The inclusion of these products in the Insurance Catalogue has reduced the costs to patients and thus we believe has contributed to the increase in the usage of these products in China. By the same token, products included in the Insurance Catalogue are subject to price control, under which the PRC government will set the maximum retail price for the relevant products. During the Track Record Period, the maximum retail price of Ursofalk had been adjusted downwards twice, although our selling price to distributors was not affected. The maximum retail price of Salofalk was also adjusted in 2007 before we obtained the exclusive right to distribute Salofalk. Any major downward adjustments to the maximum retail price of any our products that are included in the Insurance Catalogue may affect our selling price. Accordingly, our results of operations may be affected by the inclusion (or exclusion) of any of our products from the Insurance Catalogue.

Pricing

Our financial performance is affected by the prices of our products. Certain pharmaceutical products sold in the PRC, primarily those pharmaceutical products included in the Insurance Catalogue, are subject to price control. The maximum retail prices of such pharmaceutical products are published by the state and provincial price administration authorities from time to time. Further, even if a pharmaceutical product is not subject to the price control set by the PRC government, we may face pricing pressure from hospitals during the collective tender process. For further information, please see the section headed "Industry Overview — Legal Supervision relating to the Pharmaceutical Industry in the PRC — Price control" in this prospectus. Four of our key in-licensed products namely, Deanxit, Ursofalk, GanFuLe and Salofalk are included in the Insurance Catalogue and are therefore subject to price control. During the Track Record Period, the maximum retail price of Ursofalk had been adjusted downwards twice. The maximum retail price of Salofalk was also adjusted in 2007 before we obtained the exclusive right to distribute Salofalk. Our Group's results of operations during the Track Record Period were not affected by any price adjustments imposed by the PRC government in relation to our products included in the Insurance Catalogue. There was a gap between the maximum retail price and our Group's selling price for all of our products included in the Insurance Catalogue, which left us with a meaningful room to absorb the price reduction ocurred during the Track Record Period. However, in the event we are unable to sell our products profitably with the constraints set by price controls and tendering processes, our results of operations will be materially and adversely affected. To mitigate the risks associated with any potential price control measures imposed against our products and to lower the resulting potential impact to our business and results of operations, we strive to expand our product portfolio and increase the number of in-licensed products that we promote and sell so that we reduce our reliance on any single or a small group of products.

Costs of purchasing in-licensed products

The costs of purchasing in-licensed products directly affect our results of operations. We typically enter into exclusive supply agreements with our suppliers for a fixed term of five years or more. The supply agreements fix the purchase price at which the products will be supplied to us during the term of the agreements. In some cases, the supply agreements provide that the suppliers and we may agree to adjustments to the purchase price if the manufacturing costs increase during the term of the agreements owing to an increase in the raw material costs. Further, most of our purchases are denominated in US dollars and Euro whereas our sales are generally denominated in Renminbi. Should there be any significant fluctuation in the exchange rate between Renminbi and US dollars or Euro, our results of operations will be affected. In some of our supply agreements, we have agreed with the suppliers that we will share the gains and losses resulting from fluctuations in the exchange rate if it increases or decreases beyond an agreed exchange rate or range of exchange rates (as the case may be). Purchase prices of our in-licensed products have remained relatively stable over the Track Record Period.

PRC Taxation

The effective tax rates of our Group were 16.2%, 23.0%, 22.6% and 22.1% for the years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010, respectively. During the Track Record Period, our taxation charge mainly represented the income tax charge of Kangzhe Shenzhen, Kangzhe Hunan and Kangzhe Changde and going forward a substantial portion of the taxes we pay as a Group are comprised of the PRC taxes paid by our operating subsidiaries. Consequently, our results of operations will be affected by changes to the tax laws in China as well as changes to the interpretation of new or existing tax laws in China, as well as any other jurisdiction in which the Group may be subject to tax.

For example, under the EIT Law, which became effective on 1 January 2008, dividends paid by our PRC subsidiaries are subject to withholding tax. In addition, we may be considered as a PRC resident enterprise for tax purposes, in which case our global income may be subject to the 25% EIT. Since the EIT Law took effect in 2008, it remains uncertain in many aspects as to how it would be implemented by the relevant PRC tax authorities.

The EIT Law also imposes a unified enterprise income tax rate of 25% on both domestic enterprises and foreign-invested enterprises. Under the PRC EIT Law, enterprises that enjoyed a preferential tax rate prior to 1 January 2008, such as our operating subsidiaries Kangzhe Pharmaceutical Technology and Kangzhe Shenzen, will gradually transition to the new tax rate over five years from 1 January 2008.

For additional details on the taxes to which the Group may be subject in the PRC, please refer to the sections headed "— Description of selected components of statements of income — Taxation" below, "Regulatory Framework — Major taxes applicable to enterprises in the PRC" and the risk factor headed "Risk Factors — Risks relating to conducting business in China — Changes to the PRC tax law or its implementation could have a material adverse effect on our financial condition and results of operations".

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

The discussion and analysis of our financial position and results of operations are based on the consolidated financial statements prepared in accordance with the significant accounting policies set out in the accountants' report included in Appendix I to this prospectus. Preparation of our individual and consolidated financial information requires us to make estimates and judgments in applying certain critical accounting policies which may have a significant impact on our

consolidated results. We base our estimates on historical experience and other assumptions which our management believes to be reasonable under the circumstances. Results may differ from these estimates under different assumptions and conditions. The following are regarded as critical accounting policies which may require estimates and assumptions on the part of our Directors.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of customer returns, rebates, other similar allowances and sales related taxes.

Revenue from the sale of goods is recognised when goods are delivered and title has passed to the purchaser.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. At each reporting period end, we assess our inventory and make provisions for impairment to our inventory due to slow moving or obsolete as they have passed or close to the end of their expiry date. For the year ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010, we made provisions for impairment to our inventory due to slow moving or obsolete inventory of US$92,000, US$119,000, US$10,000 and US$116,000, respectively.

Impairment losses on tangible and intangible assets other than goodwill

At the end of each reporting period, our management reviews the carrying amounts of our tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

During the year ended 31 December 2009, our Directors conducted a review of our property, plant and equipment and determined that certain of our plant and machinery was impaired. Impairment loss of US$0.8 million was recognised in the consolidated statements of comprehensive income. The impairment was due to deteriorating demand in the products produced. The recoverable amount of the plant and machinery was determined based on a value-in-use calculation. For impairment test purpose, the calculation uses cash flow projections for the operation of production of medicines based on financial budgets approved by the management covering a five-year period at a discount rate of 15%.

The impairment of intangible assets is based on the valuation of its recoverable amount with reference to the assets' expected future cash flows estimated by our management. A considerable amount of judgment is required in estimating the expected future cash flows from our distribution rights in connection with XinHuoSu and Augentropfen Stulln Mono eye-drops for which we paid an upfront payment for their acquisition. For further details, please refer to note 20 to the Accountant's Report. If the actual future cash flows are less than expected, impairment may be required. No impairment of intangible assets was recorded during the Track Record Period. The carrying amount of our intangible assets was US$0.6 million, US$7.6 million, US$6.5 million and US$5.8 million as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively.

Goodwill

Goodwill represents the excess of the cost of acquiring a business over the fair value of our share of the net identifiable assets of the business we acquired at the date of acquisition. 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 a business include the carrying amount of goodwill relating to that business.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires us to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of our goodwill was US$0.6 million, US$0.6 million, US$0.4 million and US$0.4 million as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively. The changes in the amount of goodwill were primarily due to the disposal of our interest in Shandong Baolihao in December 2009. There was no impairment charge recognised for goodwill during the Track Record Period.

Impairment losses on trade receivables

On assessing any impairment of our trade receivables, our management regularly reviews recoverability, creditworthiness of distributors and ages of the trade receivables. Impairment on trade receivables is made on the estimation of the future cash flows discounted at an effective interest rate. If the financial condition of our distributors deteriorated, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2007, 2008 and 2009 and 30 June 2010, the carrying amount of our net trade receivables was US$14.5 million, US$17.2 million, US$20.7 million and US$28.9 million, respectively. We have provided fully for all trade receivables aged more than three years because historical experience suggests that receivables that are more than three years overdue are generally not recoverable. We recorded impairment on trade receivables of US$44,000, US$23,000, US$57,000 and US$21,000 for each of the years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010, respectively. As at 31 December 2007, 2008 and 2009 and 30 June 2010, allowance for bad and doubtful debts was US$0.3 million, US$0.2 million, US$0.2 million and US$0.2 million, respectively.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset once completed;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Our Directors are required to determine whether these factors have been demonstrated.

The amount initially recognised for an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, an internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over the assets' estimated useful lives.

Deferred consideration payable

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Our financial liabilities include trade and other payables, bank borrowings and deferred consideration payable. They are measured at amortised cost using the effective interest method. In 2008, we acquired the exclusive agency right for distributing Augentropfen Stulln Mono eye-drops in China for a consideration of RMB60.0 million (equivalent to approximately US$8.8 million). The consideration is payable in 10 annual installments of RMB6.0 million each (equivalent to approximately US$0.9 million). In 2009, we acquired 24.5% interest in Ophol Limited for a cash consideration of RMB7,500,000 (equivalent to approximately US$1,098,000) which was paid at RMB6.0 million and the balance of RMB1,500,000 (equivalent to approximately US$219,000) is payable in four equal annual installments from 2010. The installments payable for the acquisition of the exclusive agency right to Augentropfen Stulln Mono eye-drops and interest in Ophol Limited are presented as deferred consideration under our current or non-current liabilities according to their respective due dates and are discounted at an interest rate of 5.0%, which represents management's estimate of its long-term cost of capital. The present value of the deferred consideration discounted at 5.0% and amounting to US$6.8 million was recorded at initial recognition. Upon payment of each annual installment, the installment payment is charged against the deferred consideration. Imputed interest on deferred consideration payable charged to profit and loss for the year was US$0.2 million, US$0.3 million and US$0.1 million for the years ended 31 December 2008 and 2009 and for the six months ended 30 June 2010, respectively. The balance of the deferred consideration payable as at 31 December 2008, 31 December 2009 and 30 June 2010 was US$6.9 million, US$6.1 million and US$5.8 million, respectively.

DESCRIPTION OF SELECTED COMPONENTS OF STATEMENTS OF COMPREHENSIVE INCOME

Turnover

Turnover represents the revenue we generated from the sale of in-licensed products and the sale of our in-house manufactured pharmaceutical products and our self-manufactured medical devices during the Track Record Period.

The following table sets out the turnover, cost of goods sold and gross profit in respect of each of our business segments, and the percentage of these items to our total turnover, total cost of goods sold and profit for the year/period, respectively, during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	US$'000	%	US$'000	%	US$'000	%	US$'000 (unaudited)	%	US$'000	%
Turnover										
Marketing, promotion and sale of pharmaceutical products	47,013	90.9	69,595	95.9	93,752	97.2	45,188	96.6	60,389	98.7
Other business (note)	4,734	9.1	3,005	4.1	2,702	2.8	1,587	3.4	806	1.3
Total	51,747	100.0	72,600	100.0	96,454	100.0	46,775	100.0	61,195	100.0
Cost of goods sold										
Marketing, promotion and sale of pharmaceutical products	17,753	97.8	27,358	98.3	35,333	99.3	17,004	99.2	23,684	98.8
Other business	396	2.2	477	1.7	263	0.7	135	0.8	286	1.2
Total	18,149	100.0	27,835	100.0	35,596	100.0	17,139	100.0	23,970	100.0
Gross profit										
Marketing, promotion and sale of pharmaceutical products	29,260	87.1	42,237	94.4	58,419	96.0	28,184	95.1	36,705	98.6
Other business	4,338	12.9	2,528	5.6	2,439	4.0	1,452	4.9	520	1.4
Total	33,598	100.0	44,765	100.0	60,858	100.0	29,636	100.0	37,225	100.0

Note:

Turnover and gross profit for "Other business" included the sale of our in-house manufactured products and medical devices for the three years ended 31 December 2007, 2008 and 2009. We disposed of the business of manufacture and sale of medical devices in December 2009. Therefore, for the six months ended 30 June 2010, turnover and gross profit for "Other business" included the sale of our in-house manufactured products only.

Cost of goods sold

Our cost of goods sold primarily represents costs relating to the purchase of in-licensed pharmaceutical products. It also includes raw materials costs, labour costs, depreciation expenses and other production related costs.

Our cost of goods sold in relation to the promotion and sale of in-licensed pharmaceutical products, which predominantly consists of the cost of purchasing in-licensed products, is affected by product mix and foreign exchange fluctuations, all of which may be influenced by market conditions and

other external influences. In addition, our cost of goods sold in respect of certain of our in-licensed products includes fees paid to a third party which sources and procures exclusive licensing rights for us. Such third party is Synda Limited, which has introduced three pharmaceutical products, Ursofalk, Augentropfen Stulln Mono eye-drops and Salofalk, to our Group. For each of these three products, we entered into a written agreement with Synda Limited, pursuant to which Sydna Limited agreed to assist us in liaising with the relevant overseas supplier and we in turn agreed to pay Sydna Limited a fee equal to 4% to 6% of the cost of our purchases within 10 days after settlement of payment with our suppliers. Synda Limited owns a 36.7% shareholding in Ophol Limited from which we purchased the agency right to Augentropfen Stulln Mono eye-drops in China, and the sole shareholder of Synda Limited also owns a 20% shareholding in Sunpharma GmbH, a majority interest in it is owned by our Chairman, from which we purchase Doxycyline. Save as disclosed above, Synda Limited is an independent third party and does not have any present or past relationship with any of our Directors, senior management or controlling shareholder, or any of their respective associates. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, we paid Synda Limited an aggregate amount of US$0.2 million, US$0.2 million, US$0.5 million and US$0.2 million, respectively.

With respect to our cost of goods sold for XinHuoSu and Augentropfen Stulln Mono eye-drops, cost of goods sold also includes charges for amortisation of intangible assets capitalised upon (i) expenditure on phase IV clinical trial for XinHuoSu and (ii) acquisition of the exclusive agency rights to Augentropfen Stulln Mono eye-drops. During the Track Record Period, our costs of purchasing in-licensed pharmaceutical products increased steadily, which is primarily driven by increase in sales volume of in-licensed pharmaceutical products. Overall purchase prices of our in-licensed products remained relatively stable over the Track Record Period.

Our cost of goods sold in relation to our other business segment, which mainly consists of raw material costs and direct labour costs, depreciation expenses and other production overheads, and remained relatively stable during the Track Record Period.

Gross profit margin

During the Track Record Period, we recorded a gross profit margin of 64.9%, 61.7%, 63.1% and 60.8% for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. We believe our gross margin reflects the value of services we provide to pharmaceutical companies which engage us to market, promote and sell their products. As an exclusive service provider for overseas and domestic pharmaceutical companies in China, we are able to provide the services needed by the manufacturers to market their products in China. In particular, in the case of an imported pharmaceutical product that has not yet been registered and marketed in the Chinese market, we provide a one-stop solution for the manufacturer, including handling the drug registration (including re-registration of expiring registrations for products), importing, custom clearance, coordination for inspection of imported drugs, pricing, market positioning, marketing and promotion, bidding in collective tender processes and other managerial aspects of the product. Therefore, pharmaceutical companies lacking an effective commercialisation or promotion capability in China rely on our services to bring their products to the market efficiently. In addition, our product portfolio contains products that have distinctive features which cannot be easily imitated and marketed in China, and hence enjoy product exclusivity and/or a leading market position in the market. Accordingly, we are able to capture and maintain a relatively high gross margin. Our Directors believe that our Group's gross profit margins during the Track Record Period are generally in line with other companies whose operations have features similar to ours. In addition, during the Track Record Period, we were able to maintain a relatively stable selling price for our in-licensed products despite the price control measures, while our purchase price

for those in-licensed products, which is the major component of our cost of sales, also remained largely unchanged pursuant to our long term supply agreements. Therefore, we were able to maintain our gross margin of each in-licensed product at a relatively stable level during the Track Record Period.

Other gains and losses

Other gains and losses primarily comprise foreign exchange gains and losses, government subsidies, interest income, gain on disposal of a subsidiary, gains from changes in fair value of financial assets classified as held for trading, imputed interest income on available for sale investments, discount on acquisition of an associate, impairment losses on fixed assets and others. The following table sets out a breakdown of our other gains and losses and each item is also expressed as a percentage of our turnover for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	US$'000	%	US$'000	%	US$'000	%	US$'000	%	US$'000	%
							(unaudited)			
Service fee income	—	—	771	1.1	—	—	—	—	—	—
Net exchange gain (loss)	655	1.3	743	1.0	(405)	(0.4)	(272)	(0.6)	(109)	(0.2)
Government subsidies	1	—	623	0.9	801	0.8	161	0.3	240	0.4
Interest income	236	0.5	221	0.3	329	0.3	94	0.2	302	0.5
Gain on disposal of a subsidiary	—	—	—		24	—	—	—	—	—
Loss on disposal of an associate	—	—	—		(70)	(0.1)	—	—	—	—
Fair value change on investments held for trading	288	0.6	158	0.2	81	0.1	14	—	81	0.1
Imputed interest income on available-for-sale investment	30	—	20	—	—	—	—	—	—	—
(Loss) gain on disposal of property, plant and equipment	(8)	—	2	—	7	—	(2)	—	6	—
Impairment loss recognised on property, plant and equipment	—	—	—	—	(805)	(0.8)	—	—	—	—
Discount on acquisition of an associate	—	—	—	—	647	0.7	647	1.4	—	—
Others	78	0.1	152	0.2	53	0.1	49	0.2	26	0.1
Total	1,280	2.5	2,690	3.7	662	0.7	691	1.5	546	0.9

Selling expenses

Selling expenses mainly include marketing and promotion expenses, salaries and welfare for our marketing and sales staff, travelling and conference expenses and others such as training, inspection, freight costs and other office expenses. The following table sets out a breakdown of our selling expenses and each item is also expressed as a percentage of our turnover for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	US$ '000	%	US$ '000	%	US$ '000	%	US$ '000 (unaudited)	%	US$ '000	%
Marketing and promotion expenses	6,293	12.2	7,743	10.7	10,042	10.4	4,432	9.5	5,735	9.4
Salaries for marketing and sales employees	5,549	10.7	7,870	10.8	9,843	10.2	4,475	9.6	4,732	7.7
Travelling and conference expenses	1,008	1.9	1,376	1.9	2,556	2.6	1,284	2.7	1,392	2.3
Other expenses	1,084	2.1	1,642	2.3	2,399	2.6	1,175	2.5	1,459	2.4
Total	13,934	26.9	18,631	25.7	24,840	25.8	11,366	24.3	13,318	21.8

Listing expenses

Listing expenses are the expenses we incurred in 2007 in relation to the listing and admission of our Shares to trading on AIM and in the six months ended 30 June 2010 in relation to the Listing. On-going costs to maintain our listing are reflected in administrative expenses for each period.

Administrative expenses

Administrative expenses mainly include salaries and welfare for our management and administrative staff, office and travelling expenses, costs for maintaining our listing, taxes, intellectual property expenses and other expenses, such as rental, other office expenses and utilities, depreciation and amortisation expenses, and provision for bad and doubtful debts. The following table sets out a breakdown of our administrative expenses and each item is also expressed as a percentage of our turnover for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	US$ '000	%	US$ '000	%	US$ '000	%	US$ '000 (unaudited)	%	US$ '000	%
Salaries and welfare for management and administrative staff	2,555	4.9	2,983	4.1	3,335	3.5	1,562	3.3	1,336	2.2
Office and travelling expenses	1,280	2.5	1,317	1.8	1,347	1.4	847	1.8	713	1.2
Costs for maintaining listing	353	0.7	551	0.8	588	0.6	171	0.4	130	0.2
Taxes and intellectual property expenses	591	1.1	498	0.7	598	0.6	343	0.7	434	0.7
Other expenses	1,168	2.3	1,591	2.2	1,531	1.6	985	2.2	661	1.1
Total	5,947	11.5	6,940	9.6	7,399	7.7	3,908	8.4	3,274	5.4

Finance costs

Finance costs comprise interest on bank borrowings and the imputed interest in relation to the annual payment of deferred consideration for the acquisition of the exclusive agency right of Augentropfen Stulln Mono eye-drops. This imputed interest represents the difference between the fixed annual installment payment and the present value of the portion of the deferred consideration payable based on the expected cash outflows discounted at a selected interest rate and recognised in our statements of financial position.

Share of results of associates

During the Track Record Period, we held interests in Shenzhen Shenke and Ophol Limited, each of which was accounted for as an associate. Shenzhen Shenke is a company established in the PRC and engaged in the production of medical devices. We held a 51% equity interest in Shenzhen Shenke and had the power to appoint four of the seven directors of the company. Each of the other three shareholders of Shenzhen Shenke had the power to appoint one director of the company. Pursuant to the shareholders' agreement, the power to govern the financial and operating policies rested with the board of directors of Shenzhen Shenke, and two-thirds of the directors were required to approve these policies. As a result, we did not have control over Shenzhen Shenke. Our Directors considered that we did exercise significant influence over Shenzhen Shenke, and it was therefore classified as an associate of our Group. We disposed of our 51% equity interest in Shenzhen Shenke for a consideration of RMB3.0 million in December 2009 and, in respect of this disposal, recorded a loss of US$70,000 during the year ended 31 December 2009. For further information on this item, please refer to note 18 to the accountants' report set out in Appendix I to this prospectus.

Ophol Limited is a company incorporated in Hong Kong. On 20 February 2009, we entered into an agreement to acquire 73.5% of the issued share capital of Ophol Limited. Before the completion of the acquisition, on 15 March 2009, we entered into agreements to dispose of 49.0% in Ophol Limited to two of its founding shareholders, giving us, at completion, a 24.5% shareholding in Ophol Limited. Ophol Limited is classified as an associate in our financial statements.

Share of results of a jointly controlled entity

Share of results of a jointly controlled entity represents our share of Guangdong Lantai's results. We hold a 55% equity interest in Guangdong Lantai. The remaining 45% equity interest is held by one independent shareholder. Since we do not have control over Guangdong Lantai, it is classified as a jointly controlled entity in our consolidated financial statements. Our 55% equity interest in Guangdong Lantai was acquired by Kangzhe Pharmaceutical Technology in November 2007. Guangdong Lantai is engaged in the business of selling pharmaceutical products in China and focuses on products that would not be material to our Group.

Taxation

Our income tax expenses primarily include tax that we pay in China and in Hong Kong and deferred taxation. In China, our income tax expenses include PRC EIT. In Hong Kong, our income tax expenses include Hong Kong Profit Tax. Our income tax expenses were US$1.7 million, US$4.5 million, US$6.1 million and US$4.4 million for the years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010, respectively. The effective tax rates of our Group were 16.2%, 23.0%, 22.6% and 22.1% for the year ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010, respectively. During the Track Record Period, our taxation charge mainly represented the income tax charges of Kangzhe Shenzhen, Kangzhe Hunan and Kangzhe Changde.

The PRC EIT Law imposes a unified enterprise income tax rate of 25% on both domestic enterprises and foreign-invested enterprises. Under the PRC EIT Law, enterprises that enjoyed a preferential tax rate prior to 1 January 2008 will gradually transition to the new tax rate over five years beginning on 1 January 2008. Enterprises that previously enjoyed a fixed period of tax exemption and reduction will continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced due to an absence of profit, such preferential tax treatment commenced on 1 January 2008. The following table sets out the EIT rate applicable to Kangzhe Shenzhen, Kangzhe Pharmaceutical Technology, Kangzhe Hunan and Kangzhe Changde for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
Kangzhe Shenzhen	15%[1]	18%	20%	20%	22%
Kangzhe Pharmaceutical Technology	15%[1]	18%	20%	20%	22%
Kangzhe Hunan[2]	15%	15%	15%	15%	15%
Kangzhe Changde	—	25%	25%	25%	15%[3]

Notes:

(1) Kangzhe Shenzhen and Kangzhe Pharmaceutical Technology were, in 2007, entitled to the preferential tax rate of 15% applicable to enterprises in the Shenzhen Economic Zone.

(2) In 2007, Kangzhe Hunan was entitled to the preferential tax rate of 15% because it was recognised by the Hunan provincial government authority as a foreign-invested advanced technology enterprise. In 2008 and 2009, Hunan Kangzhe was entitled to the preferential tax rate of 15% under the preferential tax policy which encourages the development of western China. This tax concession is subject to annual renewal.

(3) Starting from 1 January 2010, Kangzhe Changde is entitled to a tax reduction to 15% granted by the Li County State Tax Bureau (澧縣國家税務局) under the preferential tax policy which encourages the development of western China and such tax concession is subject to renewal by the relevant tax bureau annually.

RESULTS OF OPERATIONS

The following table sets out the data of the consolidated statements of comprehensive income and each item as a percentage of our total turnover for the periods indicated derived from our consolidated statements of comprehensive income set out in the accountants' report included in Appendix I to this prospectus.

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	US$ '000	%	US$ '000	%	US$ '000	%	US$ '000 (unaudited)	%	US$ '000	%
Turnover	51,747	100.0	72,600	100.0	96,454	100.0	46,775	100.0	61,195	100.0
Cost of goods sold	(18,149)	(35.1)	(27,835)	(38.3)	(35,596)	(36.9)	(17,139)	(36.6)	(23,970)	(39.2)
Gross profit	33,598	64.9	44,765	61.7	60,858	63.1	29,636	63.4	37,225	60.8
Other gains and losses	1,280	2.5	2,690	3.7	662	0.7	691	1.5	546	0.9
Selling expenses	(13,934)	(26.9)	(18,631)	(25.7)	(24,840)	(25.8)	(11,366)	(24.3)	(13,318)	(21.8)
Listing expenses	(2,773)	(5.4)	—	—	—	—	—	—	(1,221)	(2.0)
Administrative expenses	(5,947)	(11.5)	(6,940)	(9.6)	(7,399)	(7.7)	(3,908)	(8.4)	(3,274)	(5.4)
Research and development costs	(1,633)	(3.2)	(2,275)	(3.1)	(2,038)	(2.1)	(1,057)	(2.3)	—	—
Finance costs	(301)	(0.6)	(226)	(0.3)	(390)	(0.4)	(191)	(0.4)	(336)	(0.5)
Share of results of associates	56	0.2	152	0.2	30	0.0	(26)	(0.1)	42	0.1
Share of result of a jointly controlled entity	—	—	—	—	43	0.1	21	0.1	25	0.1
Profit before taxation	10,346	20.0	19,535	26.9	26,926	27.9	13,800	29.5	19,689	32.2
Taxation	(1,672)	(3.2)	(4,487)	(6.2)	(6,096)	(6.3)	(3,243)	(6.9)	(4,355)	(7.1)
Profit for the year/period	8,674	16.8	15,048	20.7	20,830	21.6	10,557	22.6	15,334	25.1
Other comprehensive income										
Exchange differences from translation	1,639	3.2	2,880	4.0	70	0.1	19	—	497	0.8
Share of changes in reserve of an associate	—	—	36	—	(1)	—	—	—	(5)	—
Fair value changes on cash flow hedges	—	—	—	—	(145)	(0.2)	—	—	32	0.1
Total comprehensive income for the year/period	10,313	19.9	17,964	24.7	20,754	21.5	10,576	22.6	15,858	25.9
Profit for the year/period attributable to:										
Owners of the Company	8,685	16.8	14,946	20.6	20,684	21.4	10,448	22.4	15,230	24.9
Non-controlling interests	(11)	(0.0)	102	0.1	146	0.2	109	0.2	104	0.2
	8,674	16.8	15,048	20.7	20,830	21.6	10,557	22.6	15,334	25.1
Total comprehensive income attributable to:										
Owners of the Company	10,335	20.0	17,877	24.6	20,608	21.3	10,467	22.4	15,754	25.7
Non-controlling interests	(22)	(0.1)	87	0.1	146	0.2	109	0.2	104	0.2
	10,313	19.9	17,964	24.7	20,754	21.5	10,576	22.6	15,858	25.9

Turnover by product

The following table sets out a breakdown of our turnover by product and as a percentage of our total turnover for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	US$ '000	%	US$ '000	%	US$ '000	%	US$ '000 (unaudited)	%	US$ '000	%
Marketing, promotion and sale of pharmaceutical products										
In-licensed products										
Deanxit	26,144	50.5	36,710	50.6	44,468	46.1	22,768	48.7	26,029	42.5
Ursofalk	14,756	28.5	21,074	29.0	28,327	29.4	13,393	28.6	16,937	27.7
Augentropfen Stulln Mono eye-drops	3,011	5.8	4,394	6.1	6,146	6.4	2,817	6.0	3,814	6.2
GanFuLe	2,599	5.0	3,910	5.4	4,780	5.0	2,243	4.8	2,004	3.3
XinHuoSu	—	—	2,839	3.9	7,253	7.5	2,983	6.4	5,697	9.3
Cystistat	—	—	66	0.1	515	0.4	171	0.4	319	0.5
Salofalk	—	—	133	0.2	1,824	1.9	658	1.4	1,684	2.8
Exacin	—	—	—	—	—	—	—	—	3,367	5.5
Bioflor	—	—	—	—	—	—	—	—	282	0.5
Others	503	1.1	469	0.6	439	0.5	155	0.3	256	0.4
	47,013	90.9	69,595	95.9	93,752	97.2	45,188	96.6	60,389	98.7
Other business										
Self-manufactured pharmaceutical products	4,689	9.1	2,950	4.1	2,571	2.7	1,546	3.3	806	1.3
Self-manufactured medical devices	45	—	55	—	131	0.1	41	0.1	—	—
	4,734	9.1	3,005	4.1	2,702	2.8	1,587	3.4	806	1.3
	51,747	100.0	72,600	100.0	96,454	100.0	46,775	100.0	61,195	100.0

Six months ended 30 June 2010 compared to the corresponding period in 2009

Turnover

Our turnover increased by 30.8% from US$46.8 million in the six months ended 30 June 2009 to US$61.2 million in the six months ended 30 June 2010 due to an increase in the sales volume of our products, prices of which remained relatively stable. Total sales from our in-licensed products increased by 33.6% from US$45.2 million in the six months ended 30 June 2009 to US$60.4 million in the six months ended 30 June 2010.

Each of the key products that had been part of our portfolio prior to 2010, except for GanFuLe, continued to show increased sales in the six months ended 30 June 2010 compared to the six months ended 30 June 2009. In early 2010, we added two products to our portfolio, being Exacin and Bioflor. Sales of Deanxit increased by 14.3% from US$22.8 million in the six months ended 30 June 2009 to US$26.0 million in the six months ended 30 June 2010, and this product remained our largest revenue contributor. Sales of Ursofalk increased by 26.5% from US$13.4 million in the six months ended 30 June 2009 to US$16.9 million in the six months ended 30 June 2010. As our

product portfolio continued to grow, the sales of our top two products Deanxit and Ursofalk as a percentage of our total revenue decreased from approximately 77.3% in the six months ended 30 June 2009 to 70.2% in the six months ended 30 June 2010. Sales of Augentropfen Stulln Mono eye-drops increased by 35.4% from US$2.8 million in the six months ended 30 June 2009 to US$3.8 million in the six months ended 30 June 2010. Sales of GanFuLe decreased by 10.7% from US$2.2 million in the six months ended 30 June 2009 to US$2.0 million in the six months ended 30 June 2010 because the territorial exclusivity under the renewed agreement with Huahe Pharmacy Lengshuijiang Pharmaceutical Co. Ltd. in 2010 was reduced. Sales of XinHuoSu increased by 91% from US$3.0 million in the six months ended 30 June 2009 to US$5.7 million in the six months ended 30 June 2010. Sales of Cystistat increased by 86.5% from US$0.2 million in the six months ended 30 June 2009 to US$0.3 million in the six months ended 30 June 2010. Sales of Salofalk increased by 155.9% from US$0.7 million in the six months ended 30 June 2009 to US$1.7 million in the six months ended 30 June 2010. We obtained the right to promote and sell one shipment of Exacin in the PRC in January 2010, before that, Exacin was introduced to the Chinese market in 1996. The sales of Exacin amounted to US$3.4 million in the six months ended 30 June 2010, accounting for 5.5% of our total turnover in the same period. Further, we obtained the exclusive right to promote and sell Bioflor in the PRC in February 2010, before that, Bioflor was introduced to the Chinese market in 1998. The sales of Bioflor amounted to US$0.3 million in the six months ended 30 June 2010, accounting for 0.5% of our total turnover in the same period. Sales of these two products newly added to our portfolio in 2010 contributed 24.0% of the growth in the turnover of our in-licensed products in the six months ended 30 June 2010.

Turnover for our other business segment decreased by 49.2% from US$1.6 million in the six months ended 30 June 2009 to US$0.8 million in the six months ended 30 June 2010 primarily due to a decrease in the sale of our in-house manufactured pharmaceutical products. During the six months ended 30 June 2009 and the six months ended 30 June 2010, a major portion of our revenue from the sale of in-house manufactured pharmaceutical products was generated from the sale of one product. The sale of such product decreased in the six months ended 30 June 2010 compared to the six months ended 30 June 2009 as competition from similar products continued to intensify during the year. As a percentage of our total turnover, turnover from our other business segment decreased from 3.4% in the six months ended 30 June 2009 to 1.3% in the six months ended 30 June 2010.

Cost of goods sold

Our cost of goods sold increased by 39.9% from US$17.1 million in the six months ended 30 June 2009 to US$24.0 million in the six months ended 30 June 2010, primarily reflecting the increase in our sales. Costs of purchasing in-licensed products constitute the highest proportion of our cost of goods sold. As the purchase price of our in-licensed products remained largely unchanged pursuant to our long term supply agreements, the change in our cost of purchasing in-licensed products are generally tied to sales volumes. In addition, for the purpose of the accounting treatment, part of the promotion expenses in relation to Exacin was included in cost of goods sold. We engaged external third parties to conduct part of the promotional activities for Exacin in China and the relevant fees we paid to such third parties were recognised as our cost of goods sold.

Gross profit and gross profit margin

Our gross profit increased by 25.6% from US$29.6 million in the six months ended 30 June 2009 to US$37.2 million in the six months ended 30 June 2010. Our gross profit margin slightly decreased from 63.4% in the six months ended 30 June 2009 to 60.8% in the six months ended 30 June 2010, primarily reflecting a change in the proportion of turnover accounted for by each of our in-licensed products in the six months ended 30 June 2010, and part of the promotion expenses in relation to Exacin being included in cost of goods sold for the purpose of the accounting treatment.

Other gains and losses

Other gains decreased by 21.0% from US$0.7 million in the six months ended 30 June 2009 to US$0.5 million in the six months ended 30 June 2010 primarily due to a one-time gain from the discount of US$0.6 million recognised upon the acquisition of our interest in Ophol Limited in the six months ended 30 June 2009 (calculated by reference to the then net asset value of Ophol Limited), which was partially offset by an increased interest income of US$0.3 million gained from our bank deposits and a government subsidy of US$0.2 million mainly for CMS024.

Selling expenses

Our selling expenses increased by 17.2% from US$11.4 million in the six months ended 30 June 2009 to US$13.3 million in the six months ended 30 June 2010 primarily due to (i) an increase in our marketing and promotion expenses by 29.4% from US$4.4 million in the six months ended 30 June 2009 to US$5.7 million in the six months ended 30 June 2010, primarily reflecting increased marketing and promotion efforts with respect to our existing products and the additional expenses incurred for marketing and promoting the new products we added to our portfolio in the six months ended 30 June 2010, (ii) an increase in salaries and welfare paid to our marketing and sales staff by 5.7% from US$4.5 million in the six months ended 30 June 2009 to US$4.7 million in the six months ended 30 June 2010, resulting from increased compensation to our marketing and sales staff, and (iii) an increase in travelling and conference expenses incurred by our marketing and sales staff corresponding to increased sales during the period. Our selling expenses as a percentage of our revenue decreased by 2.5% from 24.3% in the six months ended 30 June 2009 to 21.8% in the six months ended 30 June 2010 as we benefited from economies of scale.

Listing expenses

We incurred a portion of the listing expenses in relation to the Listing in the six months ended 30 June 2010, being US$1.2 million. We did not incur any such expenses in 2008 or 2009.

Administrative expenses

Our administrative expenses decreased by 16.2% from US$3.9 million in the six months ended 30 June 2009 to US$3.3 million in the six months ended 30 June 2010 primarily due to (i) an expense of US$0.2 million incurred in the six months ended 30 June 2009 by Healthlink and its subsidiaries and Shandong Baolihao, which largely focused on R&D and medical device manufacturing, before these companies were disposed of in late 2009, (ii) a decrease of US$0.2 million in the costs of payment related to the Key Employee Benefit Scheme, and (iii) a decrease of US$0.3 million in other expenses, all of which were partially offset by an increase of US$0.1 million in tax expenses. As our business continued to grow, we achieved greater economies of scale and our administrative expenses as a percentage of our revenue decreased by 3.0% from 8.4% in the six months ended 30 June 2009 to 5.4% in the six months ended 30 June 2010.

Research and development costs

We did not incur any research and development costs in the six months ended 30 June 2010 because we disposed of our R&D operations in December 2009 by effecting the Distribution of Healthlink following a strategic review of our business. For further information on the Distribution of Healthlink, please see the section headed "History and Development — Disposed Business Operations — Distribution of Healthlink" in this prospectus.

Finance costs

Our finance costs increased by 75.9% from US$0.2 million in the six months ended 30 June 2009 to US$0.3 million in the six months ended 30 June 2010 due to an interest payment of US$0.2 million on the outstanding bank borrowings we had in the six months ended 30 June 2010 but had

not yet borrowed as at 30 June 2009, which was partially offset by a decrease of approximately US$42,000 for the imputed interest in relation to the annual payment of the deferred consideration for the acquisition of the exclusive agency right of Augentropfen Stulln Mono eye-drops in the six months ended 30 June 2010.

Share of results of associates

In the six months ended 30 June 2009, we maintained a 51% interest in Shenzhen Shenke and acquired a 24.5% interest in Ophol Limited, both of which were accounted for as our associates. We recorded a loss of US$26,000 for the share of results of associates in the six months ended 30 June 2009 due to the loss of Shenzhen Shenke in the amount of US$45,000, which was partially offset by the profit of Ophol Limited in the amount of US$19,000. In the six months ended 30 June 2010, we maintained a 24.5% interest in Ophol only, as we disposed of our interest in Shenzhen Shenke in December 2009 following the strategic review of our business. We recorded a gain of US$42,000 for the share of results of associates in the six months ended 30 June 2010 due to the profit of Ophol Limited.

Share of result of a jointly controlled entity

Our share of result for our jointly controlled entity, Guangdong Lantai, amounted to US$25,000 in the six months ended 30 June 2010 compared to US$21,000 in the six months ended 30 June 2009.

Taxation

Taxation increased by 34.3% from US$3.2 million in the six months ended 30 June 2009 to US$4.4 million in the six months ended 30 June 2010, primarily due to an increase in profit and an increase in the EIT rate applicable to Kangzhe Shenzhen from 20% in the six months ended 30 June 2009 to 22% in the six months ended 30 June 2010, which was partially offset by a decrease in the EIT rate applicable to Kangzhe Changde from 25% in the six months ended 30 June 2009 to 15% in the six months ended 30 June 2010 due to a tax reduction granted by Li County State Tax Bureau. However, our Group's overall effective tax rate decreased from 23.5% for the six months ended 30 June 2009 to 22.1% for the six months ended 30 June 2010.

Profit for the year

As a result of the above factors, our profit increased by 45.2% from US$10.6 million in the six months ended 30 June 2009 to US$15.3 million in the six months ended 30 June 2010. Our net profit margin increased from 22.6% for the six months ended 30 June 2009 to 25.1% for the six months ended 30 June 2010.

Year ended 31 December 2009 compared to year ended 31 December 2008

Turnover

Our turnover increased by 32.9% from US$72.6 million in 2008 to US$96.5 million in 2009 due to an increase in the sales volume of our products, prices of which remained relatively stable. Total sales from our in-licensed products increased by 34.7% from US$69.6 million in 2008 to US$93.8 million in 2009. Sales from each of the key products that had been part of our portfolio prior to 2008, Deanxit, Ursofalk and Augentropfen Stulln Mono eye-drops, continued to show increased sales through 2009. Sales of Deanxit increased by 21.1% from US$36.7 million in 2008 to US$44.5 million in 2009, and this product remained our largest revenue contributor. Sales of Ursofalk increased by 34.4% from US$21.1 million in 2008 to US$28.3 million in 2009, and sales of Augentropfen Stulln Mono eye-drops increased by 39.9% from US$4.4 million in 2008 to US$6.1 million in 2009.

Turnover from the sale of the three products we introduced in 2008 also showed significant growth in 2009. Sales of Cystistat increased by 680.3% from US$0.1 million in 2008 to US$0.5 million in 2009, sales of Salofalk increased by 1,271.4% from US$0.1 million in 2008 to US$1.8 million in 2009, and sales of XinHuoSu increased by 155.5% from US$2.8 million in 2008 to US$7.3 million in 2009, and became the third-largest revenue contributor to our Company in 2009.

Turnover for our other business segment decreased by 10.1% from US$3.0 million in 2008 to US$2.7 million in 2009 primarily due to a decrease in the sale of our in-house manufactured pharmaceutical products. During these two years, a major portion of our revenue from the sale of in-house manufactured pharmaceutical products was generated from the sale of one product. The sale of such product decreased in 2009 compared to 2008 as competition from similar products increased during the year. As a percentage of our total turnover, turnover from our other business segment decreased from 4.1% in 2008 to 2.8% in 2009.

Cost of goods sold

Our cost of goods sold increased by 27.9% from US$27.8 million in 2008 to US$35.6 million in 2009 largely reflecting the increase in our sales, as costs of purchasing in-licensed products constitute the highest proportion of our cost of goods sold and are generally tied to sales volumes.

Gross profit and gross profit margin

Our gross profit increased by 35.9% from US$44.8 million in 2008 to US$60.9 million in 2009. Our gross profit margin increased from 61.7% in 2008 to 63.1% in 2009, primarily reflecting (i) the beneficial effect of exchange rate fluctuation as the RMB, which is the currency in which our sales are generally denomination appreciated against the Euro, which is the currency in which certain of our purchases are denominated and (ii) the growth of sales of products for which our cost of goods sold includes a fixed amortisation component that decreases as sales volume increases.

Other gains and losses

Other gains decreased by 75.4% from US$2.7 million in 2008 to US$0.7 million in 2009, primarily due to a US$0.4 million foreign exchange loss and a US$0.8 million impairment loss recognised on property, plant and equipment relating to our pharmaceutical products produced in-house as sales of such products experienced an expected decline in sales, which was partially offset by the receipt of a government subsidy of US$0.8 million we received as an incentive for conducting research and development activities and a one time gain from the discount of US$0.6 million recognised upon the acquisition of our interest in Ophol Limited (calculated by reference to the then net asset value of Ophol Limited).

Selling expenses

Our selling expenses increased by 33.3% from US$18.6 million in 2008 to US$24.8 million in 2009, primarily due to an increase in our marketing and promotion expenses of US$2.3 million from 2008 to 2009 primarily reflecting (i) increased sales and the additional expenses incurred for marketing and promoting our recently in-licensed products, (ii) an increase in salaries and welfare paid to our marketing and sales staff by 25.1% from US$7.9 million in 2008 to US$9.8 million in 2009 resulting from increased compensation to our marketing and sales staff as well as an increase in the number of our marketing and sales staff following further recruitment during the year, (iii) an increase in training given to sales staff, inspection expenses and freight costs corresponding to increased sales during the period. Our selling expenses as a percentage of our revenue for the year remained relatively stable at 25.8% compared to 25.7% in 2008.

Administrative expenses

Our administrative expenses increased by 6.6% from US$6.9 million in 2008 to US$7.4 million in 2009 primarily due to the costs of payment related to the Key Employee Benefit Scheme which was introduced during the year. As our revenue continued to grow and we achieved increased economies of scale, our administrative expenses as a percentage of our revenue for the year decreased by 1.9% from 9.6% in 2008 to 7.7% in 2009 notwithstanding the cost of share-based payments.

Research and development costs

Our research and development costs decreased by 10.4% from US$2.3 million in 2008 to US$2.0 million in 2009, primarily related to the reduction in clinical trials costs incurred in 2009. Included in our research and development costs in 2008 and 2009 are research and development costs incurred by Healthlink of US$2.0 million and US$1.6 million for the respective periods.

Finance costs

Our finance costs increased by 72.6% from US$0.2 million in 2008 to US$0.4 million in 2009 due to an increase in interest payments on new bank borrowings taken out in 2009 and an increase to US$0.3 million in 2009 for the imputed interest in relation to the annual payment of the deferred consideration for the acquisition of the exclusive agency right of Augentropfen Stulln Mono eye-drops.

Share of results of associates

In 2009, we acquired an interest in Ophol Limited and as at the year end, we held a 24.5% shareholding in the company. Our share of the results of Ophol Limited was US$0.1 million in 2009. Further, we recognised a loss of US$0.1 million when we disposed of our 51% interest in Shenzhen Shenke in December 2009.

Share of result of a jointly controlled entity

Our share of result for our jointly controlled entity, Guangdong Lantai, amounted to US$43,000 in 2009 compared to nil in 2008.

Taxation

Taxation increased by 35.9% from US$4.5 million in 2008 to US$6.1 million in 2009, primarily due to an increase in profit. The EIT rate applicable to Kangzhe Shenzhen was 18% in 2008 and 20% in 2009 pursuant to the PRC Law on Enterprise Income Tax promulgated on 16 March 2007 and the Notice by the PRC State Council on the Implementation of the Grandfathering Preferential Policies under the PRC Enterprise Income Tax Law (關於實施企業所得税過渡優惠政策的通知) issued on 26 December 2007. However, our Group's overall effective tax rate decreased from 23.0% for 2008 to 22.6% for 2009.

Profit for the year

As a result of the above factors, our profit for the year increased by 38.4% from US$15.0 million in 2008 to US$20.8 million in 2009. Our net profit margin increased from 20.7% in 2008 to 21.6% in 2009.

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

Turnover

Our turnover increased by 40.3% from US$51.7 million in 2007 to US$72.6 million in 2008 due to an increase in the sales volume of our products, prices of which remained relatively stable. Total turnover from sales of our in-licensed products increased by 48.0% from US$47.0 million in 2007 to US$69.6 million in 2008. Each of the key products in our portfolio prior to 2008, Deanxit, Ursofalk, Augentropfen Stulln Mono eye-drops and GanFule, continued to show increased sales

through 2008. Sales of Deanxit increased by 40.4% from US$26.1 million in 2007 to US$36.7 million in 2008, sales of Ursofalk increased by 42.8% from US$14.8 million in 2007 to US$21.1 million in 2008, and sales of Augentropfen Stulln Mono eye-drops increased by 45.9% from US$3.0 million in 2007 to US$4.4 million in 2008 and sales of GanFule increased by 50.4% from US$2.6 million in 2007 to US$3.9 million in 2008. During 2008, we introduced three new in-licensed products, namely Cystistat, Salofalk and XinHuoSu, and recorded turnover of US$0.1 million, US$0.1 million and US$2.8 million from the respective sales of each such product in 2008.

Turnover for our other business segment decreased by 36.5% from US$4.7 million in 2007 to US$3.0 million in 2008 primarily due to a decrease in the sale of our in-house manufactured pharmaceutical products. During these two years, a major portion of our turnover from the sale of in-house manufactured pharmaceutical products was generated from the sale of one product. The sale of such product decreased in 2008 compared to 2007 as competition from similar products increased during the year. As a percentage of our total turnover, turnover for our other business segment decreased from 9.1% in 2007 to 4.1% in 2008.

Cost of goods sold

Our cost of goods sold increased by 53.4% from US$18.1 million in 2007 to US$27.8 million in 2008, primarily due to our increased purchases of supply of in-licensed products consistent with the increase in our sales of such products in the corresponding period and the increased charges for amortisation of intangible assets capitalised upon (i) expenditure on phase IV clinical trial for XinHuoSu and (ii) acquisition of the exclusive agency rights to Augentropfen Stulln Mono eye-drops.

Gross profit and gross profit margin

Our gross profit increased by 33.2% from US$33.6 million in 2007 to US$44.8 million in 2008 primarily reflecting our increased sales. Our gross profit margin decreased from 64.9% in 2007 to 61.7% in 2008, primarily due to (i) the decrease in sales of a high margin in-house produced product as competition from similar products increased during the year and (ii) an increase in amortisation charges for intangible assets capitalised upon (a) expenditure on phase IV clinical trial for XinHuoSu and (b) acquisition of the exclusive agency rights to Augentropfen Stulln Mono eye-drops.

Other gains and losses

Other gains and losses increased by 110.2% from a net gain of US$1.3 million in 2007 to a net gain of US$2.7 million in 2008, primarily due to a service fee income of US$0.8 million we received for organising an education forum for Dr. Falk Pharma GmbH in China in 2008 and the receipt of a US$0.6 million government subsidy in respect of the research and development of CMS024.

Selling expenses

Our selling expenses increased by 33.7% from US$13.9 million in 2007 to US$18.6 million in 2008. This increase was primarily due to (i) an increase in our marketing and promotion expenses by 23.0% from US$6.3 million in 2007 to US$7.7 million in 2008 primarily reflecting increased marketing and sales efforts with respect to our existing products and the additional expenses incurred for marketing and promoting the newly in-licensed products we introduced to the market in 2007, (ii) an increase in salaries and welfare paid to our marketing and sales staff by 41.8% from US$5.5 million in 2007 to US$7.9 million in 2008 resulting from increased compensation to our marketing and sales staff as well as an increase in the number of our marketing and sales staff following further recruitment during the year, (iii) an increase in training given to sales staff, inspection expenses and freight costs corresponding to increased sales during the period. Our selling expenses as a percentage of our revenue for the year decreased by 1.2% from 26.9% in 2007 to 25.7% in 2008.

Listing expenses
We incurred listing expenses of US$2.8 million in 2007 in relation to our listing and admission of our Shares to trading on AIM. We did not incur any such expenses in 2008 or 2009. Subsequent costs incurred to maintain our listing are reflected in administrative expenses for each period.

Administrative expenses
Our administrative expenses increased by 16.7% from US$5.9 million in 2007 to US$6.9 million in 2008, primarily due to (i) an increase in compensation paid to our management and administrative staff by 16.8% from US$2.6 million in 2007 to US$3.0 million in 2008 as a result of salaries increase and more headcount, (ii) our first full year of costs to maintain our listing, and (iii) donation to victims for the 2008 Sichuan earthquake. As our turnover grew and we achieved economies of scale, our administrative expenses as a percentage of our revenue for the year decreased by 1.9% from 11.5% in 2007 to 9.6% in 2008.

Research and development costs
Our research and development costs increased by 39.3% from US$1.6 million in 2007 to US$2.3 million in 2008, primarily due to an increase in expenses for clinical trials relating to earlier phase clinical trial products. Included in our research and development costs in 2007 and 2008, are research and development costs incurred by Healthlink of US$1.3 million and US$2.0 million for the respective periods.

Finance costs
Our finance costs decreased by 24.9% from US$0.3 million in 2007 to US$0.2 million in 2008. Our finance costs of US$0.3 million recognised in 2007 were entirely related to the interest paid on our bank borrowings. Since we used part of the proceeds we raised from the placing of Shares in 2007 to repay the bank borrowings and did not take out any new bank borrowings in 2008, we did not incur any interest on bank borrowings in 2008. Our finance costs of US$0.2 million recognised in 2008 wholly represents the imputed interest on deferred consideration payables in relation to our acquisition of the exclusive agency right of Augentropfen Stulln Mono eye-drops in July 2008.

Share of results of associates
During both 2007 and 2008 we maintained a 51% interest in Shenzhen Shenke, which was accounted for as an associate. Share of results of associates increased by 171.4% from US$0.1 million in 2007 to US$0.2 million in 2008 as a result of increase in the profit of Shenzhen Shenke.

Share of result of a jointly controlled entity
The net asset value of Guangdong Lantai, our jointly controlled entity, was negative at 31 December 2007 and 2008, respectively and accordingly we did not record any share of results of a jointly controlled entity in these two years. See the paragraph headed "— Description of selected components of statements of income — Share of results of a jointly controlled entity" in this section of this prospectus.

Taxation
Taxation increased by 168.4% from US$1.7 million in 2007 to US$4.5 million in 2008, primarily due to the increase in our sales and an increase in the EIT rate applicable to Kangzhe Shenzhen from 15% in 2007 to 18% in 2008. Further, under the PRC Law on Enterprise Income Tax, our net profit after deducting the pension reserves of Kangzhe Shenzhen became subject to 5% withholding. Our Group's effective tax rate increased from 16.2% in 2007 to 23.0% in 2008.

Profit for the year
As a result of the above factors, our profit for the year increased by 73.5% from US$8.7 million in 2007 to US$15.0 million in 2008. Our net profit margin increased from 16.8% in 2007 to 20.7% in 2008.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to service our indebtedness, fund working capital and other recurring expenses and pay dividends to our Shareholders. During the Track Record Period, we funded our cash requirements principally from cash generated from operations, funds raised from the issue of Shares and bank borrowings.

The following table is a condensed summary of our consolidated statements of cash flows and analysis of balances of cash and cash equivalents for the periods indicated:

	As at 31 December			As at 30 June	
	2007	2008	2009	2009	2010
	US$ '000	US$ '000	US$ '000	US$ '000 (unaudited)	US$ '000
Net cash from operating activities	6,572	10,175	15,549	9,369	4,673
Net cash used in investing activities	(1,861)	(1,744)	(16,616)	(5,800)	(2,812)
Net cash from (used in) financing activities	3,072	(7,219)	(4,022)	(5,564)	(6,937)
Net increase (decrease) in cash and cash equivalents	7,783	1,212	(5,089)	(1,995)	(5,076)
Cash and cash equivalent at beginning of the year/period	8,948	17,601	20,100	20,100	15,113
Cash and cash equivalent at end of the year/period, represented by bank balances and cash	17,601	20,100	15,113	18,129	10,340

Cash flows from operating activities

Over the Track Record Period, we derived our cash inflow from operating activities principally from the receipt of payments for the sale of our in-licensed and in-house manufactured pharmaceutical products. Our cash outflow from operating activities was principally related to the purchase of in-licensed products, expenses relating to promoting and selling our products, employees' compensation, costs for the manufacturing of our in-house pharmaceutical products including the purchase of raw materials and direct labour costs, and research and development expenses.

For the six months ended 30 June 2010, our net cash from operating activities was US$4.7 million, primarily reflecting cash generated from operations of US$7.9 million net of income tax payments of US$3.2 million during the period.

Cash generated from operations for the period was US$7.9 million, while our profit before tax was US$19.7 million. The difference of US$11.8 million represents adjustments for profit or loss items with non-cash effects of US$2.2 million and an outflow of working capital adjustments of US$13.9 million. Our working capital outflow was primarily due to (a) an increase in inventories of US$6.4 million mainly resulting from an increase in inventories of our new products Exacin and Bioflor (in particular, the single purchase of a large quantity of Exacin from one shipment under its one-time permit), (b) an increase in trade and other receivables of US$8.3 million in line with our increased sales, and (c) an increase in held for trading investment of US$0.4 million, all of which were partially offset by an increase in trade and other payables of US$1.2 million in line with our increased sales.

For the six months ended 30 June 2009, our net cash from operating activities was US$9.4 million, primarily reflecting cash generated from operations of US$11.7 million net of income tax payments of US$2.3 million during the period.

Cash generated from operations for the period was US$11.7 million, while our profit before tax was US$13.8 million. The difference of US$2.1 million represents adjustments for profit or loss items with non-cash effects of US$0.5 million and an outflow of working capital adjustments of US$2.7 million. Our working capital outflow was primarily due to (a) an increase of US$2.8 million in inventories mainly due to the stock up of several recently introduced in-licensed products, and (b) an increase of US$3.0 million in trade and other receivables in line with our increased sales, which was partially offset by an increase of US$3.2 million in trade and other payables as a result of increased purchases in line with our increased sales.

For the year ended 31 December 2009, our net cash from operating activities was US$15.5 million, primarily reflecting gross cash generated from operations of US$20.7 million net of income tax payments of US$5.2 million during the year.

Cash generated from operations for 2009 was US$20.7 million, while our profit before tax was US$26.9 million. The difference of US$6.2 million represents adjustments for profit or loss items with non-cash effects of US$2.3 million and an outflow of working capital adjustments of US$8.5 million. Our working capital outflow was primarily due to (a) an increase in inventories of US$5.2 million mainly due to the stock up of the several recently introduced in-licensed products (b) an increase in trade and other receivable of US$5.3 million as a result of increased sales, which was in line with our business expansion and revenue growth and partially offset by an increase in trade and other payables of US$2.3 million as a result of increased purchases in line with the increase in our sales partly due to increased number of new in-licensed products.

For the year ended 31 December 2008, our net cash from operating activities was US$10.2 million, primarily reflecting gross cash generated from operations of US$13.9 million net of income tax payments of US$3.7 million during the period.

Cash generated from operations for 2008 was US$13.9 million, while our profit before tax was US$19.5 million. The difference of US$5.6 million represents adjustments for profit or loss items with non-cash effects of US$1.6 million and an outflow of working capital adjustments of US$7.2 million. Our working capital outflow was primarily due to (a) an increase in trade and other receivables of US$7.5 million in line with our increase in sales, (b) a decrease in trade and other payables of US$5.0 million as our level of purchases of Deanxit returned to a normal level compared to the 2007 and (c) a decrease in inventories of US$5.3 million mainly due to sales of inventories of Deanxit stocked up in 2007. When the importing licence of Deanxit was being renewed in 2007, we increased inventory levels of the product to ensure we would have sufficient supplies to meet the sales for the year in the event of any disruption a delay in the licence renewal process. The imported drug licence of Deanxit was renewed on schedule in 2008, and our inventories returned to a normal level.

For the year ended 31 December 2007, our net cash from operating activities was US$6.6 million, primarily reflecting cash generated from operations of US$8.7 million net of income tax payments of US$2.1 million during the year.

Cash generated from operations for 2007 was US$8.7 million, while our profits before tax was US$10.3 million. The difference of US$1.6 million represents adjustments for profit or loss items comprising non-cash effects of US$3.6 million and an outflow of working capital adjustments of US$5.2 million. Our working capital outflow was primarily due to (a) an increase in inventories of US$9.0 million mainly resulting from the increased purchase of Deanxit during the year in preparation for any potential disruption to supply arising from the renewal of the product registration licence, (b) an increase in trade and other receivables of US$4.5 million as a result of increased sales, (c) an increase in trade and other payables of US$7.7 million as a result of increased purchases corresponding with the increased sales and the purchase of additional inventory of Deanxit.

Cash flows used in investing activities

For the six months ended 30 June 2010, our net cash used in investing activities was US$2.8 million, which primarily consisted of an amount of US$2.9 million for the purchase of land use rights in relation to land in Pingshan New District, Shenzhen in January 2010 for future development, an increase of US$0.2 million in our pledged bank deposits to secure bank borrowings and an amount of US$0.1 million for the purchase of property, plant and equipment. Our net cash used in investing activities was partially offset by interest of US$0.3 million received from our bank deposits and a US$0.1 million dividend payment from our associate.

For the six months ended 30 June 2009, our net cash used in investing activities was US$5.8 million, which primarily consisted of an increase of US$5.1 million in our pledged bank deposits to secure bank borrowings and the payment of US$0.9 million as initial consideration for the acquisition of a 24.5% interest in Ophol Limited. Our net cash used in investing activities was partially offset by interest of US$0.1 million received from our bank deposits and proceeds of US$0.1 million from disposal of our property, plant and equipment.

For the year ended 31 December 2009, our net cash used in investing activities was US$16.6 million, which primarily consisted of an increase of US$16.6 million in pledged bank deposits required for our increased bank borrowings, payment of US$0.9 million as initial consideration for the acquisition of a 24.5% interest in Ophol Limited and US$0.3 million for the purchase of property, plant and equipment. Our net cash used in investing activities was partially offset by the US$0.4 million of proceeds we received from the sale of our 51% interest in Shenzhen Shenke, interest of US$0.3 million received from bank deposits, a dividend of US$0.2 million from Ophol Limited and US$0.1 million of proceeds from the disposal of property, plant and equipment.

For the year ended 31 December 2008, our net cash used in investing activities was US$1.7 million, which primarily consisted of an increase of US$1.1 million in our pledged bank deposits to secure letters of credit, US$1.0 million used for the purchase of property, plant and equipment and a capital injection of US$0.1 million into Shenzhen Shenke, and partially offset by interest of US$0.2 million received from bank balances and US$0.2 million from the disposal of our 51% equity interest in Qingdao League Pharmaceutical Co. Ltd. following our purchase of the agency rights to Augentropfen Stulln Mono eye-drops.

For the year ended 31 December 2007, our net cash used in investing activities was US$1.9 million, which primarily consisted of US$0.8 million used for the purchase of property, plant and equipment primarily for office furniture and leasehold improvement when we relocated headquarters to our current location in Shenzhen, the payment of US$0.8 million for the acquisition of a 51% equity interest in Qingdao League Pharmaceutical Co. Ltd., which owned the agency rights to Augentropfen Stulln Mono eye-drops, US$0.5 million for the acquisition of both a 60% interest in Sky United and a 100% equity interest in Shandong Baolihao, all of which was partially offset by interest income of US$0.2 million received from bank balances.

Cash flows from or used in financing activities

For the six months ended 30 June 2010, our net cash used in financing activities was US$6.9 million, which primarily consisted of (i) the payment of a US$4.7 million dividend by us, (ii) the payment of US$1.4 million in relation to the Listing; (iii) the payment of US$0.5 million of deferred consideration for the acquisition of the agency right to Augentropfen Stulln Mono eye-drops, (iv) the net amount of our repayment and draw down of bank borrowings of US$0.2 million and (v) the payment of a US$0.2 million dividend to the non-controlling interests of Sky United before we acquired the remaining 40% interest in Sky United in April 2010, after which, Sky United became our wholly-owned subsidiary. Net cash used in financing activities was partially offset by cash proceeds of US$0.1 million from the issue of 11,835 Shares (of nominal value US$0.10 each) at 598.9 pence per Share (equivalent to US$8.8 per Share) under the Key Employee Benefit Scheme.

For the six months ended 30 June 2009, our net cash used in financing activities was US$5.6 million, which primarily consisted of the payment of a US$4.7 million dividend by us, the payment of US$0.7 million of deferred consideration for the acquisition of the agency right to Augentropfen Stulln Mono eye-drops and the payment of a US$0.1 million dividend to the non-controlling interests of Sky United.

For the year ended 31 December 2009, our net cash used in financing activities was US$4.0 million, which primarily consisted of the disposal by way of distribution in specie to our Shareholders of our interest in Healthlink, which held bank balances and cash of US$10.1 million at the date of disposal, the payment of US$9.5 million dividend by us, payment of US$1.2 million deferred consideration for the acquisition of the agency right of Augentropfen Stulln Mono eye-drops and US$0.2 million dividend paid to the non-controlling interests of Sky United. Net cash used in financing activities was partially offset by new bank borrowings of US$16.5 million and the cash proceeds of US$0.5 million from the issue of 162,528 Shares (of nominal value US$0.10 each) at 168 pence per Share (equivalent to US$2.78 per Share) under the Key Employee Benefit Scheme.

For the year ended 31 December 2008, our net cash used in financing activities was US$7.2 million, which primarily consisted of payment of dividends of US$7.1 million to our Shareholders and the payment of US$0.1 million of deferred consideration for the purchase of the exclusive agency right of Augentropfen Stulln Mono eye-drops acquired in July 2008.

For the year ended 31 December 2007, our net cash from financing activities was US$3.1 million, which primarily consisted of cash proceeds of US$20.0 million raised from the placing of 7,246,376 new Shares (of nominal value US$0.10 each) at 138 pence per share (equivalent to US$2.76 per share) in connection with the listing and admission of our Shares to trading on AIM in June 2007 and US$5.8 million of new bank borrowings, partly offset by the repayment of borrowings of US$12.9 million, the repayment of US$5.1 million due to shareholders, expenses of US$4.3 million in relation to the share placing and admission to AIM and the payment of interest of US$0.3 million.

NET CURRENT ASSETS

	As at 31 December			As at 30 June	As at 31 July
	2007	2008	2009	2010	2010
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000 (unaudited)
Current assets					
Inventories	10,677	5,945	11,060	17,437	15,497
Trade and other receivables	19,305	27,684	32,794	41,485	43,899
Amount due from an associate	164	172	—	—	—
Amount due from a jointly controlled entity	—	—	481	506	772
Amounts due from directors	20	43	—	—	—
Held for trading investments	—	—	31	406	7
Tax recoverable	—	—	—	324	253
Derivative financial instruments	—	—	—	18	4
Pledged bank deposits	—	1,060	17,641	17,792	13,870
Bank balances and cash	17,601	20,100	15,113	10,340	7,639
	47,767	55,004	77,120	88,308	81,941
Current liabilities					
Trade and other payables	12,920	9,252	11,062	12,235	6,671
Dividends payable	—	5	—	—	—
Bank borrowings — secured	—	—	16,517	16,346	12,548
Deferred consideration payables	—	685	838	811	811
Derivative financial instruments	—	—	145	131	138
Tax payable	180	813	1,226	1,848	375
	13,100	10,755	29,788	31,371	20,543
Net current assets	34,667	44,249	47,332	56,937	61,398

Inventories

The following table sets out our inventories as at the end of the reporting periods indicated and the average inventory turnover days for the periods indicated:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$ '000	US$ '000	US$ '000	US$ '000
Raw materials	164	46	222	97
Work in progress	27	104	32	35
Finished goods	10,486	5,795	10,806	17,305
Inventories	10,677	5,945	11,060	17,437

	For the year ended 31 December			For the six months ended 30 June
	2007	2008	2009	2010
Average inventory turnover days (1)	124	109	87	109

Note:

(1) Calculated using the average of the beginning and ending inventory balances of the period, divided by cost of goods sold for the period and multiplied by 365 days for a year or 183 days for six months ended 30 June 2010, in respect of the periods indicated.

As our core business is the marketing, promotion and sale of in-licensed pharmaceutical products, our inventories comprise largely of finished products with the balance made up of small portions of raw materials and work in progress. At each reporting period end, we assess our inventory and make provisions for impairment to our inventory due to slow moving or obsolete products as they have passed or become close to the end of their expiry date. For the year ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010, we made provisions for impairment to our inventory due to slow moving or obsolete inventory of US$92,000, US$119,000, US$10,000 and US$116,000, respectively.

Our inventory balances increased from US$11.1 million as at 31 December 2009 to US$17.4 million as at 30 June 2010, primarily reflecting an increase in our stock of finished products. The increase in stock of finished products was primarily due to (i) the single purchase of a large quantity of Exacin following our exclusive right obtained in January 2010 to promote and sell one shipment of Exacin imported under its one-time permit in China and (ii) our purchases of inventories partly due to our increased sales.

Our inventory balances increased from US$5.9 million as at 31 December 2008 to US$11.1 million as at 31 December 2009, primarily reflecting an increase in our stock of finished products. The increase in stock of finished products was primarily due to (i) the increased purchase of Urosfalk during the year in preparation for any potential disruption to supply arising from the renewal of the product registration licence, and (ii) our purchases of inventories partly due to our increased sales.

Our inventory balances decreased from US$10.7 million as at 31 December 2007 to US$5.9 million as at 31 December 2008 primarily due to a decrease in stocks of Deanxit. When the importing licence of Deanxit was being renewed in 2007, we increased inventory levels of the product to ensure we would have sufficient supplies to meet the sales for the year in the event of a delay in the license renewal process. The importing licence of Deanxit was renewed on schedule in 2008, and our inventories returned to a normal level.

Our average inventory turnover days increased from 79 days in the six months ended 30 June 2009 to 109 days in the six months ended 30 June 2010, primarily reflecting the purchase of the large quantity of Exacin and the increase in our purchases partly due to our increased sales in the six months ended 30 June 2010.

Our average inventory turnover days decreased from 109 days in 2008 to 87 days in 2009 reflecting higher than usual inventory level of Deanxit as at the beginning of 2008.

Our average inventory turnover days decreased from 124 days in 2007 to 109 days in 2008, primarily reflecting the inventory for Deanxit which was significantly increased in 2007 and returned to a normal level in mid 2008.

As at 31 July 2010, approximately 26.8% of our inventories as at 30 June 2010 was subsequently sold.

Trade and other receivables

The following table sets out the total amounts of our trade and other receivables as at the end of the reporting periods indicated and the average trade receivables turnover days for the periods indicated:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$ '000	US$ '000	US$ '000	US$ '000
Trade receivables	14,785	17,441	20,959	29,166
Less: Allowance for bad and doubtful debts	(307)	(221)	(213)	(235)
Net trade receivables	14,478	17,220	20,746	28,931
Bills receivables	2,669	7,062	9,513	8,910
Other receivables and deposits	2,158	3,402	2,535	3,644
Total trade and other receivables	19,305	27,684	32,794	41,485

	For the year ended 31 December			For the six months ended 30 June
	2007	2008	2009	2010
Average trade receivables turnover days (1)	86	81	73	75

Note:

(1) Calculated using the average of the beginning and ending trade receivables balances (before allowances for bad and doubtful debts) of the period, divided by turnover for the period and multiplied by 365 days for a year or 183 days for six months ended 30 June 2010, in respect of the periods indicated.

Our trade and other receivables comprise of trade receivables, bills receivable and other receivables. Trade receivables primarily represent the balances due from our distributors. Depending on the credit rating of the distributors, the length of our relationships with them, the historic sales achieved by the distributor and the target sales in the forthcoming year, we grant a credit period of nil to 90 days to the majority of our distributors. Bills receivable are similar to a letter of credit in that payments made by bills receivable are guaranteed by a bank. Bills receivable may be factored to banks at a discount in exchange for immediate money. All our bills receivable were of aged less than six months at the end of each reporting period. Other receivables primarily include cash advances to staff, prepayments for our purchases and deposits paid to certain suppliers.

Our net trade receivables balances increased from US$14.5 million as at 31 December 2007 to US$17.2 million as at 31 December 2008 primarily reflecting an increase in sales.

Our net trade receivables balances increased from US$17.2 million as at 31 December 2008 to US$20.7 million as at 31 December 2009 primarily reflecting increase in sales in the period.

Our net trade receivables balances increased from US$20.7 million as at 31 December 2009 to US$28.9 million as at 30 June 2010, primarily reflecting (i) an increase in sales in the six months ended 30 June 2010 and (ii) a larger portion of trade receivables being collected in the second half of 2009 (as partly shown by the higher average trade receivable turnover day in the six months ended 30 June 2009, being 79 days, than that in 2009, being 73 days). Notwithstanding the above, the average trade receivable turnover day for the six months ended 30 June 2010, being 75 days, was lower than that for the six months ended 30 June 2009, being 79 days.

Our average trade receivables turnover days decreased from 86 days in 2007 to 81 days in 2008 and further decreased to 73 days in 2009, primarily due to our increased efforts in managing distributors and trade receivables. Similarly, our average trade receivables turnover days decreased from 79 days in the six months ended 30 June 2009 to 75 days in the six months ended 30 June 2010.

As part of our debtor control, our marketing, promotion and sales team monitor the credit quality of our trade receivables and to closely follow up with any outstanding receivables. In determining impairment losses, we conduct regular reviews of ageing analyses and evaluate collectibles on an individual basis. Our provision for bad and doubtful debts as at 31 December 2007, 2008 and 2009 and 30 June 2010 was US$0.3 million, US$0.2 million, US$0.2 million and US$0.2 million, representing 2.1%, 1.3%, 1.0% and 0.8% of our trade receivables balance (before allowances for bad and doubtful debts), respectively. For the each of the years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010, we wrote off as uncollectible trade receivables of nil, US$0.1 million, US$0.1 million and nil. However, such estimates involve inherent uncertainties and the actual uncollectible amounts may be higher or lower than the amount estimated.

The following table sets out the ageing analysis of our trade receivables, net of allowances for bad and doubtful debts, that are neither individually nor collectively considered to be impaired as at the end of the reporting periods indicated:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$ '000	US$ '000	US$ '000	US$ '000
Past due but not impaired				
0 — 90 days	1,797	2,127	2,274	3,004
91 — 365 days	2,184	2,071	2,174	2,896
Over 365 days	126	93	28	29
	4,107	4,291	4,476	5,929
Neither past due nor impaired	10,371	12,929	16,270	23,002
Total	14,478	17,220	20,746	28,931

Our management has evaluated the credit situation of the specific debtors to which the trade receivable balances as at each of the above balance sheet dates relate and does not expect them to be uncollectible. Therefore, our Directors are of the view that no provision for impairment is necessary with respect to these balances. We do not hold any collateral over these balances.

As at 31 July 2010, approximately 30.7% of our net trade receivables as at 30 June 2010 was subsequently settled.

Trade and other payables

The following table sets out an ageing analysis of our trade payables as at the end of the reporting periods indicated and the average trade payables turnover days for the periods indicated:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$ '000	US$ '000	US$ '000	US$ '000
0 — 90 days	1,272	5,562	6,067	4,299
91 — 365 days	9,122	24	5	1
Over 365 days	7	7	7	7
	10,401	5,593	6,079	4,307

	For the year ended 31 December			For the six months ended 30 June
	2007	2008	2009	2010
Average trade payables turnover days (1)	131	105	60	40

Note:

(1) Calculated using the average of the beginning and ending trade payable balances of the period, divided by cost of goods sold for the period and multiplied by 365 days for a year or 183 days for six months ended 30 June 2010, in respect of the periods indicated.

Our trade payables primarily consist of payments due to suppliers for our purchases of in-licensed products. Our trade and other payables decreased from US$10.4 million as at 31 December 2007 to US$5.6 million as at 31 December 2008, primarily due to the settlement of the higher than usual level of trade payables recorded at the end of 2007. This higher than usual level of trade payables in 2007 was mainly due to the increase in our purchase of Deanxit to avoid possible disruption to the supply which might result from the licence renewal process. The credit period on our purchases ranges from 0 to 120 days.

Our average trade payables turnover days decreased from 131 days in 2007 to 105 days in 2008 primarily reflecting the changes in trade payables corresponding to the inventory level of Deanxit which was larger than usual at 31 December 2007, and gradually returned to a normal level in 2008. Our average trade payables turnover days further decreased from 105 days in 2008 to 60 days in 2009 primarily due to the higher trade payables related to large inventory level for Deanxit as the beginning of 2008 and the shorter credit period granted to us by the suppliers of the new products we introduced in the prior year, namely XinHuoSu, Cystistat and Salofalk. The credit period for Cystistat was 60 days from our receipt delivery. We were required to pay for the purchases of XinHuoSu upon delivery, and although we are offered a 90-day credit period we elected to pay in advance for the purchases of Salofalk to take advantage of the discount offered by the supplier if we pay in advance. Our average trade payables turnover days further decreased from 76 days in the six months ended 30 June 2009 to 40 days in the six months ended 30 June 2010, primarily due to our cash payment for the purchases of Exacin and Bioflor upon delivery, both of which are our new products in 2010.

WORKING CAPITAL

Taking into account cash from operating activities and the net proceeds from the Global Offering, our Directors are of the opinion that the working capital available to our Group is sufficient for our requirements for at least 12 months from the date of this prospectus.

INDEBTEDNESS

As at 31 July 2010, being the latest practicable date for the purpose of the statement of indebtedness, our total bank borrowings and deferred consideration payables were US$12.5 million and US$5.8 million respectively. The following table sets out our bank borrowings and deferred consideration payables as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 July
	2007	2008	2009	2010	2010
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000 (unaudited)
Secured bank borrowings within one year (1)	—	—	16,517	16,346	12,548
Deferred consideration payables					
— repayable within one year	—	685	838	811	811
— repayable more than one year	—	6,179	5,291	4,986	5,020

Note:

(1) Our Company did not have any secured bank borrowings payable more than one year.

As at 31 July 2010, for the purpose of this indebtedness statement, our Group had total bank borrowings of approximately US$12,548,000 which were secured by pledged bank deposits amounting to US$13,533,000. The remaining pledged bank deposits amounting to US$337,000 represent deposits pledged to bank to secure the issuance of foreign currency forward contracts.

Our bank borrowings include both floating rate and fixed rate obligations. The rates for our fixed rates borrowings were from 1.53% to 1.87% per annum. The effective interest rates (which are also equal to contracted interest rates) on our bank borrowings were floating rates which were from 0.58% to 1.62% per annum and 0.25% to 0.89% per annum for the year ended 31 December 2009 and six months ended 30 June 2010, respectively. To reduce our exposure to interest rate risks of our floating-rate US dollar bank borrowings, we have entered into interest rate swap arrangement to swapped floating interest rates to fixed interest rates. Our weighted average fixed interest rate on outstanding bank borrowings for the year ended 31 December 2009 was 1.62% per annum. The interest rate swaps and the corresponding bank borrowings have the same terms. Please refer to note 31 to the accountants' report set out in Appendix I to this prospectus for further information on the interest rate swaps that we have entered into.

In addition to bank borrowings, the Group, as at 31 July 2010, had outstanding deferred consideration for acquisition of an exclusive agency right and an associate of approximately US$5,667,000 and US$164,000, respectively.

Our gearing ratio, calculated as bank borrowings divided by total assets, was nil, nil, 18.2% and 15.8% as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively.

As at 30 June 2010, we had two banking facilities with two licensed banks in China for an amount of US$16.0 million and RMB90.0 million, respectively, which were granted to us primarily for settlement of our purchases by the issue of letters of credit. The tenures of the US$16.0 million banking facility and the RMB90.0 million banking facility were from 13 July 2009 to 13 July 2010, and from 17 November 2009 to 16 November 2010, respectively. Under the US$16.0 million banking facility, we may draw up to RMB30 million cash as working capital and similarly, under the RMB90.0 million banking facility, we may draw up to RMB20 million cash as working capital. As at 30 June 2010, we had not utilised the working capital facility available under either of the banking facilities. The banking facility in the amount of US$16 million expired on 13 July 2010 and we terminated the other banking facility in the amount of RMB90 million on 30 July 2010. We do not have any current plan to raise any material external debt financing in the foreseeable future.

Except as described above, as at 31 July 2010, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

As at 30 June 2010, we did not have any off-balance sheet arrangements.

CAPITAL EXPENDITURES

The following table sets out our capital expenditures for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June
	2007	2008	2009	2010
	US$ '000	US$ '000	US$ '000	US$ '000
Property, plant and equipment	795	959	280	101
Purchase of land use right	—	—	—	2,919
Total	795	959	280	3,020

We have historically funded our capital expenditures through cash generated from our operations, bank borrowings and equity from Shareholders. Our capital expenditures primarily comprised purchases of property, plant and equipment. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our capital expenditures were US$0.8 million, US$1.0 million, US$0.3 million and US$3.0 million respectively.

From 1 July to 31 December 2010, we expect to incur capital expenditures of approximately US$176,000 primarily for purchases of equipment for office use. We expect to finance our capital expenditures through a combination of operating cash flows and the net proceeds from the Global Offering. We may adjust our capital expenditures for any given period according to our development plans and in light of market conditions and other factors we believe to be appropriate.

CONTRACTUAL OBLIGATIONS

The following table presents the maturities of our contractual obligations for which cash flows are fixed or determinable as at 30 June 2010:

As at 30 June 2010	Repayable on demand or less than one year	One to five years	Over five years	Total undiscounted cash flows
	US$ '000	US$ '000	US$ '000	US$ '000
Trade and other payables	6,439	—	—	6,439
Deferred consideration payable	884	3,699	2,575	7,158
Fixed interest rate borrowings	6,003	—	—	6,003
Variable interest rate borrowings	10,520	—	—	10,520
Total	23,846	3,699	2,575	30,120

RELATED PARTY TRANSACTIONS

Our Directors confirm that all transactions with related parties set out in note 41 to the accountants' report were conducted on normal commercial terms and/or on terms not less favourable than terms available from independent third parties, which are considered fair, reasonable and in the interest of the Shareholders of our Company as a whole.

MARKET RISKS

We are exposed to various types of market risks, including changes in interest rate risks, foreign exchange risks and inflation risks in the normal course of business.

Liquidity risk

Our objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. We monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows.

Our cash and cash equivalents are placed with reputable financial institutions.

Credit risk

Credit risk arises mainly from the risk that counterparties may default on the terms of their agreements. The carrying amounts of bank balances and cash, pledged bank deposits, trade and other receivables and amount due from jointly controlled entity as stated in the consolidated statement of financial position represent our maximum exposure to credit risk in relation to financial assets as at 30 June 2010. In order to reduce our credit risk, our management has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our credit risk is appropriately managed.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, we have no significant concentration of credit risk on trade and other receivable, with exposure spread over a number of counterparties and customers and across diverse geographical areas.

Foreign exchange risk

We purchase a majority of our in-licensed products in foreign currencies, primarily the US dollar and Euro, which exposes us to foreign currency risk. During the years ended 31 December 2007, 2008 and 2009 and six months ended 30 June 2010, 75.1%, 70.1%, 76.4% and 81.7% of our purchases are denominated in currencies other than RMB. All of our sales are denominated in functional currency of the relevant member of our Group making the sale.

Further, we are exposed to currency risk attributable to bank balances, trade and other payables and bank loans, which are denominated in currencies other than the functional currency of the entity to which they relate (mainly Euro and United States dollars), as disclosed in the notes to our financial statements. In order to reduce the risk of currency fluctuations, we may, as we deem appropriate, enter into forward foreign exchange contracts to hedge actual transactions for larger contracts. We have entered into foreign currency forward contracts to manage our foreign currency exposure in relation to US dollar interest and principal payments of our US dollar bank borrowing. The terms of the foreign currency forward contracts have been negotiated to match the terms of the respective designated hedged items.

Interest rate risk

Our exposure to the risk of changes in market interest rates relates primarily to our debt obligations with floating interest rates. In order to keep borrowings at fixed rates and to minimise the cash flow interest rate risk, we use floating to fixed interest rate swaps to manage our cash flow interest rate risk exposure associated with our bank borrowings, which amounted to US$10.4 million as at the end of the Track Record Period, taken out at floating rates. On the other hand, interest rate swaps, fixed rate bank borrowings expose us to fair value interest rate risk.

Fair value interest rate risk is the risk that the fair value of a fixed rate financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Capital management

The primary objective of our capital management is to ensure that members of our Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. We manage our capital structure and make adjustments to it, in light of changes in economic conditions. There were no changes to our capital management strategy throughout the Track Record Period.

The capital structure of our Group consists of cash and cash equivalents, bank borrowings and equity attributable to equity holders of our Company, which in turn comprises issued share capital and reserves including accumulated profits. Our Directors review the capital structure on a regular basis. As part of this review, our Directors consider the cost of capital and the risks associated with each class of capital. Based on our Directors' recommendations, we will balance our overall capital structure through the payment of dividends and new share issues.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following table of our unaudited pro forma adjusted consolidated net tangible assets was prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Global Offering on our net tangible assets as at 30 June 2010 as if it had taken place on that date. The table of unaudited pro forma adjusted consolidated net tangible assets of our Group have been prepared for illustrative purpose only and, because of their hypothetical nature, they may not give a true picture of our net tangible assets had the Global Offering been completed as at 30 June 2010 or at any future date.

The unaudited pro forma adjusted consolidated net tangible assets set out below are calculated based on our audited consolidated net assets attributable to equity holders of our Company as at 30 June 2010, as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and is adjusted as described below.

	Audited consolidated net tangible assets of our Group attributable to the owners of our Company as at 30 June 2010[1]	Estimated net proceeds from the Global Offering[2]	Unaudited pro forma adjusted net tangible assets attributable to the owners of our Company	Unaudited pro forma adjusted net tangible assets per Share[3]	
	US$ '000	US$ '000	US$ '000	US$	HK$
Based on an Offer Price of HK$3.60 per Share	58,789	73,219	132,008	0.12	0.91
Based on an Offer Price of HK$5.06 per Share	58,789	104,687	163,476	0.15	1.13

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2010 are arrived at after deducting the intangible assets and goodwill with aggregate carrying amount of approximately US$6,165,000 from the audited consolidated net assets attributable to the owners of the Company as at 30 June 2010 of approximately US$64,954,000 as set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$3.60 and HK$5.06 on each of the 170,000,000 new Shares to be issued, respectively, after deduction of the underwriting fees and other related expenses payable by the Company. They do not take into account any Shares which may be issued or repurchased pursuant to the exercise of the Over-allotment Option, the exercise of the Existing Share Options, the Issuing Mandate or the Repurchase Mandate. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into United States dollars at an exchange rate of HK$7.77 to US$1.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 1,123,691,440 Shares expected to be in issue immediately following completion of the Global Offering. It does not take into account any Shares which may be issued or repurchased pursuant to the exercise of the Over-allotment Option, the exercise of the Existing Share Options, the Issuing Mandate or the Repurchase Mandate.

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will continue to be entitled to receive dividends we declare. For each of the coming years, our Directors currently intend to pay dividends in the amount of 25% to 50% of our net profits for the year. Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, our development pipeline, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our Articles of Association and the Companies Ordinance. Our Company may in general meeting declare dividends but no dividends shall exceed the amount recommended by our Board. Our Board may also from time to time pay interim dividends as appear to our Board to be justified by the profits of our Company, as well as special

dividends on shares of any class of such amounts and on such dates as they think fit. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

As we are a holding company, our ability to declare and pay dividends will depend on the availability of dividends received from our subsidiaries, particularly those in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises, such as all of our subsidiaries in China, to set aside part of their net profit as statutory reserves, and such statutory reserves are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

During the year ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, we declared and paid an interim dividend of nil, US$2.4 million, US$4.7 million, nil and nil, respectively. For the year ended 31 December 2007, 2008 and 2009, our Directors declared a final dividend of US$3.3 million, US$4.7 million and US$4.7 million, respectively. Further, we declared a special dividend US$1.4 million in the year ended 31 December 2007.

In December 2009, we also declared a dividend of US$10.7 million, which was paid as to US$8.7 million in the shares of Healthlink and as to US$2.0 million in cash. For further details of the Distribution of Healthlink, please see the section headed "History and Development — Disposed Business Operations — Distribution of Healthlink" in this prospectus.

DISTRIBUTABLE RESERVES

As at 30 June 2010, our Company had distributable reserves of US$7,457,000 available for distribution to our Shareholders.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2010

In the absence of any unforeseen circumstances and on the bases and assumptions set out in Appendix III to this prospectus, certain forecasted data for our Group for the year ending 31 December 2010 are set out below:

Forecasted consolidated profit attributable to owners of our Company for the year ending 31 December 2010 *(Note 1)* . . . . . not less than US$30 million (approximately HK$233 million equivalent)

Unaudited pro forma forecasted earnings per Share for the year ending 31 December 2010 *(Note 2)* . . . . . not less than US$2.7 cents (approximately HK$20.8 cents equivalent)

Notes:

1. The bases and assumptions on which the forecast consolidated profit attributable to the owners of our Company for the year ending 31 December 2010 has been prepared are summarised in Appendix III to this prospectus. The forecast consolidated profit attributable to the owners of our Company for the year ending 31 December 2010 is based on the audited consolidated results of the Group for the six months ended 30 June 2010, the unaudited management accounts of the Group for the one month ended 31 July 2010 and a forecast of the results of the Group for the remaining five months ending 31 December 2010.

2. The calculation of the unaudited pro forma forecast basic earnings per Share is based on the forecast consolidated profit attributable to the owners of our Company for the year ending 31 December 2010 assuming that the Global Offering had occurred on 1 January 2010 and a total of 1,123,691,440 Shares were in issue, assuming that the Shares to be issued pursuant to the Global Offering had been in issue on 1 January 2010 but does not take into account of any Shares which may be issued or repurchased pursuant to the exercise of the Over-allotment Option, the exercise of the Existing Share Options, the Issuing Mandate or the Repurchase Mandate. The unaudited pro forma forecast earnings per Share is translated at the exchange rate of US$1 to HK$7.77.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our business development, financial or trading positions or prospects since 30 June 2010, being the date of our consolidated financial statements as set out in the accountants' report included in Appendix I to this prospectus.

FUTURE PLANS

Please refer to the section headed section "Business — Our Strategy" in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to our Company (after deducting underwriting fees and estimated expenses) from the Global Offering, assuming an Offer Price of approximately HK$4.33 per Share, being the mid-point of the indicative range of the Offer Price of HK$3.60 to HK$5.06 per Share, will be approximately HK$693.0 million (assuming that the Over-allotment Option is not exercised) and HK$777.2 million (assuming that the Over-allotment Option is exercised in full), respectively.

We intend to use the net proceeds we receive from the Global Offering as follows:

- approximately 8.3% or approximately HK$57.5 million (equivalent to approximately US$7.4 million) will be used to continue building up our marketing, promotion and sales network by hiring additional qualified and professional staff and expanding our hospital coverage and geographical reach;
- approximately 12.5% or approximately HK$86.6 million (equivalent to approximately US$11.1 million) will be used to construct new training and conference centres to hold physician training, medical conferences and other promotion activities, as well as staff training to enhance the standard and professionalism of our promotion and sale services;
- approximately 8.3% or approximately HK$57.5 million (equivalent to approximately US$7.4 million) will be used to change, improve or upgrade both hardware and software of our information management systems so as to improve our management and control of our promotion network and business operations;
- approximately 33.3% or approximately HK$230.8 million (equivalent to approximately US$29.7 million) will be used to enlarge our product portfolio by acquiring the exclusive in-licence rights to promote and sell pharmaceutical products in China and pursuing merger or acquisition opportunities with suitable pharmaceutical companies. From time to time, we may engage in negotiations with pharmaceutical companies to acquire in-licence rights to pharmaceutical products or to merge with or acquire the company itself if ownership of the company will give us the rights to a suitable product or will position us well to acquire rights in respect of other companies' products. As at the Latest Practicable Date, no such negotiations are close to materialisation;
- following favourable clinical development of CMS024, approximately 16.8% or approximately HK$116.4 million (equivalent to approximately US$15.0 million) will be used to construct a production plant for the manufacture of our in-house produced pharmaceutical products including CMS024. If the clinical development of CMS024 is not favourable, our Directors intend to apply the same amount in the manner and in their respective proportions as described in this paragraph;
- approximately 10.8% or approximately HK$74.8 million (equivalent to approximately US$9.6 million) will be used to provide funding for purchasing imported pharmaceutical products from suppliers, in order to fulfil increasing PRC market demand for our in-licensed products; and
- approximately 10.0% or approximately HK$69.3 million (equivalent to approximately US$8.9 million) will be used for our working capital and other general corporate purpose.

To the extent that the net proceeds of the Global Offering we receive are not immediately required for the above purposes, we presently intend that such proceeds be placed in cash and on short-term deposits with licensed banks or financial institutions and/or invested into money market instruments in Hong Kong and/or the PRC.

In the event that the Offer Price is finally determined at the high-end of the indicative offer price range, the estimated net proceeds to our Company from the Global Offering will be approximately HK$813.4 million, assuming that the Over-allotment Option is not exercised, and HK$911.1 million, assuming that the Over-allotment Option is exercised in full, respectively. Our Directors intend to apply such additional net proceeds in the same proportions as set out above.

In the event that the Offer Price is finally determined at the low-end of the indicative offer price range, the estimated net proceeds to our Company from the Global Offering will be approximately HK$568.9 million, assuming that the Over-allotment Option is not exercised, and HK$641.6 million, assuming that the Over-allotment Option is exercised in full, respectively. Our Directors intend to apply the reduced net proceeds in the same proportions as set out above.

We will not receive any of the proceeds from the sale of Sale Shares by the Selling Shareholder nor sale of Shares by the Selling Shareholder under the Over-allotment Option (if exercised) in the Global Offering. The Selling Shareholder estimates that it will receive net proceeds from the Global Offering of approximately HK$125.2 million, assuming that the Over-allotment Option is not exercised, and of approximately HK$167.1 million assuming that the Over-allotment Option is exercised in full, after deducting the estimated underwriting commissions and expenses payable by it in the Global Offering and assuming an Offer Price of HK$4.33 per Share, being the midpoint of the indicative range of the Offer Price set out in this prospectus.

HONG KONG UNDERWRITERS

Sole Lead Manager

UBS AG, Hong Kong Branch

Co-Managers

China Everbright Securities (HK) Limited
Guotai Junan Securities (Hong Kong) Limited
Kingsway Financial Services Group Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offer

Hong Kong Underwriting Agreement

Under the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price, on the terms and subject to the conditions of this prospectus and the Application Forms. Subject to the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to procure subscribers for, or themselves to subscribe for, their respective proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offer on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Purchase Agreement having been signed and becoming unconditional.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination if, at any time before 8:00 a.m. on the Listing Date:

(a) there develops, occurs, exists or comes into force:

  (i) any event, or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared) or other state of emergency, acts of God, accident or interruption or delay in transportation or acts of terrorism (whether or not responsibility has been claimed)) in or affecting Hong Kong, the PRC, the United States, the United Kingdom, any member of the European Union, Japan, the Cayman Islands or any other jurisdiction relevant to any member of our Group (collectively the "**Relevant Jurisdictions**"); or

(ii) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting any of the Relevant Jurisdictions; or

(iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or limitation on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange; or

(iv) any general moratorium on commercial banking activities in Hong Kong, New York, London, the PRC, the European Union, Japan or any other Relevant Jurisdictions, declared by the relevant authorities, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any of the Relevant Jurisdictions; or

(v) any new laws or regulations or any change or development involving a prospective change in laws or regulations or any change or development involving a prospective change in the interpretation or application of the law or regulation by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or

(vi) a change or development involving a prospective change in all present or future taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in or affecting any of the Relevant Jurisdictions ; or

(vii) any litigation or claim of any third party being threatened or instigated against any member of our Group; or

(viii) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from being a director or taking part in the management of a company; or

(ix) the chairman or chief executive officer of our Company or any executive Director vacating his or her office; or

(x) an authority or a political body or organization in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or

(xi) a contravention by any member of our Group of the Companies Ordinance, the Listing Rules or applicable laws; or

(xii) a prohibition on our Company or Treasure Sea for whatever reason from allotting or selling Shares (including Shares to be sold under the Over-allotment Option) pursuant to the terms of the Global Offering; or

(xiii) non-compliance of this prospectus, the Disclosure Package (as defined in the Hong Kong Underwriting Agreement), the Final Offering Circular (as defined in the Hong Kong Underwriting Agreement) (or any other documents used in connection with the offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or

(xiv) the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Hong Kong Stock Exchange and/or the SFC; or

(xv) a suspension or material limitation in trading in any securities of our Company listed or quoted on a stock exchange; or

(xvi) an order or petition for the winding up or liquidation of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertakings of any member of our Group or anything analogous thereto occurring in respect of any member of our Group,

and which, individually or in the aggregate, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters),

(1) has or will or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, business, financial, trading or otherwise, or performance of our Group as a whole; or

(2) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offer or the level of interest under the International Offering; or

(3) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for the Hong Kong Public Offer or the Global Offering to proceed or to market the Global Offering; or

(4) has or will or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(b) there has come to the notice of the Sole Global Coordinator or any of the Hong Kong Underwriters:

(i) that any statement contained in any of this prospectus, the Application Forms and/or in any notices or announcements, issued by or on behalf of our Company in connection with the Hong Kong Public Offer (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, expression of opinion, intention or expectation contained in any of this prospectus, the Application Forms and/or any notices or announcements, issued by or on behalf of our Company in connection with the Hong Kong Public Offer (including any supplement or amendment thereto) is not fair and honest and based on reasonable grounds or reasonable assumptions when taken as a whole; or

(ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute a material omission from any of this prospectus, the Application Forms and/or in any notices or announcements issued by or on behalf of our Company in connection with the Hong Kong Public Offer (including any supplement or amendment thereto); or

(iii) any material breach of any of the obligations, warranties or undertakings imposed on any party to the Hong Kong Underwriting Agreement or the International Purchase Agreement (other than on any part of the Hong Kong Underwriters or the International Underwriters); or

(iv) any event, act or omission which gives or is likely to give rise to any material liability of a controlling shareholder in his/its role as an indemnifying party pursuant to the Hong Kong Underwriting Agreement; or

(v) any material adverse change or development involving a prospective material adverse change in or affecting the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial, trading or otherwise, or performance of our Group taken as a whole; or

(vi) any of the representations and warranties given by our Company or the controlling shareholders under the Hong Kong Underwriting Agreement or the International Purchase Agreement, as applicable, is (or would when repeated be) untrue or misleading in any material respect; or

(vii) our Company withdraws any of this prospectus, the Application Forms and/or any other document issued or used in connection with the Global Offering; or

(viii) any person (other than the Sole Global Coordinator and any of the Underwriters) has withdrawn its consent to being named in any of the offering documents or to the issue of any of the offering documents; or

(ix) the Shareholders' resolution approving the Delisting, or that the notice provided to the London Stock Exchange by or on behalf of our Company regarding the Delisting, as described in this prospectus, has been superseded, withdrawn, revoked, nullified, or has otherwise ceased to be effective.

Undertakings

Undertakings to the Hong Kong Stock Exchange under the Listing Rules

(A) Undertaking by us

Under Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that we will not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except under the Global Offering (including the exercise of the Over-allotment Option) or pursuant to the exercise of the Existing Share Options or for the circumstances provided under Rule 10.08 of the Listing Rules.

(B) Undertaking by the controlling shareholders

In accordance with Rule 10.07(1)(a) of the Listing Rules, each of our controlling shareholders has undertaken to the Hong Kong Stock Exchange and our Company that except pursuant to the Global Offering and the Stock Borrowing Agreement, (a) it/he will not and will procure that the relevant registered holders will not, at any time during the period commencing from the date of this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owners; and (b) it/he will not and will procure that the relevant registered holders will not, at any time during the period of six months from the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of our Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interest or encumbrances, it/he will then cease to be a controlling shareholder of our Company.

Note (2) of Rule 10.07 of the Listing Rules provides that the rule does not prevent a controlling shareholder from using the shares owned by it as securities (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

Each of our controlling shareholders has further undertaken to the Hong Kong Stock Exchange and our Company that it/he will, from the date of this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us of:

(a) any pledges or charges of any Shares or other securities of our Company beneficially owned by him/it in favour of any authorised institution as permitted under the Listing Rules, and the number of such Shares or securities of our Company so pledged or charged; and

(b) any indication received by he/it, whether verbal or written, from any pledgee or chargee of any Shares or other securities of our Company pledged or charged that any of such Shares or other securities will be disposed of.

We will also inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by any of our controlling shareholders and disclose such matters by way of an announcement as soon as possible after being so informed by any of our controlling shareholders.

Undertakings under the Hong Kong Underwriting Agreement and lock up deeds

(A) Undertaking by us

We have undertaken to each of the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters that at any time from the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the "**First Six-month Period**"), our Company will not (except for the issue of Shares under the Global Offering, the Over-allotment Option and the Existing Share Options) and will procure each other member of the Group not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable); or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable); or

(c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) or (b) above; or

(d) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraphs (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). In the event that,

during the period of six months commencing on the date on which the First Six-month Period expires (the "**Second Six-Month Period**"), our Company enters into any of the transactions specified in paragraphs (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company. The controlling shareholders undertake to each of the Sole Global Coordinator, the Hong Kong Underwriters and the Sole Sponsor to procure our Company to comply with the undertakings in this section (A) above.

(B) Undertaking by the controlling shareholders

Each of the controlling shareholders has undertaken with each of our Company, the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters that except pursuant to the Global Offering, the Stock Borrowing Agreement or pursuant to a pledge or charge of any Shares beneficially owned by it/him as security in favour of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(a) it/he will not, at any time during the First Six-Month Period,

(i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein which it or he is interested as at the date of this prospectus (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable), and in the case of Mr. Lam Kong, he will not do any of the foregoing in respect of his shares in Treasure Sea, or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein which it or he is interested as at the date of this prospectus (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), and in case of Mr. Lam Kong, he will not do any of the foregoing in respect of his shares in Treasure Sea, or

(iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraphs (i) or (ii) above, and in the case of Lam Kong, he will not do any of the foregoing in respect of his shares in Treasure Sea, or

(iv) offer to or agree to or announce any intention to effect any transaction specified in sub-paragraphs (i), (ii) or (iii) above, in each case, whether any of the transactions specified in sub-paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member of our Group or shares or other securities of Treasure Sea, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

(b) it/he will not, during the Second Six-Month Period, enter into any of the transactions specified in sub-paragraphs (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a "controlling shareholder" (as the term is defined in the Listing Rules) of our Company; and

(c) until the expiry of the Second Six-Month period, in the event that it/he enters into any of the transactions specified in sub-paragraphs (a)(i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, it/he will take all reasonable steps to ensure that it/he will not create a disorderly or false market in the securities of our Company.

(C) Undertaking by the Existing Management Shareholders and the Existing Ultimate Management Shareholders

Each of the Existing Management Shareholders and the Existing Ultimate Management Shareholders has undertaken with each of our Company, the Sole Global Coordinator, the Underwriters and the Sole Sponsor that except pursuant to a pledge or charge of any Shares beneficially owned by it/him/her as security in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(a) it/he/she will not, and in the case of Ms. Hou Xiaoxuan only, she will procure that Mr. Jia Jinbin (being her spouse) will not, at any time during the First Six-Month Period,

(i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein which it/he/she is interested as at the date of this prospectus (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable (and in the case of Mr. Chen Hongbing and Viewell Limited, the Existing Share Options and Shares that will be issued upon exercise of any of the Existing Share Options)) and in the case of the Existing Ultimate Management Shareholders, each of them will not do any of the foregoing in respect of his/her shares in the respective Existing Management Shareholders, or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein which it/he/she is interested as at the date of this prospectus (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares (and in the case of Mr. Chen Hongbing and Viewell Limited, the Existing Share Options and Shares that will be issued upon exercise of any of the Existing Share Options)) and in the case of the Existing Ultimate Management Shareholders, each of them will not do any of the foregoing in respect of his/her shares in the respective Existing Management Shareholders, or

(iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraphs (i) or (ii) above, and in the case of the Existing Ultimate Management Shareholders, each of them will not do any of the foregoing in respect of his/her shares in the respective Existing Management Shareholders, or

(iv) offer to or agree to or announce any intention to effect any transaction specified in sub-paragraphs (i), (ii) or (iii) above, in each case, whether any of the transactions specified in sub-paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other

member of the Group or shares or other securities of the respective Existing Management Shareholders, as applicable, or in cash or otherwise (whether or not the issue of Shares, shares or such other securities will be completed within the aforesaid period); and

(b) until the expiry of the Second Six-Month Period, in the event that it/he/she enters into any of the transactions specified in sub-paragraphs (a)(i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, it/he/she will take all reasonable steps to ensure that it/he/she will not create a disorderly or false market in the securities of our Company.

(D) Undertakings by the controlling shareholders, the Existing Management Shareholders and the Existing Ultimate Management Shareholders

Each of the controlling shareholders, the Existing Management Shareholders and the Existing Ultimate Management Shareholders has undertaken with the Company, the Sole Sponsor, the Sole Global Coordinator and the Underwriters that it/he/she will at any time during the First Six-Month Period and, in the case of controlling shareholders, also during the Second Six-Month Period:

(i) upon any pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) of any Shares beneficially owned by it/him/her for a bona fide commercial loan, immediately inform the Company and the Sole Global Coordinator in writing of such pledge or charge together with the number of Shares or securities so pledged or charged; and

(ii) upon any indication received by it/him/her, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform the Company and the Sole Global Coordinator in writing of such indications.

Indemnity

We and the controlling shareholders have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

International Offering

International Purchase Agreement

In connection with the International Offering, we and the Selling Shareholder, among others, expect to enter into the International Purchase Agreement with the International Underwriters. Under the International Purchase Agreement, the International Underwriters, subject to certain conditions, will agree severally and not jointly to procure purchasers for, or themselves purchase, their respective proportions of the International Offer Shares being offered under the International Offering.

Under the International Purchase Agreement, we and the Selling Shareholder expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at any time from the date of the International Purchase Agreement up to (and including) the date which is the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer, to require us to allot and issue up to 20,000,000 additional Shares and the Selling Shareholder may be required to sell up to 10,000,000 Shares, representing in aggregate 15% of the number of Offer Shares initially available under the Global Offering. These Shares will be issued at the Offer Price and will be solely for the purpose of covering over-allocations, if any, in the International Offering.

It is expected that the International Purchase Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that if the International Purchase Agreement is not entered into, the Global Offering will not proceed.

We and the Selling Shareholder will agree to indemnify the International Underwriters against certain liabilities, including liabilities under the U.S. Securities Act.

Commissions and expenses

The Hong Kong Underwriters will receive a gross commission of 3.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares (excluding any International Offer Shares reallocated to the Hong Kong Public Offer and any Hong Kong Offer Shares reallocated to the International Offering) initially offered under the Hong Kong Public Offer. For International Offer Shares reallocated to the Hong Kong Public Offer or unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. The commissions payable to the Underwriters will be borne by our Company and the Selling Shareholder in proportion to the new Shares issued in relation to the Global Offering and the Shares sold by the Selling Shareholder in the Global Offering, respectively. If the aggregate gross commission on the Offer Shares are less than US$4 million, we and the Selling Shareholder will pay our proportionate share of the difference to the Sole Global Coordinator as an additional commission.

The aggregate commissions, together with listing fees, SFC transaction levy and Hong Kong Stock Exchange trading fee in respect of the new Shares offered by us, legal and other professional fees and printing and other expenses relating to the Global Offering and all costs, fees, charges, expenses, taxes and levies payable, in respect of the Delisting, are estimated to amount to approximately HK$54.1 million (assuming an Offer Price of HK$4.33, which is the midpoint of the indicative offer price range and that the Over-allotment Option is not exercised) in total and are payable by us. The Selling Shareholder will pay commissions, SFC transaction levy, Stock Exchange trading fee and buyers' and sellers' stamp duty in respect of the Sale Share and the sale of any Shares pursuant to the exercise of the Over-allotment Option (if applicable).

Underwriters' interest in our Group

Save for their obligations under the Hong Kong Underwriting Agreement and the International Purchase Agreement and, if applicable, the Stock Borrowing Agreement that may be entered into between UBS as the stabilising manager or its agent with Treasure Sea, none of the Underwriters has any shareholding interests in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Sponsor's independence

The Sole Sponsor confirms that it satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offer as part of the Global Offering. UBS is the Sole Global Coordinator, Bookrunner and Lead Manager of the Global Offering and the Sole Sponsor to the Listing.

The Global Offering comprises:

- the Hong Kong Public Offer of 20,000,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below under "Hong Kong Public Offer"; and
- the International Offering of 180,000,000 Shares (of which, 150,000,000 Shares are to be offered by us and 30,000,000 Shares are to be offered by the Selling Shareholder) subject to adjustment and the Over-allotment Option as mentioned below, in the United States with QIBs in reliance on Rule 144A or another available exemption from the registration requirements under the U.S. Securities Act, and outside the United States (including with professional, institutional, corporate and other investors whom we anticipate to have a reasonable demand for the Shares in Hong Kong) in offshore transactions in reliance on Regulation S.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offer or indicate an interest, if qualified to do so, for the International Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the International Offer Shares to QIBs in the United States in reliance on Rule 144A or another available exemption from the registration requirements under the U.S. Securities Act, as well as to institutional and professional investors and other investors in other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the International Offer Shares in the International Offering. Prospective investors will be required to specify the number of International Offer Shares they would be prepared to acquire either at different prices or at a particular price.

The number of Offer Shares to be offered under the Hong Kong Public Offer and the International Offering respectively may be subject to reallocation as described in the section headed "Pricing and allocation" below.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application related only to the Hong Kong Public Offer.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholder) on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Tuesday, 21 September 2010 and in any event, no later than 5:00 p.m. on Sunday, 26 September 2010.

The Offer Price will be not more than HK$5.06 per Offer Share and is expected to be not less than HK$3.60 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offer, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

If, based on the level of interest expressed by prospective institutional and professional investors and other investors during the book-building process, the Sole Global Coordinator (on behalf of the Underwriters and with the consent of our Company (for ourselves and on behalf of the Selling Shareholder)) considers the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range to be inappropriate, the Sole Global Coordinator (on behalf of the Underwriters) may reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that stated in this prospectus at any time on or before the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offer on Monday, 20 September 2010, cause to publish in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) a notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in the section headed "Summary" and any other financial information which may change as a result of such reduction. Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offer. If applications for Hong Kong Offer Shares have been submitted before the last day for lodging applications under the Hong Kong Public Offer, then even if the indicative offer price range is so reduced, such applications cannot be subsequently withdrawn. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range stated in this prospectus on or before the last day for lodging applications under the Hong Kong Public Offer, the Offer Price, if agreed upon, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The Shares to be offered in the Hong Kong Public Offer and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator. Allocation of the International Offer Shares under the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the Listing. Such allocation may be made to professional, institutional or corporate investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid Shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offer will be based on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The applicable Offer Price, level of applications in the Hong Kong Public Offer, the level of indications of interest in the International Offering, the basis of allocations of the Hong Kong Offer Shares and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer are expected to be made available in a variety of channels in the manner described in the section headed "How to Apply for Hong Kong Offer Shares — Publication of results" in this prospectus.

CONDITIONS OF THE HONG KONG PUBLIC OFFER

Acceptance of all applications for the Hong Kong Offer Shares under the Hong Kong Public Offer will be conditional on, among others,

(a) the granting by the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Offer Shares (including any new Shares which may be issued under the exercise of the Over-allotment Option) (subject only to allotment) and Shares which may fall to be issued on the exercise of the Existing Share Options;

(b) the Offer Price being duly determined and the execution and delivery of the price determination agreement on or around the Price Determination Date;

(c) the execution and delivery of the International Purchase Agreement on or around the Price Determination Date; and

(d) the obligations of the Underwriters under the Hong Kong Underwriting Agreement and the International Purchase Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Friday, 15 October 2010, being the 30th day after the date of this prospectus.

If, for any reason, the Offer Price is not agreed by 5:00 pm on Sunday, 26 September 2010 between the Sole Global Coordinator (on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholder), the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived before the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offer to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Hong Kong Offer Shares". In the meantime, the application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Monday, 27 September 2010, but will only become valid certificates of title at 8:00 a.m. on the Listing Date, provided that (a) the Global Offering has become unconditional in all respects and (b) neither of the Underwriting Agreements has been terminated in accordance with its terms.

The consummation of each of the Hong Kong Public Offer and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

HONG KONG PUBLIC OFFER

Number of Offer Shares initially offered

We are initially offering 20,000,000 Offer Shares at the Offer Price, representing approximately 10% of the 200,000,000 Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offer, the number of Offer Shares offered under the Hong Kong Public Offer will represent approximately 1.8% of our enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option and the Existing Share Options are not exercised.

Allocation

For allocation purposes only, the Hong Kong Offer Shares initially being offered for subscription under the Hong Kong Public Offer (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offer and the International Offering) will be divided equally into two pools (subject to adjustment of odd lot size): Pool A comprises 10,000,000 Hong Kong Offer Shares and Pool B comprises 10,000,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) of HK$5 million or less will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) of more than HK$5 million and up to the total value of Pool B will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or in both pools will be rejected. No application will be accepted from applicants for more than 10,000,000 Hong Kong Offer Shares (being 50% of the initial number of Hong Kong Offer Shares).

Reallocation and clawback

The allocation of Offer Shares between the Hong Kong Public Offer and the International Offering is subject to adjustment. If the number of Offer Shares validly applied for in the Hong Kong Public Offer represents (a) 15 times or more but less than 50 times, (b) 50 times or more but less than 100 times, and (c) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offer, the total number Offer Shares available under the Hong Kong Public Offer will be increased to 60,000,000, 80,000,000 and 100,000,000 Offer Shares, representing 30% (in the case of (a)), 40% (in the case of (b)) and 50% (in the case of (c)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated to the International Offering will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate, and such additional Offer Shares will be allocated to Pool A and Pool B.

If the Hong Kong Offer Shares are not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate. Conversely, if the Hong Kong Public Offer is over-subscribed, the Sole Global Coordinator may at his discretion reallocate Hong Kong Offer Shares from the International Offering to the Hong Kong Public Offer to satisfy valid applications under Hong Kong Public Offer.

Applications

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offer, to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offer and to ensure that it is excluded from any application for Hong Kong Offer Shares under the Hong Kong Public Offer.

Each applicant under the Hong Kong Public Offer will also be required to give an undertaking and confirmation in the application submitted by him that he and any person for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest of, any International Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the undertaking and/or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated International Offer shares under the International Offering.

Applicants under the Hong Kong Public Offer are required to pay, on application, the maximum Offer Price of HK$5.06 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005%. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK$5.06, being the maximum Offer Price, we will refund the respective difference (including brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in "How to Apply for Hong Kong Offer Shares".

INTERNATIONAL OFFERING

Number of Offer Shares offered

The number of Offer Shares to be initially offered for subscription under the International Offering will be 180,000,000 Offer Shares (subject to adjustment and the Over-allotment Option) of which 150,000,000 Shares are to be issued by us and 30,000,000 Sale Shares are to be offered for sale by the Selling Shareholder, representing in aggregate approximately 90% of the Offer Shares under the Global Offering and approximately 16.0% of our enlarged issued share capital immediately after the Global Offering assuming that the Over-allotment Option and the Existing Share Options are not exercised. The International Offering is subject to the Hong Kong Public Offer becoming unconditional.

Allocation

Under the International Offering, the International Underwriters will conditionally place our Offer Shares with QIBs in the United States in reliance on Rule 144A, as well as with institutional and professional investors and other investors expected to have a sizeable demand for our Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Allocation of International Offer Shares under the International Offering will be effected in accordance with the "book-building" process described in the section headed "Pricing and allocation" in this prospectus and based on a number of factors, including the level and timing of

demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the Listing. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional Shareholder base for the benefit of our Company and our Shareholders as a whole.

The Hong Kong Offer Shares to be offered in the Hong Kong Public Offer and the International Offering may, in certain circumstance, be reallocated as between those offering at the discretion of the Sole Global Coordinator.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and the Offer Shares being offered under the Global Offering (including the additional Offer Shares which may be made available under the exercise of the Over-allotment Option) (subject only to allotment) and Shares which may be issued on the exercise of the Existing Share Options.

Our Shares are listed and have been admitted to trading on AIM since 26 June 2007. We notified the London Stock Exchange of the proposed Delisting and our Shareholders passed a resolution to approve the Delisting at the extraordinary general meeting held on 20 August 2010. Conditional upon the Listing, the cancellation of the admission of our Shares to trading on AIM will be effective on the Listing Date.

Save as disclosed in this prospectus, no part of our Share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

OVER-ALLOTMENT OPTION

We and the Selling Shareholder expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the date of the International Purchase Agreement up to (and including) the date which is the 30th day after the last date for lodging of Application Forms under the Hong Kong Public Offer. Under the Over-allotment Option, the Sole Global Coordinator will have the right to require us to allot and issue up to 20,000,000 additional new Offer Shares and the Selling Shareholder to sell up to 10,000,000 Shares, representing in aggregate 15% of the Offer Shares initially available under the Global Offering to, among other things, cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares (excluding Shares which may be sold by the Selling Shareholder under the Over-allotment Option) will represent approximately 1.7% of our enlarged issued share capital following the completion of the Global Offering and the exercise of the Over-allotment Option (assuming the Existing Share Options are not exercised). These Shares will be issued or sold at the Offer Price. An announcement will be made if the Over-allotment Option is exercised.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, UBS as the stabilising manager may choose to borrow, whether on its own or through its affiliates, up to 30,000,000 Shares, representing 15% of the Offer Shares initially available under the Global Offering, from Treasure Sea to cover over-allocation under the stock borrowing arrangement (being the maximum number of Offer Shares which may be issued upon exercise of the Over-allotment Option), or acquire Shares from other sources, including the exercising the Over-allotment Option.

If such stock borrowing arrangement is entered into, it will only be effected by UBS or its agent for settlement of over-allocation in the International Offering and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with. The same number of Shares so borrowed must be returned to Treasure Sea or its nominees on or before the third business day following the earlier of (a) the last day on which the Over-allotment Option may be exercised, or (b) the day on which the Over-allotment Option is exercised in full and the relevant Offer Shares subject to the Over-allotment Option have been issued and/or transferred. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Treasure Sea by UBS or its agent in relation to such stock borrowing arrangement.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, UBS, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period from the date of the International Purchase Agreement and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on UBS or its agent to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of UBS and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offer.

Stabilising action permitted in Hong Kong under the Securities and Futures (Price Stabilising) Rules includes: (a) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares; (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares; (c) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares under the Over-allotment Option in order to close out any position established under (a) or (b) above; (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares; (e) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (f) offering or attempting to do anything described in (b), (c), (d) or (e) above.

Specifically, prospective applications for and investors in the Shares should note that:

- The Sole Global Coordinator, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Sole Global Coordinator, or any person acting for it, will maintain such a position;
- liquidation of any such long position by the Sole Global Coordinator may have an adverse impact on the market price of the Shares;

- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the date of the International Purchase Agreement following announcement of the Offer Price, and is expected to expire on Wednesday, 20 October 2010, being the 30th day after the last date for lodging applications under the Hong Kong Public Offer. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by the taking of any stabilising action; and
- stabilising bids must be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, the Sole Global Coordinator may over-allocate additional Shares. Following any overallocations of Shares in conjunction with the Global Offering resulting in a short position, the Sole Global Coordinator may cover the short position resulting from such over-allocations by exercising the Over-allotment Option, which will be exercisable by the Sole Global Coordinator on behalf of the International Underwriters, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangement or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the International Offering, the Sole Global Coordinator may borrow up to 30,000,000 Shares from Treasure Sea, equivalent to the maximum number of Shares to be issued on full exercise of the Over-allotment Option, under the stock borrowing arrangement. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payments or other benefit will be made to Treasure Sea by the Sole Global Coordinator in relation to the stock borrowing arrangement. The covered short position will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 30,000,000 Shares, which is 15% of the Offer Shares initially available under the Global Offering.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, 28 September 2010, it is expected that dealings in Shares on the Hong Kong Stock Exchange will commence at 9:30 a.m. on Tuesday, 28 September 2010.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Sole Global Coordinator (on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholder) on the Price Determination Date.

We expect that we will, on or about Tuesday, 21 September 2010, shortly after determination of the Offer Price, enter into the International Purchase Agreement relating to the International Offering.

The terms of the underwriting arrangements, the Hong Kong Underwriting Agreement and the International Purchase Agreement are summarised in the section headed "Underwriting" in this prospectus.

1. CHANNELS OF APPLYING FOR HONG KONG OFFER SHARES

There are three channels to make an application for the Hong Kong Offer Shares. You may apply for the Hong Kong Offer Shares (a) by either using a **white** or **yellow** Application Form; (b) applying online through the designated website of the White Form eIPO Service Provider (**www.eipo.com.hk**), referred to in this prospectus as the "**White Form eIPO** service"; or (c) by giving **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying using a **white** or **yellow** Application Form or applying online through the **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

2. WHO CAN APPLY FOR HONG KONG OFFER SHARES

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **white** or **yellow** Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the Application Form must be signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Sole Global Coordinator (or its agents or nominees) may accept it at its discretion, and subject to any conditions it thinks fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Sole Global Coordinator or the designated White Form eIPO Service Provider (where applicable) or our or their respective agents have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, the directors or chief executives of our Company or any of our subsidiaries, or their respective associates (as defined in the Listing Rules), or any other connected persons (as defined in the Listing Rules) of our Company or persons who will become our connected persons immediately upon completion of the Global Offering. The Hong Kong Offer Shares are also not available to any person who will not be acquiring them in an offshore transaction (as defined in Regulation S under the U.S. Securities Act) or any persons who do not have a Hong Kong address or who participate in the International Offering.

You may apply for Hong Kong Offer Shares under the Hong Kong Public Offer or indicate an interest for International Offer Shares under the International Offering, but may not do both.

3. APPLYING BY USING A WHITE OR YELLOW APPLICATION FORM

Which Application Form to use

Use a **white** Application Form if you want the Hong Kong Offer Shares to be issued in your own name.

Use a **yellow** Application Form if you want the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Note:

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, the directors or chief executives of our Company or any of our subsidiaries, or their respective associates (as defined in the Listing Rules), or any other connected persons (as defined in the Listing Rules) of our Company or persons who will become our connected persons immediately upon completion of the Global Offering. The Hong Kong Offer Shares are also not available to any person who will not be acquiring them in an offshore transaction (as defined in Regulation S under the U.S. Securities Act) or any persons who do not have a Hong Kong address or who participate in the International Offering.

Where to collect the Application Forms

You can collect a **white** Application Form and a prospectus from:

UBS AG, Hong Kong Branch
52nd Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

China Everbright Securities (HK) Limited
36/F Far East Finance Centre
16 Harcourt Road
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Kingsway Financial Services Group Limited
5/F, Hutchison House
10 Harcourt Road
Central
Hong Kong

or any one of the following branches of Standard Chartered Bank (Hong Kong) Limited:

	Branch name	Address
Hong Kong Island	Central Branch	Shop no. 16, G/F and Lower G/F, New World Tower, 16-18 Queen's Road Central, Central
	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	North Point Centre Branch	North Point Centre, 284 King's Road, North Point
Kowloon	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
	Kwun Tong Branch	1A Yue Man Square, Kwun Tong

or any of the following branches of The Bank of East Asia, Limited:

	Branch name	Address
Hong Kong Island	Main Branch	10 Des Voeux Road Central, HK
	Wanchai Branch	Shop A-C, G/F, Easey Commercial Building, 253-261 Hennessy Road, Wanchai
Kowloon	Tsim Sha Tsui Branch	Shop A & B, Milton Mansion, 96 Nathan Road
New Territories	Shatin Plaza Branch	Shop 3 - 4, Level 1, Shatin Plaza
	Tuen Mun Town Plaza Branch	Shop 2 - 10, UG/F, Tuen Mun Town Plaza Phase II, 3 Tuen Lung Street, Tuen Mun

or any of the following branches of The Bank of Communications Co., Ltd. Hong Kong Branch

	Branch name	Address
Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central
Kowloon	Kowloon Sub-Branch	G/F., 563 Nathan Road
	Mongkok Sub-Branch	Shops A & B, G/F., Hua Chiao Commercial Centre, 678 Nathan Road
	Wong Tai Sin Sub-Branch	Shops 127-129, 1/F., Lung Cheung Plaza, 136 Lung Cheung Road
New Territories	Tsuen Wan Sub-Branch	G/F., Shop G9B-11, Pacific Commercial Plaza, Bo Shek Mansion, 328 Sha Tsui Road

You can collect a **yellow** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 15 September 2010 until 12:00 noon on Monday, 20 September 2010 from:

(1) The Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or

(2) Your stockbroker, who may have such Application Forms and this prospectus available.

How to complete the Application Forms

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by completing and submitting the Application Form, among other things:

(a) you **agree** with our Company and each shareholder of our Company, and our Company agrees with each of our Shareholders, to observe and comply with the Cayman Companies Law, the Companies Ordinance, the Memorandum of Association and the Articles of Association;

(b) you **confirm** that you have received a copy of this prospectus and have only relied on the information and representations in this prospectus and the Application Forms in making your application and will not rely on any other information and representations save as set out in this prospectus, the Application Forms and any supplement to this prospectus;

(c) you **agree** that our Company, our Directors, the Selling Shareholder and any person who has authorised the issue of this prospectus are liable only for the information and representations contained in this prospectus and any supplement to this prospectus;

(d) you **undertake** and **confirm** that you (if the application is made for your own benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, and have not received or been placed or allotted (including conditionally and/or provisionally) any International Offer Shares under the International Offering nor otherwise participated in the International Offering;

(e) you **agree** to disclose to our Company, the Selling Shareholder, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, our Hong Kong Share Registrar, receiving banks and/or their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;

(f) **instruct** and **authorise** our Company and/or the Sole Global Coordinator (or its agents or nominees), as an agent of our Company, to do on your behalf all things necessary to register any Hong Kong Offer Shares allotted to you in your name(s) (for applicants on a **white** Application Form) or in the name of HKSCC Nominees (for applicants on a **yellow** Application Form), as required by the Articles of Association, and otherwise to give effect to the arrangements described in this prospectus and the Application Forms;

(g) **undertake** to sign all documents and to do all things necessary to enable you (for applicants on a **white** Application Form) or HKSCC Nominees (for applicants on a **yellow** Application Form) to be registered as the holder of the Hong Kong Offer Shares to be allotted to you, and as required by the Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the Application Forms;

(h) **warrant** the truth and accuracy of the information contained in your application;

(i) if the laws of any place outside Hong Kong are applicable to your application, **agree** and **warrant** that you have complied with all such laws and none of our Company, the Sole Global Coordinator and the Underwriters nor any of their respective directors, officers or advisers will infringe any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus;

(j) **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(k) **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

(l) **represent, warrant** and **undertake** that you understand that the Hong Kong Offer Shares have not been and will not registered under the U.S. Securities Act and you and any person for whose account or benefit you are acquiring the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) when completing the application or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(m) **undertake** and **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application; and

(n) **agree** that the processing of your application, may be done by any of our Company's receiving banks and is not restricted to the bank at which your application was lodged.

In order for the **yellow** Application Forms to be valid:

(a) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**
   (i) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.

(b) **If the application is made by an individual CCASS Investor Participant:**
   (i) the Application Form must contain the CCASS Investor Participant's name and Hong Kong identity card number; and
   (ii) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

(c) **If the application is made by a joint individual CCASS Investor Participant:**
   (i) the Application Form must contain the names and Hong Kong identity card numbers of all joint CCASS Investor Participants; and
   (ii) the participant I.D. must be inserted in the appropriate box in the Application Form.

(d) **If the application is made by a corporate CCASS Investor Participant:**
   (i) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong business registration number; and
   (ii) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete details of the CCASS Participant, participant I.D. or other similar matters may render the application invalid.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

If your application is made through a duly authorised attorney, our Company, the Sole Global Coordinator, the Underwriters and their respective agents and nominees, each severally as our agent(s), may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney. We and the Sole Global Coordinator, in the capacity as our agent, or our or its agents or nominees, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

4. APPLYING THROUGH WHITE FORM eIPO

General

(a) You may apply through **White Form eIPO** service by submitting an application through the designated website at **www.eipo.com.hk** if you satisfy the relevant eligibility criteria for this as set out above in "Who can apply for Hong Kong Offer Shares" and on that website. If you apply through **White Form eIPO** service, the Shares will be issued in your own name.

(b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at **www.eipo.com.hk**. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated White Form eIPO Service Provider and may not be submitted to our Company.

(c) If you give electronic application instructions through the designated website at **www.eipo.com.hk**, you will have to authorise the designated White Form eIPO Service Provider to apply on the terms and subject to the conditions set out in this prospectus, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.

(d) In addition to the terms and conditions set out in this prospectus, the designated White Form eIPO Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. These additional terms and conditions are set out on the designated website at **www.eipo.com.hk**. You will be required to read, understand and agree to such terms and conditions in full before making any application.

(e) By submitting an application to the designated White Form eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorised the designated White Form eIPO Service Provider to transfer the details of your application to our Company and our Hong Kong Share Registrar.

(f) You may submit an application through the **White Form eIPO** service in respect of a minimum of 800 Hong Kong Offer Shares. Each electronic application instruction in respect of more than 800 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.eipo.com.hk**.

(g) You may submit your application to the designated White Form eIPO Service Provider through the designated website **www.eipo.com.hk** from 9:00 a.m. on Wednesday, 15 September 2010, until 11:30 a.m. on Monday, 20 September 2010 or such later time as described under the section headed "Effect of bad weather on the opening of the application lists" below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 20 September 2010, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the section headed "Effect of bad weather on the opening of the application lists" below.

You will not be permitted to submit your application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(h) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at **www.eipo.com.hk. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on** Monday, 20 September 2010**, or such later time as described under the section headed "Effect of bad weather on the opening of the application lists" below, the designated White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.**

(i) Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated White Form eIPO Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.

(j) **Warning:** The application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the designated White Form eIPO Service Provider to public investors. **Our Company, our Directors, the Sole Global Coordinator and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.**

Environmental Protection

The obvious advantage of White Form eIPO is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK$2 per each "CHINA MEDICAL SYSTEM HOLDINGS LIMITED" White Form eIPO application submitted via **www.eipo.com.hk** to support the funding of "Source of DongJiang — Hong Kong Forest" project initiated by Friends of the Earth (HK).

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the White Form eIPO service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offer to submit your electronic application instructions. If you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **white** Application Form. However, once you have submitted electronic application instructions and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **white** or **yellow** Application Form.

Conditions of the White Form eIPO service

In using the White Form eIPO service to apply for the Hong Kong Offer Shares, the applicant shall be deemed to have accepted the following conditions:

That the applicant:

- **applies** for the desired number of Hong Kong Offer Shares on the terms and subject to the conditions set out in this prospectus and the White Form eIPO designated website at **www.eipo.com.hk** subject to the Articles of Association;
- **undertakes** and **agrees** to accept the Hong Kong Offer Shares applied for, or any lesser number allotted to the applicant on such application;
- **declares** that this is the only application made and the only application intended by the applicant to be made whether on a **white** or **yellow** Application Form or by giving electronic application instructions to HKSCC or the White Form eIPO Service Provider under the White Form eIPO service, to benefit the applicant or the person for whose benefit the applicant is applying;
- **undertakes** and **confirms** that the applicant (if the application is made for your benefit) or the person(s) for whose benefit the applicant are applying have not applied for or taken up, or indicated an interest for, and will not apply for, or take up, or indicate an interest for, and have not received or been placed or allocated (including conditionally and/or provisionally) any International Offer Shares under the International Offering, nor otherwise participate in the International Offering;
- **understands** that this declaration and representation will be relied upon by our Company in deciding whether or not to make any allotment of Hong Kong Offer Shares in response to such application;
- **instructs and authorises** our Company (or its agents or nominees) to place the applicant's name on the register of members of our Company as the holder of any Hong Kong Offer Shares to be allotted to the applicant, and (on the terms and subject to the conditions set out in this prospectus) to send any Share certificates by ordinary post at the applicant's own risk to the address given on the White Form eIPO application except where the applicant has applied for 1,000,000 or more Hong Kong Offer Shares and that applicant collects any Share certificate(s) in person in accordance with the procedures prescribed in the White Form eIPO designated website at **www.eipo.com.hk** and this prospectus;
- **request** that e-Refund payment instructions (if any) will be despatched to application payment bank account, if the applicant paid the application monies from a single bank account;

- **request** that refund cheque (if any) will be despatched to the address specified in application instructions to the designated White Form eIPO Service Provider by ordinary post and at applicant's own risk, if the applicant used multi-bank accounts to pay the application monies;
- **has read** the terms and conditions and application procedures set out in the White Form eIPO designated website at **www.eipo.com.hk** and this prospectus and **agrees** to be bound by them;
- **represents, warrants** and **undertakes** that the applicant and any persons for whose account or benefit the applicant are applying are non-US person(s) outside the United States (as defined in Regulation S), when completing and submitting this Application Form or is a person described in paragraph (h)(3) of the Rule 902 of Regulation S or the allotment of or application for the Hong Kong Offer Shares to or by whom or for whose benefit this application is made would not require our Company to comply with any requirements under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong; and
- **agrees** that such application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Supplemental information

If any supplement to this prospectus is issued, applicant(s) who have already submitted an electronic application instruction through the White Form eIPO service may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications through the White Form eIPO service that have been submitted remain valid and may be accepted. Subject to the provisions referred to in this section, an application once made through the White Form eIPO service is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

Effect of completing and submitting an application through the White Form eIPO service

By completing and submitting an application through the White Form eIPO service, you for yourself or as agent or nominee and on behalf of any person for whom you act as agent or nominee shall be deemed to:

(a) **agree** with our Company and each Shareholder of our Company, and our Company agrees with each of our Shareholders, to observe and comply with the Cayman Companies Law, the Companies Ordinance, the Memorandum of Association and the Articles of Association;

(b) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and the White Form eIPO designated website at **www.eipo.com.hk** and **agree** to be bound by them and you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in this prospectus and any supplement to this prospectus;

(c) **agree** that our Company, our Directors, the Selling Shareholder and any person who has authorised the issue of this prospectus are liable only for the information and representations contained in this prospectus and any supplement to this prospectus;

(d) **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made this application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, and have not received or been placed or allotted (including conditionally and/or provisionally) any International Offer Shares under the International Offering nor otherwise participated in the International Offering;

(e) **agree** to disclose to our Company, the Selling Shareholder, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, our Hong Kong Share Registrar, receiving banks and/or their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made in your application;

(f) **instruct** and **authorise** our Company and/or the Sole Global Coordinator (or its agents or nominees) as an agent of our Company, to do on your behalf all things necessary to register any Hong Kong Offer Shares allotted to you in your name, as required by the Articles of Association, and otherwise to give effect to the arrangements described in this prospectus and the White Form eIPO designated website at **www.eipo.com.hk**;

(g) **warrant** the truth and accuracy of the information contained in your application;

(h) if the laws of any place outside Hong Kong are applicable to your application, **agree** and **warrant** that you have complied with all such laws and none of our Company, the Sole Global Coordinator and the Underwriters nor any of their respective directors, officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the White Form eIPO designated website at **www.eipo.com.hk**;

(i) **agree** (without prejudice to any other rights which may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(j) **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

(k) **represent**, **warrant** and **undertake** that you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and you and any person for whose account or benefit you are acquiring the Hong Kong Offer Shares are outside the United States (as defined in the Regulation S) when completing the application or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(l) **undertake** and **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under your application;

(m) (if the application is made for your own benefit) **warrant** that this is the only application which will be made for your benefit on a **white** or **yellow** Application Form or by giving electronic application instructions to HKSCC or to the White Form eIPO Service Provider through the **White Form eIPO** service; and

(n) (if you are an agent for another person) **warrant** reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **white** or **yellow** Application Form or by giving electronic application instructions to HKSCC or to the White Form eIPO Service Provider through the **White Form eIPO** service, and that you are duly authorised to submit the application as that other person's agent.

Our Company, the Sole Global Coordinator, the Underwriters and their respective directors, officers, employees, partners, agents, advisers, and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in such application.

Power of attorney

If your application is made by a duly authorised attorney, our Company or the Sole Global Coordinator, as our agent, may accept it at their discretion and subject to any conditions as any of them may think fit, including evidence of the authority of your attorney.

Additional information

For the purpose of allocating Hong Kong Offer Shares, each applicant giving electronic application instructions through **White Form eIPO** service to the White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated White Form eIPO Service Provider, the designated White Form eIPO Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated White Form eIPO Service Provider on the designated website at **www.eipo.com.hk**.

Otherwise, any monies payable to you due to a refund for any of the reasons set out below in the section headed "Despatch/Collection of Share certificates/e-Refund payment instructions/refund cheques".

5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (https://ip.ccass.com) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** through CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our Hong Kong Share Registrar.

Application for Hong Kong Offer Shares by HKSCC Nominees on your behalf

Where a **white** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

(a) HKSCC Nominees is only acting as a nominee for those persons and shall not liable for any breach of the terms and conditions of the **white** Application Form or this prospectus;

(b) HKSCC Nominees does the following things on behalf of each such person:

- **agrees** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
- **undertakes** and **agrees** to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;

- **undertakes** and **confirms** that that person has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, and has not received or been placed or allocated (including conditionally and/or provisionally) any International Offer Shares under the International Offering nor otherwise participated in the International Offering;
- (if the **electronic application instructions** are given for that person's own benefit) **declares** that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) **declares** that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;
- **understands** that the above declaration will be relied upon by our Company, our Directors, the Selling Shareholder and the Sole Global Coordinator in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- **authorises** our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
- **confirms** that that person has read the terms and conditions and application procedures set out in this prospectus and **agrees** to be bound by them;
- **confirms** that that person has received a copy of the prospectus and has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations save as set out in this prospectus and any supplement to this prospectus;
- **agrees** that our Company, our Directors, the Selling Shareholder and any person who has authorised the issue of this prospectus are liable only for the information and representations contained in this prospectus and any supplement to this prospectus;
- **agrees** to disclose to our Company, the Selling Shareholder, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, the Hong Kong Share Registrar, the receiving banks and/or their respective advisers and agents that person's personal data and any information which they may require about that person;
- **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- **agrees** that any application made by HKSCC Nominees on behalf of that person under **electronic application instructions** given by that person is irrevocable on or before Friday, 15 October 2010, such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before Friday, 15 October 2010, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before Friday, 15 October 2010 if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offer made available by our Company;
- **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;
- **agrees** with our Company for ourselves and for the benefit of each of our Shareholders (and so that we will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Cayman Companies Law, the Companies Ordinance, the Memorandum of Association and the Articles of Association;
- **agrees** with us (for ourselves and for the benefit of each Shareholder) that Shares are freely transferable by their holders;
- **authorises** us to enter into a contract on its behalf with each Director and our officer by which each such Director and officer undertakes to observe and comply with his obligations to our Shareholders stipulated in the Articles of Association; and
- **agrees** that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

EFFECT OF GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the price per Offer Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **white** Application Form.

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

Minimum subscription amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 800 Hong Kong Offer Shares. Such instructions in respect of more than 800 Hong Kong Offer Shares must be in one of the numbers of Hong Kong Offer Shares set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Those who are not CCASS Investor Participants can instruct their brokers or custodians who are CCASS Clearing Participants or CCASS Custodian Participants to give electronic applications to HKSCC through CCASS terminals to apply for Hong Kong Offer Shares on their behalf.

Allocation of Hong Kong Offer Shares

For the purpose of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions given will be treated as an applicant.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, the Hong Kong Share Registrar and receiving banks about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, our Directors, the Selling Shareholder, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. If CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (a) submit a **white** or **yellow** Application Form; or (b) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 20 September 2010 or such late time as described in the section headed "Effect of bad weather on the opening of the application lists" below.

6. HOW MANY APPLICATIONS YOU MAY MAKE

You may make more than one application for the Hong Kong Offer Shares if and only if you are a **nominee**, in which case you may give **electronic application instructions** to HKSCC through CCASS (if you are a CCASS Participant) and lodge more than one **white** or **yellow** Application Form in your own name if each application is made on behalf of different beneficial owners.

In the box on the Application Form marked "For nominees" you must include:

- an account number; or

- some other identification code

for each beneficial owner (or, in the case of joint beneficial owners, for each such beneficial owner). If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any electronic application instructions given by you or for your benefit to be designated White Form eIPO Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving electronic application instructions through the designated website at **www.eipo.com.hk** and completing payment in respect of such electronic application instructions, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

It will be a term and condition of all applications that by completing and delivering an Application Form or submitting an **electronic application instruction**, you:

- (if the application is made for your own benefit) **warrant** that the application is the only application which has been or will be made for your benefit on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** service; or
- (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that the applications is the only application which will be made for the benefit of that other person on a **white or yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** service, and that you are duly authorised to sign the Application Form or give **electronic application instructions** as that other person's agent.

Except where you are a nominee and provide the information required to be provided in your application, **all** of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:

- make more than one application (whether individually or jointly with others) on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** service; or
- apply (whether individually or jointly with others) on one **white** Application Form and one **yellow** Application Form or on one **white** or **yellow** Application Form and give **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** service; or

- apply (whether individually or jointly with others) on one **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** service for more than 10,000,000 Shares, being 50% of the Hong Kong Offer Shares initially being offered for public subscription under the Hong Kong Public Offer, as more particularly described in the section entitled "Structure of the Global Offering — Hong Kong Public Offer"; or
- make electronic application instructions through the **White Form eIPO** service that are not completed in accordance with the instructions, terms and conditions set out in the designated website at **www.eipo.com.hk**; or
- have applied for or taken up, or indicated an interest for, or will apply for or take up, or indicate an interest for, and have received or placed or allotted (including conditionally and/or provisionally) any International Offer Shares under the International Offering or otherwise participated in the International Offering.

All of your applications will also be rejected as multiple applications if more than one application on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** service is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

Unlisted company means a company with no equity securities listed on the Hong Kong Stock Exchange.

Statutory control in relation to a company means you:

- control the composition of the board of directors of the company; or
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

7. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK$5.06 per Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 800 Shares, you will pay approximately HK$4,088.84. The Application Forms have tables showing the exact amount payable for the numbers of Hong Kong Offer Shares that may be applied for. Your application must be for a minimum of 800 Shares. Applications must be in one of the numbers set out in the tables in the Application Forms. No application for any other number of Shares will be considered and any such application is liable to be rejected.

You must pay the maximum Offer Price, and related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee in full when you apply for the Hong Kong Offer Shares. You must pay the amount payable upon application for Hong Kong Offer Shares by one cheque or one banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form) or this prospectus.

If your application is successful, brokerage is paid to the Hong Kong Stock Exchange or participants of the Hong Kong Stock Exchange (as the case may be) and the SFC transaction levy and Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected on behalf of the SFC).

8. WHEN MAY APPLICATION BE MADE

Applications on white and yellow Application Forms

Completed **white** or **yellow** Application Forms, together with payment attached, must be lodged by 12:00 noon on Monday, 20 September 2010, or, if application lists are not open on that day, then by the time and date stated in the section headed "Effect of bad weather on the opening of the application lists" below.

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of Standard Chartered Bank (Hong Kong) Limited, Bank of East Asia, Limited and Bank of Communications Co., Ltd. Hong Kong Branch set out in the section headed "Where to collect the Application Forms" above at the following times:

Wednesday, 15 September 2010 — 9:00 a.m. to 5:00 p.m.
Thursday, 16 September 2010 — 9:00 a.m. to 5:00 p.m.
Friday, 17 September 2010 — 9:00 a.m. to 5:00 p.m.
Saturday, 18 September 2010 — 9:00 a.m. to 1:00 p.m.
Monday, 20 September 2010 — 9:00 a.m. to 12:00 noon

The application lists will open from 11:45 a.m. to 12:00 noon on Monday, 20 September 2010.

No proceedings will be taken on applications for the Shares and no allotment of any such Shares will be made until the closing of the application lists. No allotment of any of the Shares will be made later than Friday, 15 October 2010.

ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC THROUGH CCASS

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Wednesday, 15 September 2010 — 9:00 a.m. to 8:30 p.m.(1)
Thursday, 16 September 2010 — 8:00 a.m. to 8:30 p.m.(1)
Friday, 17 September 2010 — 8:00 a.m. to 8:30 p.m.(1)
Saturday, 18 September 2010 — 8:00 a.m. to 1:00 p.m.(1)
Monday, 20 September 2010 — 8:00 a.m. (1) to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, 15 September 2010 until 12:00 noon on Monday, 20 September 2010 (24 hours daily, except the last application day).

Application through White Form eIPO

Please refer to the section headed "— Underwriting arrangements — 4. Applying through White Form eIPO" in this section of this prospectus.

9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 20 September 2010. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

Business Day means a day that is not a Saturday, Sunday or a public holiday in Hong Kong.

If the application lists of the Hong Kong Public Offer do not open and close on Monday, 20 September 2010 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed "Expected Timetable" in this prospectus, such dates mentioned in the section headed "Expected Timetable" in this prospectus may be affected. An announcement will be made in such event.

10. PUBLICATION OF RESULTS

We expect to announce the Offer Price, the level of indication of interest in the International Offering, the basis of allotment of the Hong Kong Offer Shares, the results of applications under the Hong Kong Public Offer and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer no later than 9:00 a.m. on Monday, 27 September 2010 and in the manner specified below:

- on the website of the Hong Kong Stock Exchange (**www.hkex.com.hk**); and
- on the website of our Company for at least five consecutive days (**www.cms.net.cn**).

A notification announcement under Rule 2.17A of the Listing Rules which also includes the Offer Price, an indication of the level of interest in the International Offering, the level of applications of the Hong Kong Public Offer and the basis of allocation of the Hong Kong Offer Shares will be published by us on Monday, 27 September 2010 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

In addition, we expect to announce the results of applications and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer at the times and dates and in the manner specified below:

- Results of allocations for the Hong Kong Public Offer will be available from our designated results of allocations website at **www.iporesults.com.hk** on a 24-hour basis from 8:00 a.m. on Monday, 27 September 2010 to 12:00 midnight on Sunday, 3 October 2010. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- Results of allocations will be available from our Hong Kong Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, 27 September 2010 to Thursday, 30 September 2010; and
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Monday, 27 September 2010 to Wednesday, 29 September 2010 at all the receiving bank branches and sub-branches at the addresses set out in the section headed "How to Apply for Hong Kong Offer Shares — Where to collect the Application Forms" above.

11. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any reasons, our Company will refund your application monies, including the related brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005%. No interest will be paid on the application monies.

If your application is accepted only in part, our Company will refund to you the appropriate portion of your application monies, including the related brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than the price per Hong Kong Offer Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) initially paid on application, our Company will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005% attributable to the surplus application monies, without interest.

All interest accrued before the date of despatch of refund cheques will be retained for our benefit.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Sole Global Coordinator, cheques for applications for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on Monday, 27 September 2010 in accordance with the various arrangements as described in this section.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Offer Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which the Hong Kong Offer Shares will not be allotted to you:

- **If your application is revoked:**

By completing and submitting an Application Form or giving an **electronic application instruction** to HKSCC or to the designated White Form eIPO Service Provider through **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf or the White Form eIPO Service Provider may not be revoked on or before Friday, 15 October 2010 unless a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility for that person for this prospectus. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your Application Form or submit your electronic application instructions to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly or to the White Form eIPO Service Provider. This collateral contract will be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person on or before Friday, 15 October 2010 except by means of one of the procedures referred to in this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf or the White Form eIPO Service Provider has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

- **Full discretion for our Company, the Sole Global Coordinator or the designated White Form eIPO Service Provider (where applicable) or their agents and nominees to reject or accept your application:**
  Our Company, the Sole Global Coordinator (as agent for our Company) or the designated White Form eIPO Service Provider (where applicable), or their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

- **If the allotment of Hong Kong Offer Shares is void:**
  The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **yellow** Application Form) will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the Offer Shares either:
  — within three weeks from the closing date of the application lists; or
  — within a longer period of up to six weeks if the Listing Committee of the Hong Kong Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

- **You will not receive any allotment if:**
  — you make multiple applications or suspected multiple applications;
  — you or the person for whose benefit you apply for have applied for or taken up, or indicated an interest for or received, or have been or will be placed or allocated (including conditionally and/or provisionally) any International Offer Shares under the International Offering. By filling in any of the Application Forms or apply by giving **electric application instructions** to HKSCC or apply by White Form eIPO through the designated White Form eIPO Service Provider, you agree not to apply for Hong Kong Offer Shares as well as International Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offer from investors who have received International Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offer:
  — your electronic application instructions through **the White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at **www.eipo.com.hk**;
  — your payment is not made correctly;
  — you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured upon its fist presentation;
  — your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
  — our Company or the Sole Global Coordinator believes that by accepting your application, this would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed or your address is located;
  — if you apply for more than 50% of the Hong Kong Offer Shares initially being offered in the Hong Kong Public Offer for subscription (that is 10,000,000 Shares);

— the Underwriting Agreements do not become unconditional; or
— the Underwriting Agreements are terminated in accordance with their respective terms.

You should also note that you may apply for Hong Kong Offer Shares under the Hong Kong Public Offer or indicate an interest for International Offer Shares under the International Offering, but may not do both.

13. DESPATCH/COLLECTION OF SHARE CERTIFICATES/e-REFUND PAYMENT INSTRUCTIONS/ REFUND CHEQUES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Offer Share (excluding the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) initially paid on application, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offer" or if any application is revoked or any allotment under the application has become void, the application monies, or the appropriate portion of the application monies, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary document of title will be issued in respect of the Hong Kong Offer Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course they will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

(a) for applications on **white** Application Forms or by giving electronic application instructions through the **White Form eIPO** service: (i) Share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful. For wholly successful and partially successful applications on **yellow** Application Forms: Share certificates for Shares successfully applied for will be deposited into CCASS as described below; and/or

(b) for applications on **white** or **yellow** Application Forms, refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application if the Offer Price is less than the price per Offer Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest.

Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data could also be transferred to a third party for refund purpose. Your bank may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card/passport number may lead to delay in encashment of, or may invalidate, your refund cheque.

Subject to personal collection as mentioned below, refund cheque for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the price per Offer Share initially paid on application (if any) under **white** or **yellow**

Application Forms; and Shares certificates for wholly and partially successful applicants under **white** Application Forms or by giving electronic application instructions through the **White Form eIPO** service are expected to be posted on or around Monday, 27 September 2010. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that the Hong Kong Public Offer has become unconditional in all respects and the right of termination described in the section entitled "Underwriting — Grounds for termination" has not been exercised.

(a) If you apply using a white Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more on a **white** Application Form and have indicated your intention in your Application Form to collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) from the Hong Kong Share Registrar and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and Share certificate(s) (where applicable) from the Hong Kong Share Registrar at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 27 September 2010 or such other date as notified by us in the newspapers as the date of collection/despatch of refund cheques/e-Refund payment instructions/Share certificates. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant that opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar. If you do not collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) personally within the time specified for collection, they will then be sent to the address as specified in your Application Form promptly by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you wish to collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) will be sent to the address on your Application Form on Monday, 27 September 2010, by ordinary post and at your own risk.

(b) If you apply using a yellow Application Form:

If you apply for Hong Kong Offer Shares using a **yellow** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Monday, 27 September 2010, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in the manner described in "How to Apply for Hong Kong Offer Shares — Publication of results" on Monday, 27 September 2010. You should check the announcement made by our Company and

report any discrepancies to HKSCC before 5:00 p.m. on Monday, 27 September 2010, or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **yellow** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **white** Application Form applicants as described above.

If you have applied for 1,000,000 Hong Kong Offer Shares or more and have not indicated on your Application Forms that you wish to collect your refund cheque(s) (if any) in person, or you have applied for less than 1,000,000 Hong Kong Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offer" in this prospectus, or if your application is revoked or any allotment under the application has become void, your refund cheque(s) (where applicable) in respect of the application monies or the appropriate portion of the application monies, together with the related brokerage, SFC transaction levy, Hong Kong Stock Exchange trading fee, if any, (without interest) will be sent to the address on your Application Form on Monday, 27 September 2010 by ordinary post and at your own risk.

(c) If you apply through White Form eIPO

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from our Hong Kong Share Registrar at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 27 September 2010, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect Share certificate(s) personally within the time specified for collection, they will then be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider promptly, by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** on Monday, 27 September 2010, by ordinary post and at your own risk.

If you paid the application monies from a single bank account, e-Refund payment instructions (if any) will be despatched to your application payment bank account on Monday, 27 September 2010.

If you used multi-bank accounts to pay the application monies, refund cheque (if any) will be despatched to the address specified in your application instructions to the designated White Form eIPO Service Provider on Monday, 27 September 2010, by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated White Form eIPO Service Provider set out above in "Applying through White Form eIPO — Additional information".

(d) If you apply by giving electronic application instructions to HKSCC:

Allocation for Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each persons for whose benefit each such instructions is given will be treated as an applicant.

Deposit of Share certificates into CCASS and refund of application monies

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Monday, 27 September 2010, or, in the event under a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- We expect to make available the Offer Price, the application results of CCASS Participant (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner, if supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the manner described in "How to Apply for Hong Kong Offer Shares — Publication of results" and to publish the basis of allotment of the Hong Kong Offer Shares in the newspapers on Monday, 27 September 2010. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 27 September 2010 or such other date as shall be determined by HKSCC of HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, 27 September 2010. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the price per Offer Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, 27 September 2010. No interest will be paid on the application monies.

14. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on Tuesday, 28 September 2010.

The Shares will be traded in board lots of 800 each. The stock code of the Shares is 867.

15. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

15 September 2010

The Directors
China Medical System Holdings Limited
UBS AG, Hong Kong Branch

Dear Sirs/Madam,

We set out below our report on the financial information (the "Financial Information") relating to China Medical System Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2009 and for the six months ended 30 June 2010 (the "Relevant Periods"), for the inclusion in the prospectus of the Company dated 15 September 2010 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 18 December 2006 under the Companies Law of the Cayman Islands and was listed on the Alternative Investment Market ("AIM") operated by the London Stock Exchange plc on 26 June 2007. The Group is principally engaged in the production of medicines, sales and import of drugs and medical devices and research and development on microbiology related drugs. During the year ended 31 December 2009, the Group ceased to be engaged in the production and sales of medical devices and research and development on microbiology related drugs.

During the Relevant Periods and at the date of this report, the Company has the following subsidiaries:

Name of subsidiaries	Place and date of incorporation/ establishment	Issue and fully paid share capital/ registered capital	Attributable equity interest of the Group					Principal activities
			31 December			30 June 2010	At the date of report	
			2007	2008	2009			
CMS International Investment Limited ("CMS International") (Note 1)	British Virgin Islands 17 February 2004	US$10,000	100%	100%	100%	100%	100%	Investment holding
CMS Peptides Patent Holding Company Limited ("CMS Peptides")	British Virgin Islands 14 January 2005	US$100	70%	70%	— (Note 2)	—	—	Holding of overseas registered patents
Healthlink Consultancy Inc. ("Healthlink")	British Virgin Islands 6 June 2002	US$474,089	100%	100%	— (Note 2)	—	—	Investment holding
Kangzhe (Hunan) Medical Co. Ltd. ("Kangzhe Hunan") (康哲(湖南)製藥有限公司) (Sino-Foreign Equity Joint Venture)	The People's Republic of China (the "PRC") 21 May 1996	RMB20,000,000	100%	100%	100%	100%	100%	Production of medicines
Hunan Pharmapep Zhong Nang Research and Development Limited* ("Hunan Pharmapep") (湖南康哲中南醫藥研究公司) (Wholly-owned PRC Enterprise)	PRC 13 March 2002	RMB3,660,000	70% (Note 3)	70% (Note 3)	— (Note 2)	—	—	Research and development of microbiology related drugs

Name of subsidiaries	Place and date of incorporation/ establishment	Issue and fully paid share capital/ registered capital	Attributable equity interest of the Group					Principal activities
			31 December			30 June	At the date of report	
			2007	2008	2009	2010		
Shenzhen Kangzhe Pharmaceutical Technology Development Company Limited* ("Kangzhe Pharmaceutical Technology") (深圳市康哲醫藥科技開發有限公司 previously known as 深圳市康哲醫療器械有限公司) (Wholly-owned PRC Enterprise)	PRC 1 February 2000	RMB10,000,000	100%	100%	100%	100%	100%	Investment holding
Kangzhe Pharmaceutical Industrial Ltd. ("Kangzhe Pharmaceutical") (康哲醫藥實業有限公司)	British Virgin Islands 23 March 2004	RMB21,288,000	100%	100%	100%	100%	100%	Investment holding
Boundless Horizon (Shang Dong) Appliances Co., Ltd.* ("Shandong Baolihao") (山東寶利好醫療器械有限公司) (Wholly-owned PRC Enterprise)	PRC 4 April 2002	RMB1,300,000	100%	100%	— (Note 4)	—	—	Production of medical devices
Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Kangzhe Shenzhen") (深圳市康哲葯業有限公司) (Wholly Foreign-owned Enterprise)	PRC 9 October 1985	RMB150,000,000	100%	100%	100%	100%	100%	Distribution and import of drugs and medical devices
Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited* ("Kangzhe R&D") (康哲醫藥研究(深圳)有限公司) (Wholly Foreign-owned Enterprise)	PRC 31 March 2003	RMB10,609,000	100%	100%	— (Note 2)	—	—	Research and development of peptide related drugs
Sino Talent Limited ("Sino Talent") (訊凱有限公司)	Hong Kong 29 October 2004	HK$1	100%	100%	100%	100%	100%	Investment holding
Sky United Trading Limited ("Sky United") (天佑貿易有限公司)	Hong Kong 1 August 1995	HK$10	60%	60%	60%	100%	100%	Trading of drugs
Crosspac Group Limited ("Crosspac")	British Virgin Islands 2 January 2007	US$10	70% (Note 3)	70% (Note 3)	— (Note 2)	—	—	Research and development of drugs
Changde Kangzhe Pharmaceutical Co., Ltd.* ("Kangzhe Changde") (常德康哲醫藥有限公司) (Wholly-owned PRC Enterprise)	PRC 15 October 2008	RMB2,000,000	N/A	100%	100%	100%	100%	Trading of drugs
CMS Pharmaceutical Agency Co. Ltd. ("CMS Pharmaceutical Agency")	Malaysia 2 July 2008	US$1	N/A	100%	100%	100%	100%	Trading of drugs

* The English name is translated for identification purpose only.

Notes:

1. CMS International is directly held by the Company, others subsidiaries are indirectly held by the Company.
2. In 2009, the Board of Directors of the Company approved the payment of a dividend by way of distribution in specie of the entire share capital of Healthlink and its subsidiaries, including CMS Peptides, Hunan Pharmapep, Kangzhe R&D and Crosspac (collectively referred to as "Healthlink Group").
3. Pursuant to the shareholders' agreement, all the shareholders agree to share the accumulated losses and net deficit of the company.
4. On 17 December 2009, the Group disposed of Shandong Baolihao to the independent third parties. Details are disclosed in note 39(b).

All companies adopt 31 December as the financial year end date. The PRC statutory financial statements of the following subsidiaries for each of the three years ended 31 December 2009 were prepared in accordance with the relevant accounting principles and financial regulation applicable to PRC enterprises and were audited by the following certified public accountants registered in the PRC.

Name of subsidiary	Financial period	PRC auditor
Kangzhe Hunan	Year ended 31 December 2007	湖南里程有限責任會計師事務所 (Hunan Changde Li Cheng Certified Public Accountant)
	Year ended 31 December 2008	湖南里程有限責任會計師事務所 (Hunan Changde Li Cheng Certified Public Accountant)
	Year ended 31 December 2009	湖南里程有限責任會計師事務所 (Hunan Changde Li Cheng Certified Public Accountant)
Kangzhe Pharmaceutical Technology.	Year ended 31 December 2007	深圳天信達會計師事務所 (Shenzhen Team Star Certified Public Accountant)
	Year ended 31 December 2008	深圳天信達會計師事務所 (Shenzhen Team Star Certified Public Accountant)
Shandong Baolihao	Year ended 31 December 2007	山東新天地聯合會計師事務所 (Shandong Xintiandi United Certified Public Accountant)*
	Year ended 31 December 2008	山東金德會計師事務所有限公司 (Shandong Jinde Certified Public Accountant)*
Kangzhe Shenzhen	Year ended 31 December 2007	深圳天信達會計師事務所 (Shenzhen Team Star Certified Public Accountant)
	Year ended 31 December 2008	深圳天信達會計師事務所 (Shenzhen Team Star Certified Public Accountant)
	Year ended 31 December 2009	深圳天信達會計師事務所 (Shenzhen Team Star Certified Public Accountant)
Kangzhe R&D	Year ended 31 December 2007	深圳天信達會計師事務所 (Shenzhen Team Star Certified Public Accountant)
	Year ended 31 December 2008	深圳天信達會計師事務所 (Shenzhen Team Star Certified Public Accountant)
	Year ended 31 December 2009	深圳天信達會計師事務所 (Shenzhen Team Star Certified Public Accountant)
Kangzhe Changde	From 15 October 2008 (date of establishment) to 31 December 2008	湖南里程有限責任會計師事務所 (Hunan Changde Li Cheng Certified Public Accountant)
	Year ended 31 December 2009	湖南里程有限責任會計師事務所 (Hunan Changde Li Cheng Certified Public Accountant)

* *The English name is translated for identification purpose only*

The statutory financial statements of Sky United for the two years ended 31 December 2008 were audited by Cheung Kwok Keung, certified public accountants registered in Hong Kong.

We have acted as the auditor of the Company and Sino Talent since its date of incorporation and acted as the auditor of Sky United for the year ended 31 December 2009. No statutory audited financial statements have been prepared for Hunan Pharmapep, Kangzhe Pharmaceutical Technology and Shandong Baolihao as there were no statutory audit requirements for company under relevant laws and regulations. No statutory audited financial statements have been prepared for those subsidiaries which were incorporated in the British Virgin Islands or Malaysia as they were incorporated in a jurisdiction where there are no statutory audit requirements.

We have audited the consolidated financial statements of the Group, which were prepared in accordance with International Financial Reporting Standards ("IFRS"), for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and Reporting Accountant" as recommended by the HKICPA.

The Financial Information for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 1 to the Financial Information. No adjustment was deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approve their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of the Financial Information, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as at 31 December 2007, 2008, 2009 and 30 June 2010 and of the consolidated results and consolidated cash flows of the Group for the Relevant Periods.

The comparative consolidated statement of comprehensive income, consolidated statement of cash flow and consolidated statement of changes in equity of the Group for the six months ended 30 June 2009 together with the notes thereon (the "30 June 2009 Financial Information") have been extracted from the Group's unaudited consolidated financial information for the same period which was prepared by the directors of the Company solely for the purpose of this report. We conducted our review in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the 30 June 2009 Financial Information consists of making enquiries, 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 on the 30 June 2009 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2009 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRS.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Six months ended 30 June	
		2007	2008	2009	2009	2010
		US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Turnover	5	51,747	72,600	96,454	46,775	61,195
Cost of goods sold		(18,149)	(27,835)	(35,596)	(17,139)	(23,970)
Gross profit		33,598	44,765	60,858	29,636	37,225
Other gains and losses	6	1,280	2,690	662	691	546
Selling expenses		(13,934)	(18,631)	(24,840)	(11,366)	(13,318)
Listing expenses		(2,773)	—	—	—	(1,221)
Administrative expenses		(5,947)	(6,940)	(7,399)	(3,908)	(3,274)
Research and development costs		(1,633)	(2,275)	(2,038)	(1,057)	—
Finance costs	7	(301)	(226)	(390)	(191)	(336)
Share of results of associates		56	152	30	(26)	42
Share of result of a jointly controlled entity		—	—	43	21	25
Profit before taxation		10,346	19,535	26,926	13,800	19,689
Taxation	9	(1,672)	(4,487)	(6,096)	(3,243)	(4,355)
Profit for the year/period	10	8,674	15,048	20,830	10,557	15,334
Other comprehensive income						
Exchange differences from translation		1,639	2,880	70	19	497
Share of changes in reserve of an associate		—	36	(1)	—	(5)
Fair value changes on cash flow hedges		—	—	(145)	—	32
Total comprehensive income for the year/period		10,313	17,964	20,754	10,576	15,858
Profit for the year/period attributable to:						
Owners of the Company		8,685	14,946	20,684	10,448	15,230
Non-controlling interests		(11)	102	146	109	104
		8,674	15,048	20,830	10,557	15,334
Total comprehensive income attributable to:						
Owners of the Company		10,335	17,877	20,608	10,467	15,754
Non-controlling interests		(22)	87	146	109	104
		10,313	17,964	20,754	10,576	15,858
		US$cent	US$cent	US$cent	US$cent	US$cent
Earnings per share	13					
Basic		0.993	1.582	2.186	1.106	1.608
Diluted		0.992	1.582	2.174	1.106	1.590

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2007	2008	2009	As at 30 June 2010
		US$'000	US$'000	US$'000	US$'000
Non-current assets					
Property, plant and equipment	14	4,940	5,459	3,575	3,310
Prepaid lease payments	15	257	267	260	3,098
Interest in a jointly controlled entity	17	—	—	43	68
Interest in an associate	18	198	535	1,507	1,498
Available-for-sale investment	19	162	—	—	—
Intangible assets	20	610	7,575	6,461	5,786
Goodwill	21	581	581	379	379
Deferred tax assets	22	429	1,073	1,432	1,153
		7,177	15,490	13,657	15,292
Current assets					
Inventories	23	10,677	5,945	11,060	17,437
Trade and other receivables	24	19,305	27,684	32,794	41,485
Amount due from an associate	25	164	172	—	—
Amount due from a jointly controlled entity	25	—	—	481	506
Amounts due from directors	25	20	43	—	—
Held for trading investments	26	—	—	31	406
Tax recoverable		—	—	—	324
Derivative financial instruments	31	—	—	—	18
Pledged bank deposits	27	—	1,060	17,641	17,792
Bank balances and cash	27	17,601	20,100	15,113	10,340
		47,767	55,004	77,120	88,308
Current liabilities					
Trade and other payables	28	12,920	9,252	11,062	12,235
Dividends payable		—	5	—	—
Bank borrowings - secured	29	—	—	16,517	16,346
Deferred consideration payables	30	—	685	838	811
Derivative financial instruments	31	—	—	145	131
Tax payable		180	813	1,226	1,848
		13,100	10,755	29,788	31,371
Net current assets		34,667	44,249	47,332	56,937
Total assets less current liabilities		41,844	59,739	60,989	72,229
Capital and reserves					
Share capital	32	4,725	4,725	4,741	4,768
Reserves	34	37,275	48,065	48,992	60,186
Equity attributable to owners of the Company		42,000	52,790	53,733	64,954
Non-controlling interests	35	(156)	(69)	201	—
		41,844	52,721	53,934	64,954
Non-current liabilities					
Deferred tax liabilities	22	—	839	1,764	2,289
Deferred consideration payables	30	—	6,179	5,291	4,986
		—	7,018	7,055	7,275
		41,844	59,739	60,989	72,229

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2007	2008	2009	As at 30 June 2010
		US$'000	US$'000	US$'000	US$'000
Non-current assets					
Investments in subsidiaries	16	20	20	10	10
Current assets					
Prepayments		—	—	—	195
Amounts due from subsidiaries	25	22,363	13,589	18,469	14,281
Bank balances and cash		2	34	13	31
		22,365	13,623	18,482	14,507
Current liabilities					
Other payables		153	182	142	13
Dividends payable		—	5	—	—
Amounts due to subsidiaries	25	945	—	—	—
		1,098	187	142	13
Net current assets		21,267	13,436	18,340	14,494
Total assets less current liabilities		21,287	13,456	18,350	14,504
Capital and reserves					
Share capital	32	4,725	4,725	4,741	4,768
Reserves	34	16,562	8,731	13,609	9,736
		21,287	13,456	18,350	14,504

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the owners of the Company											
	Share capital	Share premium	Capital reserve	Share options reserve	Surplus reserve fund	Public welfare fund	Translation reserve	Accumulated (losses) profits	Dividend reserve	Total	Non-controlling interests	Total
	US$'000	US$'000	US$'000 (note 34)	US$'000 (note 33)	US$'000 (note 34)	US$'000 (note 34)	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2007	2	—	8,909	—	2,433	845	1,080	(46)	—	13,223	(138)	13,085
Exchange differences arising from translation	—	—	—	—	—	—	1,650	—	—	1,650	(11)	1,639
Profit (loss) for the year	—	—	—	—	—	—	—	8,685	—	8,685	(11)	8,674
Total comprehensive income and expense for the year	—	—	—	—	—	—	1,650	8,685	—	10,335	(22)	10,313
Issue of shares on capitalisation	3,998	—	(3,998)	—	—	—	—	—	—	—	—	—
Issue of shares upon placing and admission to AIM	725	19,264	—	—	—	—	—	—	—	19,989	—	19,989
Recognition of equity-settled share-based payment	—	(570)	—	570	—	—	—	—	—	—	—	—
Expenses incurred in connection with the issue of shares upon placing and admission to AIM	—	(1,547)	—	—	—	—	—	—	—	(1,547)	—	(1,547)
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	—	4	4
Dividends proposed - 2007	—	—	—	—	—	—	—	(4,725)	4,725	—	—	—
Transfer of reserves	—	—	—	—	1,822	(845)	—	(977)	—	—	—	—
Balance at 31 December 2007	4,725	17,147	4,911	570	4,255	—	2,730	2,937	4,725	42,000	(156)	41,844

	Attributable to the owners of the Company												
	Share capital	Share premium	Capital reserve	Share options reserve	Surplus reserve fund	Public welfare fund	Translation reserve	Hedging reserve	Accumulated (losses) profits	Dividend reserve	Total	Non-controlling interests	Total
	US$'000	US$'000	US$'000 (note 34)	US$'000 (note 33)	US$'000 (note 34)	US$'000 (note 34)	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2008 . .	4,725	17,147	4,911	570	4,255	—	2,730	—	2,937	4,725	42,000	(156)	41,844
Exchange differences arising from translation	—	—	—	—	—	—	2,895	—	—	—	2,895	(15)	2,880
Share of changes in reserve of an associate	—	—	—	—	—	—	36	—	—	—	36	—	36
Profit for the year	—	—	—	—	—	—	—	—	14,946	—	14,946	102	15,048
Total comprehensive income for the year	—	—	—	—	—	—	2,931	—	14,946	—	17,877	87	17,964
Dividends paid	—	—	—	—	—	—	—	—	(2,362)	(4,725)	(7,087)	—	(7,087)
Dividends proposed - 2008 . .	—	—	—	—	—	—	—	—	(4,725)	4,725	—	—	—
Transfer of reserves	—	—	—	—	1,802	—	—	—	(1,802)	—	—	—	—
Balance at 31 December 2008	4,725	17,147	4,911	570	6,057	—	5,661	—	8,994	4,725	52,790	(69)	52,721

	Attributable to the owners of the Company												
	Share capital	Share premium	Capital reserve	Share options reserve	Surplus reserve fund	Public welfare fund	Translation reserve	Hedging reserve	Accumulated (losses) profits	Dividend reserve	Total	Non-controlling interests	Total
	US$'000	US$'000	US$'000 (note 34)	US$'000 (note 33)	US$'000 (note 34)	US$'000 (note 34)	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2009 . .	4,725	17,147	4,911	570	6,057	—	5,661	—	8,994	4,725	52,790	(69)	52,721
Exchange differences arising from translation	—	—	—	—	—	—	70	—	—	—	70	—	70
Share of changes in reserve of an associate	—	—	—	—	—	—	(1)	—	—	—	(1)	—	(1)
Fair value changes on cash flow hedges	—	—	—	—	—	—	—	(145)	—	—	(145)	—	(145)
Profit for the year	—	—	—	—	—	—	—	—	20,684	—	20,684	146	20,830
Total comprehensive income and expense for the year .	—	—	—	—	—	—	69	(145)	20,684	—	20,608	146	20,754
Issue of shares	16	435	—	—	—	—	—	—	—	—	451	—	451
Release of translation reserve upon disposal of a subsidiary	—	—	—	—	—	—	8	—	(8)	—	—	—	—
Release of translation reserve upon disposal of an associate	—	—	—	—	—	—	(36)	—	36	—	—	—	—
Dividends paid to a non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	(206)	(206)
Effect of distribution in specie	—	(11,503)	—	—	—	—	853	—	—	—	(10,650)	330	(10,320)
Dividends paid	—	—	—	—	—	—	—	—	(4,741)	(4,725)	(9,466)	—	(9,466)
Dividends proposed - 2009 . .	—	—	—	—	—	—	—	—	(4,741)	4,741	—	—	—
Transfer of reserves	—	—	—	—	2,102	—	—	—	(2,102)	—	—	—	—
Balance at 31 December 2009	4,741	6,079	4,911	570	8,159	—	6,555	(145)	18,122	4,741	53,733	201	53,934

Note: Under the Companies Law of the Cayman Islands (2010 Revision as amended from time to time), the share premium of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

	Attributable to the owners of the Company												
	Share capital	Share premium	Capital reserve	Share options reserve	Surplus reserve fund	Public welfare fund	Translation reserve	Hedging reserve	Accumulated (losses) profits	Dividend reserve	Total	Non-controlling interests	Total
	US$'000	US$'000	US$'000 (note 34)	US$'000 (note 33)	US$'000 (note 34)	US$'000 (note 34)	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2009	4,725	17,147	4,911	570	6,057	—	5,661	—	8,994	4,725	52,790	(69)	52,721
Exchange differences arising from translation	—	—	—	—	—	—	19	—	—	—	19	—	19
Profit for the period	—	—	—	—	—	—	—	—	10,448	—	10,448	109	10,557
Total comprehensive income for the period	—	—	—	—	—	—	19	—	10,448	—	10,467	109	10,576
Dividends paid	—	—	—	—	—	—	—	—	—	(4,725)	(4,725)	(103)	(4,828)
Dividend proposed - 2009 interim	—	—	—	—	—	—	—	—	(4,725)	4,725	—	—	—
Transfer of reserves	—	—	—	—	1,339	—	—	—	(1,339)	—	—	—	—
Balance at 30 June 2009 (unaudited)	4,725	17,147	4,911	570	7,396	—	5,680	—	13,378	4,725	58,532	(63)	58,469

	Attributable to the owners of the Company												
	Share capital	Share premium	Capital reserve	Share options reserve	Surplus reserve fund	Public welfare fund	Translation reserve	Hedging reserve	Accumulated (losses) profits	Dividend reserve	Total	Non-controlling interests	Total
	US$'000	US$'000	US$'000 (note 34)	US$'000 (note 33)	US$'000 (note 34)	US$'000 (note 34)	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2010	4,741	6,079	4,911	570	8,159	—	6,555	(145)	18,122	4,741	53,733	201	53,934
Exchange differences arising from translation	—	—	—	—	—	—	497	—	—	—	497	—	497
Share of changes in reserve of an associate	—	—	—	—	—	—	(5)	—	—	—	(5)	—	(5)
Fair value changes on cashflow hedges	—	—	—	—	—	—	—	32	—	—	32	—	32
Profit for the period	—	—	—	—	—	—	—	—	15,230	—	15,230	104	15,334
Total comprehensive income for the period	—	—	—	—	—	—	492	32	15,230	—	15,754	104	15,858
Issue of shares	1	103	—	—	—	—	—	—	—	—	104	—	104
Issue of shares in consideration of acquisition of additional interest in a subsidiary	26	2,299	—	—	—	—	—	—	—	—	2,325	—	2,325
Acquisition of additional interest in a subsidiary	—	—	(2,221)	—	—	—	—	—	—	—	(2,221)	(104)	(2,325)
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	(201)	(201)
Dividends paid	—	—	—	—	—	—	—	—	—	(4,741)	(4,741)	—	(4,741)
Transfer of reserves	—	—	—	—	1,068	—	—	—	(1,068)	—	—	—	—
Balance at 30 June 2010	4,768	8,481	2,690	570	9,227	—	7,047	(113)	32,284	—	64,954	—	64,954

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December			Six months ended 30 June	
		2007	2008	2009	2009	2010
		US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Operating activities						
Profit before taxation		10,346	19,535	26,926	13,800	19,689
Adjustments for:						
Share of results of associates		(56)	(152)	(30)	26	(42)
Share of result of a jointly controlled entity		—	—	(43)	(21)	(25)
Discount on acquisition of an associate		—	—	(647)	(647)	—
Amortisation of intangible assets	20	59	793	1,115	585	419
Depreciation of property, plant and equipment	14	637	772	898	445	380
Release of prepaid lease payments		6	7	7	4	33
Interest income		(236)	(221)	(329)	(94)	(302)
Imputed interest income on available-for-sale investment		(30)	(20)	—	—	—
Interest expenses		301	—	43	—	187
Imputed interest expense on deferred consideration payables		—	226	347	191	149
Listing expenses		2,773	—	—	—	1,221
Loss (gain) on disposal of property, plant and equipment		8	(2)	(7)	2	(6)
Impairment loss recognised on property, plant and equipment		—	—	805	—	—
Gain on disposal of a subsidiary		—	—	(24)	—	—
Loss on disposal of an associate		—	—	70	—	—
Allowance for inventories		92	119	10	8	116
Allowance for bad and doubtful debts		44	23	57	32	21
Operating cash flows before movements in working capital		13,944	21,080	29,198	14,331	21,840
(Increase) decrease in inventories		(8,986)	5,347	(5,226)	(2,840)	(6,432)
Increase in trade and other receivables		(4,545)	(7,526)	(5,287)	(2,976)	(8,255)
Increase in held for trading investments		—	—	(31)	—	(375)
(Increase) decrease in amount due from an associate		(56)	(8)	172	3	—
Increase in amount due from a jointly controlled entity		—	—	(481)	—	(25)
Decrease (increase) in amounts due from directors		624	(23)	43	(18)	—
Increase (decrease) in trade and other payables		7,734	(5,011)	2,284	3,174	1,180
Decrease in amount due to a director		(6)	—	—	—	—
Cash generated from operations		8,709	13,859	20,672	11,674	7,933
PRC Enterprise Income Tax paid		(2,111)	(3,637)	(5,008)	(2,300)	(3,254)
Hong Kong Profits Tax paid		(26)	(47)	(115)	(5)	(6)
Net cash from operating activities		6,572	10,175	15,549	9,369	4,673

	Notes	Year ended 31 December			Six months ended 30 June	
		2007	2008	2009	2009	2010
		US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Investing activities						
Purchase of property, plant and equipment		(795)	(959)	(280)	(59)	(101)
Purchase of land use right		—	—	—	—	(2,919)
Acquisition of available-for-sale investment and intangible asset	19 & 20(a)	(770)	—	—	—	—
Capital injected in an associate		—	(149)	—	—	—
Acquisition of subsidiaries	38	(537)	—	—	—	—
Increase in pledged bank deposits		—	(1,060)	(16,581)	(5,069)	(151)
Interest received		236	221	329	94	302
Dividend received from an associate		—	—	235	—	46
Proceeds from disposal of available-for-sale investment		—	187	—	—	—
Proceeds from disposal of property, plant and equipment		5	16	120	111	11
Cash outflow from disposal of a subsidiary	39(b)	—	—	(1)	—	—
Proceeds from disposal of an associate		—	—	439	—	—
Acquisition of an associate		—	—	(877)	(877)	—
Net cash used in investing activities		(1,861)	(1,744)	(16,616)	(5,800)	(2,812)
Financing activities						
Dividends paid		—	(7,082)	(9,471)	(4,730)	(4,741)
Cash outflow from distribution in specie	39(a)	—	—	(10,068)	—	—
Repayment of deferred consideration payables		—	(137)	(1,245)	(731)	(512)
Proceeds from issue of shares		19,989	—	451	—	104
New bank borrowings raised		5,757	—	16,517	—	2,555
Expenditure incurred in connection with admission of shares to AIM		(4,320)	—	—	—	—
Expenditure incurred in connection with listing of shares to Main Board		—	—	—	—	(1,416)
Repayment of borrowings		(12,905)	—	—	—	(2,726)
Repayment of amounts due to shareholders		(5,148)	—	—	—	—
Interest paid		(301)	—	—	—	—
Dividends paid to a non-controlling shareholders		—	—	(206)	(103)	(201)
Net cash from (used in) financing activities		3,072	(7,219)	(4,022)	(5,564)	(6,937)
Net increase (decrease) in cash and cash equivalents		7,783	1,212	(5,089)	(1,995)	(5,076)
Cash and cash equivalent at beginning of the year/period		8,948	17,601	20,100	20,100	15,113
Effect of foreign exchange rate changes		870	1,287	102	24	303
Cash and cash equivalent at end of the year/period, represented by bank balances and cash		17,601	20,100	15,113	18,129	10,340

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 December 2006. On 26 June 2007, the Company was listed on the AIM operated by the London Stock Exchange plc. The Company's ultimate holding company and immediate holding company is Treasure Sea Limited, a company incorporated in the British Virgin Islands. The address of the Company's registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business is 8/F., Block A, Tong Fong Information Centre, Long Shan Road, Nan Shan, Shenzhen, the PRC.

On 28 December 2006, the shareholders of CMS International exchanged their shares for shares of the Company (the "Group Reorganisation"). This resulted in the Company becoming the holding company of the Group. Details of the Group Reorganisation are fully explained in Part VI to the placing and admission to AIM document of the Company dated 21 June 2007.

The functional currency of the Company is Renminbi as it is the currency in which the majority of the Group's transactions are denominated. The consolidated financial statements of the Group are presented in United States Dollars ("US$"), which is a currency widely and commonly recognised in the global economy and is freely convertible into a number of foreign currencies. Therefore, the directors consider the presentation in US$ to be more useful for its current and potential investors.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The International Accounting Standards Board issued a number of new International Accounting Standards ("IASs") and IFRSs which are effective for the Group's accounting periods beginning on 1 January 2010. For the purposes of preparing and presenting the Financial Information of the Relevant Periods, the Group and the Company have adopted all these new IFRSs consistently throughout the Relevant Periods, except for IFRS 3 (Revised 2008) which has been applied prospectively for business combinations for which the acquisition date is on or after 1 January 2010, and IAS 27 (Revised 2008) in relation to changes in Group's ownership interests in existing subsidiaries which has been applied prospectively from 1 January 2010.

The application of IFRS 3 (Revised 2008) has had no impact on the consolidated financial statements as there was no such transaction during the six months ended 30 June 2010. The application of IAS 27 (Revised 2008) on acquisition of additional interest in Sky United (note 32) has resulted in recognition of the excess of consideration payable over the carrying value of the non-controlling interest amounting to US$2,221,000 in capital reserve.

The Group and the Company has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs May 2010[1]
IAS 24 (Revised)	Related party disclosures[4]
IAS 32 (Amendment)	Classification of rights issues[2]
IFRS 1 (Amendment)	Limited exemption from comparative IFRS 7 disclosures for first-time adopters[3]
IFRS 9	Financial instruments[5]
IFRIC* 14 (Amendment)	Prepayments of a minimum funding requirement[4]
IFRIC 19	Extinguishing financial liabilities with equity instruments[3]

* IFRIC represents the International Financial Reporting Interpretations Committee.

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

[2] Effective for annual periods beginning on or after 1 February 2010.
[3] Effective for annual periods beginning on or after 1 July 2010.
[4] Effective for annual periods beginning on or after 1 January 2011.
[5] Effective for annual periods beginning on or after 1 January 2013.

The directors of the Company anticipate that the application of the other new and revised standards, amendments and interpretations will have no material impact on the Group's results and the financial position of the Group and the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the principal accounting policies set out below.

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the carrying amount of the share of net assets disposed of was recognised in profit or loss.

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Business combinations

Business combinations prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair values at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the business combination, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the net fair value of the assets, liabilities and contingent liabilities recognised.

Business combinations on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (Revised 2008) are recognised at their fair values, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income taxes" and IAS 19 "Employee benefits" respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share based payment awards are measured in accordance with IFRS 2 "Share-based payment"; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the

acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Distribution in specie

The amount recognised as distribution in respect of a distribution in specie is measured at the carrying value of assets and liabilities of the subsidiaries being distributed at the date of the distribution.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statements of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Investment in a jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as a jointly controlled entity.

The results and assets and liabilities of a jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in a jointly controlled entity is carried in the consolidated statements of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entity, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any identified impairment loss in the Company's statements of financial position.

Intangible assets

Intangible assets acquired separately with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;

— the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

— the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for good sold in the normal course of business, net of customer returns, rebates, other similar allowances and sales related taxes.

Revenue from the sale of goods is recognised when goods are delivered and title has passed.

Service fee income is recognised as services are rendered.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

Construction in progress is stated at cost less identified impairment losses which includes all construction costs and other direct costs attributable to such projects, and borrowing costs capitalised in accordance with the Group's accounting policy. It is not depreciated until completion of construction and the relevant assets are available for use. Costs of completed construction works are transferred to the appropriate category of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Impairment losses on tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Prepaid lease payments

Prepaid lease payments represent the cost of land use rights paid to the local Land Bureau of the PRC Government.

Land use rights are stated at cost and are charged to the consolidated statements of comprehensive income over the period for which the relevant land use right has been granted to the Group.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's and consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets held for trading, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets held for trading

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At the end of the reporting period subsequent to initial recognition, financial assets held for trading are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from an associate, amount due from a jointly controlled entity, amounts due from directors, pledged bank deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Impairment of financial assets

Financial assets, other than financial assets held for trading, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period granted, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for debt instruments.

Financial liabilities

The Group's financial liabilities, including trade and other payables, bank borrowings and deferred consideration payables, are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair values at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The Group uses derivative financial instruments (primarily interest rate swaps and foreign currency forward contracts) to hedge its exposure against changes in interest rate and foreign currency exposure on bank borrowings. At the inception of the hedging relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management

objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other gain or losses.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit for the year as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax of the Group is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and an associate, and interest in a jointly controlled entity, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated from the functional currency of the respective companies into the presentation currency of the Group (i.e. US$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of. For disposal of a group entity that is not a foreign operation, the exchange differences are released to accumulated profits.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to the profit or loss on a straight line basis over the period of the respective leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Leasehold land

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease and accounted for as property, plant and equipment.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statements of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes, which are defined contribution schemes, are charged as an expense when employees have rendered service entitling them to the contributions.

Equity-settled share-based payment transactions

Share options granted to employees

A shareholder of the Company has granted shares to certain employees of the Group, for their services rendered at no consideration. The fair value of services received is determined by reference to the fair value of shares at the respective grant dates because the fair value of services cannot be reliably measured. Such fair value is recognised as an expense in full at the grant date with a corresponding increase in capital reserve.

Share options granted to the underwriter

Share options issued in exchange for services in connection with the underwriting of the new shares of the Company by way of placing and public offer are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received in relation to issue of new shares are recognised as in other comprehensive income (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to share premium.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, are described below.

Impairment of intangible assets

The impairment of the intangible assets is based on the valuation of the recoverable amount with reference to expected future cash flows on management's estimation. A considerable amount of judgement is required in estimating the expected future cash flows from the Group's distribution right and agency right in connection to two finished drug products under the trade name of Nesiritide and Augentropfen Stulln Mono respectively. If the actual future cash flows is less than expected, impairment may be required. The carrying amount of the intangible assets is US$610,000, US$7,575,000, US$6,461,000 and US$5,786,000 as at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively (see note 20).

Deferred tax assets

As at 31 December 2007, 2008 and 2009 and 30 June 2010, deferred tax assets of US$429,000, US$1,073,000, US$1,432,000 and US$1,153,000 respectively arising primarily from unrealised profits on inventories and impairment loss recognised on property, plant and equipment has been recognised in the consolidated statements of financial position. The recognition of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the profit and loss account for the period in which such a reversal takes places.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill is US$581,000, US$581,000, US$379,000 and US$379,000 as at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively. Details of the recoverable amount calculation are disclosed in note 21.

Impairment of trade receivables

On assessing any impairment of the Group's trade receivables, the management regularly reviews the recoverability, creditworthiness of customers and ages of the trade receivables. Impairment on trade receivables is made on the estimation of the future cash flows discounted at an effective interest rate. If the financial condition of the customers of the Group were deteriorated, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2007, 2008 and 2009 and 30 June 2010, the carrying amount of trade receivables is US$14,478,000, US$17,220,000, US$20,746,000 and US$28,931,000 respectively. The carrying amount of allowance for bad and doubtful debts is US$307,000, US$221,000, US$213,000 and US$235,000 as at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively.

5. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amount received and receivable for goods sold during the year.

Segment information has been identified on the basis of internal management reports which are prepared in accordance with the accounting policies that conform with IFRSs, that are regularly reviewed by the chief operating decision maker in order to allocate resources to the reportable segments and to assess their performance.

For the purpose of resources allocation and performance assessment, the chief operating decision maker reviews operating results of pharmaceutical products by products basis. Each product is identified as an operating segment in accordance with IFRS 8. As the pharmaceutical product is operating in similar business model with similar target group of customers, the Group's operating segments are aggregated into marketing, promotion and sale of pharmaceutical products.

The Group's reportable operating segments under IFRS 8 for the year ended 31 December 2007 and 2008 were originally three operations: marketing, promotion and sale of pharmaceutical products, research and development and other business. During the year ended 31 December 2009, the Group changed the structure of its internal organisation in a manner that caused the composition of its reportable segments to be reduced to two operations: marketing, promotion and sale of pharmaceutical products and other business. The composition of its reportable segments for the years ended 31 December 2007 and 2008 was restated. The segment result for the years ended 31 December 2007 and 2008 on the reportable segment of the research and development has been reclassified to other gains and losses, administrative expenses and research and development costs in the amounts of US$8,000, US$622,000 and US$1,334,000 for the year ended 31 December 2007 and US$3,000, US$280,000 and US$2,022,000 for the year ended 31 December 2008 respectively.

No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the chief operating decision maker for review.

The Group's reportable operating segments under IFRS 8 are the following two operations:

(1) Marketing, promotion and sale of pharmaceutical products - marketing, promotion and sale of in-licensed medicine and pharmaceutical products from overseas and domestic pharmaceutical companies to wholesale customers across China, including distributors and hospitals; and

(2) Other business - production and sales of other medicines and pharmaceutical products to wholesale customers across China, including distributors and hospitals and production and sales of medical instruments.

The segment information is as follows:

For the year ended 31 December 2007

	Marketing, promotion and sale of pharmaceutical products	Other business	Elimination	Consolidated
	US$'000	US$'000	US$'000	US$'000
External segment revenue	47,013	4,734	—	51,747
Inter-segment revenue	—	3,841	(3,841)	—
Revenue	47,013	8,575	(3,841)	51,747
Segment results	29,260	4,338	—	33,598
Other gains and losses				1,280
Selling expenses				(13,934)
Listing expenses				(2,773)
Administrative expenses				(5,947)
Research and development costs				(1,633)
Finance costs				(301)
Share of result of an associate				56
Profit before taxation				10,346

For the year ended 31 December 2008

	Marketing, promotion and sale of pharmaceutical products	Other business	Elimination	Consolidated
	US$'000	US$'000	US$'000	US$'000
External segment revenue	69,595	3,005	—	72,600
Inter-segment revenue	—	4,496	(4,496)	—
Revenue	69,595	7,501	(4,496)	72,600
Segment results	42,237	2,528	—	44,765
Other gains and losses				2,690
Selling expenses				(18,631)
Administrative expenses				(6,940)
Research and development costs				(2,275)
Finance costs				(226)
Shares of result of an associate				152
Profit before taxation				19,535

For the year ended 31 December 2009

	Marketing, promotion and sale of pharmaceutical products	Other business	Elimination	Consolidated
	US$'000	US$'000	US$'000	US$'000
External segment revenue	93,752	2,702	—	96,454
Inter-segment revenue	—	2,100	(2,100)	—
Revenue	93,752	4,802	(2,100)	96,454
Segment results	58,419	2,439	—	60,858
Other gains and losses				662
Selling expenses				(24,840)
Administrative expenses				(7,399)
Research and development costs				(2,038)
Finance costs				(390)
Share of results of associates				30
Share of result of a jointly controlled entity				43
Profit before taxation				26,926

For the six months ended 30 June 2009 (unaudited)

	Marketing, promotion and sale of pharmaceutical products	Other business	Elimination	Consolidated
	US$'000	US$'000	US$'000	US$'000
External segment revenue	45,188	1,587	—	46,775
Inter-segment revenue	—	484	(484)	—
Revenue	45,188	2,071	(484)	46,775
Segment results	28,184	1,452	—	29,636
Other gains and losses				691
Selling expenses				(11,366)
Administrative expenses				(3,908)
Research and development costs				(1,057)
Finance costs				(191)
Share of results of associates				(26)
Share of result of a jointly controlled entity				21
Profit before taxation				13,800

For the six months ended 30 June 2010

	Marketing, promotion and sale of pharmaceutical products	Other business	Elimination	Consolidated
	US$'000	US$'000	US$'000	US$'000
External segment revenue	60,389	806	—	61,195
Inter-segment revenue	—	430	(430)	—
Revenue	60,389	1,236	(430)	61,195
Segment results	36,705	520	—	37,225
Other gains and losses				546
Selling expenses				(13,318)
Listing expenses				(1,221)
Administrative expenses				(3,274)
Finance costs				(336)
Share of result of an associate				42
Share of result of a jointly controlled entity				25
Profit before taxation				19,689

Inter-segment revenue are conducted at prices and terms mutually agreed amongst those reportable segments.

The accounting policies of the reportable segments are the same as the Group's policies described in note 3. Segment results for the marketing, promotion and sale of pharmaceutical products and other business reportable segments represented the gross profit of the relevant operations. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Other segment information

	Amounts included in the measure of segment results			
	Marketing, promotion and sale of pharmaceutical products	Other business	Unallocated amounts	Total
	US$'000	US$'000	US$'000	US$'000
For the year ended 31 December 2007				
Depreciation and amortisation	59	366	271	696
Allowance for inventories	—	92	—	92
For the year ended 31 December 2008				
Depreciation and amortisation	793	392	380	1,565
Allowance for inventories	—	119	—	119
For the year ended 31 December 2009				
Depreciation and amortisation	1,115	391	507	2,013
Allowance for inventories	—	10	—	10
For the six months ended 30 June 2009 (unaudited)				
Depreciation and amortisation	585	125	320	1,030
Allowance for inventories	—	8	—	8
For the six months ended 30 June 2010				
Depreciation and amortisation	419	147	233	799
Allowance for inventories	—	116	—	116

The Group primarily operates in the PRC. All revenue for external customers are attributed to the PRC and all non-current assets of the Group are located in the PRC.

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Deanxit	26,144	36,710	44,468	22,768	26,029
Ursofalk	14,756	21,074	28,327	13,393	16,937
Augentropfen Stulln Mono eye-drops	3,011	4,394	6,146	2,817	3,814
GanFuLe	2,599	3,910	4,780	2,243	2,004
XinHuoSu	—	2,839	7,253	2,983	5,697
Salofalk	—	133	1,824	658	1,684
Cystistat	—	66	515	171	319
Exacin	—	—	—	—	3,367
Bioflor	—	—	—	—	282
Others	5,237	3,474	3,141	1,742	1,062
Total	51,747	72,600	96,454	46,775	61,195

6. OTHER GAINS AND LOSSES

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Service fee income	—	771	—	—	—
Net exchange gain (loss)	655	743	(405)	(272)	(109)
Government subsidies (Note)	1	623	801	161	240
Interest income	236	221	329	94	302
Gain on disposal of a subsidiary	—	—	24	—	—
Loss on disposal of an associate (Note 18)	—	—	(70)	—	—
Fair value change on investments held for trading	288	158	81	14	81
Imputed interest income on available-for-sale investment	30	20	—	—	—
(Loss) gain on disposal of property, plant and equipment	(8)	2	7	(2)	6
Impairment loss recognised on property, plant and equipment (Note 14)	—	—	(805)	—	—
Discount on acquisition of an associate (Note 18)	—	—	647	647	—
Others	78	152	53	49	26
	1,280	2,690	662	691	546

Note: The amount represents the incentive subsidies provided by the PRC local authorities to the Group to encourage performance of the research and development. There are no specific conditions attached to the grants, the Group recognised the grants upon receipts.

7. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Interest on bank loans wholly repayable within five years	301	—	43	—	187
Imputed interest on deferred consideration payables	—	226	347	191	149
	301	226	390	191	336

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Directors' fees	188	193	161	77	81
Other emoluments to non-executive directors and independent non-executive directors	—	—	—	—	—
Other emoluments to executive directors					
- basic salaries and allowances	308	328	340	173	151
- retirement benefits scheme contributions	17	12	15	4	8
	513	533	516	254	240

Details of emoluments paid by the Group to the directors are as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Mr. Lam Kong					
- directors' fee	30	28	23	11	12
- basic salaries and allowances	84	89	87	41	46
- retirement benefits scheme contributions	6	3	7	1	1
	120	120	117	53	59
Mr. Chen Hong Bing					
- directors' fee	30	28	23	11	12
- basic salaries and allowances	78	80	89	43	46
- retirement benefits scheme contributions	3	3	3	1	2
	111	111	115	55	60
Ms. Hou Xiao Xuan					
- directors' fee	30	28	23	11	11
- basic salaries and allowances	62	65	50	36	—
- retirement benefits scheme contributions	4	3	2	1	3
	96	96	75	48	14
Ms. Chen Yan Ling					
- directors' fee	29	28	23	11	11
- basic salaries and allowances	54	53	67	30	36
- retirement benefits scheme contributions	4	3	3	1	2
	87	84	93	42	49
Mr. Hui Ki Fat					
- directors' fee	23	27	23	11	11
- basic salaries and allowances	30	41	47	23	23
- retirement benefits scheme contributions	—	—	—	—	—
	53	68	70	34	34

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Mr. Paul Bernard Harper					
- directors' fee	23	27	23	11	8
- basic salaries and allowances	—	—	—	—	—
- retirement benefits scheme contributions	—	—	—	—	—
	23	27	23	11	8
Mr. Stuart Hamilton Leckie					
- directors' fee	23	27	23	11	11
- basic salaries and allowances	—	—	—	—	—
- retirement benefits scheme contributions	—	—	—	—	—
	23	27	23	11	11
Mr. Peng Huaizheng					
- directors' fee	—	—	—	—	4
- basic salaries and allowances	—	—	—	—	—
- retirement benefits scheme contributions	—	—	—	—	—
	—	—	—	—	4
Mr. Wu Chi Keung					
- directors' fee	—	—	—	—	1
- basic salaries and allowances	—	—	—	—	—
- retirement benefits scheme contributions	—	—	—	—	—
	—	—	—	—	1
Total	513	533	516	254	240

The five highest paid individuals for each of the three years ended 31 December 2007, 2008 and 2009 included four directors and six months ended 30 June 2009 and 2010 included five and three directors respectively, details of whose emoluments are set out above. The emoluments of the remaining individual for the Relevant Periods were as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Employees					
- basic salaries and allowances	68	79	71	—	74
- retirement benefits scheme contributions	2	3	3	—	2
	70	82	74	—	76

The emoluments of the employee were within the following bands:

	Number of employees				
	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
				(unaudited)	
Up to HK$1,000,000	1	1	1	—	2

During the Relevant Periods, no emoluments were paid by the Group to the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods.

9. TAXATION

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Current tax:					
PRC Enterprise Income Tax	1,864	4,236	5,443	2,725	3,492
Hong Kong Profits Tax	21	63	97	—	66
Other jurisdictions	—	6	6	—	3
	1,885	4,305	5,546	2,725	3,561
Overprovision in prior years					
PRC Enterprise Income Tax	(6)	(21)	(11)	(7)	(11)
Deferred taxation (note 22):					
- Current year	(169)	203	561	525	805
- Attributable to a change in tax rate	(38)	—	—	—	—
	(207)	203	561	525	805
Taxation charge for the year/period	1,672	4,487	6,096	3,243	4,355

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable to each year.

During the year ended 31 December 2007, enterprises incorporated in the PRC were subject to Enterprise Income Tax at a rate of 33% (30% national enterprise income tax and 3% local municipal income tax).

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Company's subsidiaries in the PRC was increased from 15% to 25% progressively from 1 January 2008 onwards. The deferred tax has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the assets are realized or the liabilities are settled.

For the year ended 31 December 2007, pursuant to relevant law and regulation, Kangzhe Shenzhen and Kangzhe Pharmaceutical Technology are subject to PRC Enterprise Income Tax rate at 15%, being the preferential tax rate in Shenzhen Economic Zone. For the years ended 31 December 2008 and 2009 and six months ended 30 June 2009 and 2010, the Enterprise Income Tax rate of Kangzhe Shenzhen and Kangzhe Pharmaceutical Technology is increased to 18%, 20%, 20% and 22% respectively.

Certain PRC subsidiaries are eligible for certain tax concession in the PRC. Pursuant to relevant laws and regulation, Kangzhe Hunan is entitled to a tax reduction to 15% for three years starting from 1 January 2006 granted by the local tax authority. For years ended 31 December 2007 and 2008, Kangzhe Hunan is entitled to a tax reduction to 15%. Starting from 1 January 2009, Kangzhe Hunan is entitled to such tax concession under annual renewal basis. For year ended 31 December 2009 and six months ended 30 June 2009 and 2010, Kangzhe Hunan continued to entitle to a tax reduction to 15%. Starting from 1 January 2010, Kangzhe Changde is entitled to a tax reduction to 15% granted by the local tax authority and such tax concession is subject to renewal by the relevant tax bureau annually.

Pursuant to the Labuan Offshore Business Activity Tax Act 1990 ("Labuan Tax Act") in Malaysia, CMS Pharmaceutical Agency is eligible to elect to pay a lump sum taxation charge of MYR 20,000 (equivalent to approximately US$6,000) or 3% on net audited profits. For the years ended 31 December 2008 and 2009 and six months ended 30 June 2009 and 2010, CMS Pharmaceutical Agency elected to pay a lump sum tax.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 17.5%, 16.5%, 16.5%, 16.5% and 16.5% of the estimated assessable profit for the years ended 31 December 2007, 2008 and 2009 and six months ended 30 June 2009 and 2010 respectively.

The taxation for the year/period can be reconciled to the profit before taxation per the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Profit before taxation	10,346	19,535	26,926	13,800	19,689
Tax at the applicable tax rate	1,552	3,516	5,385	2,760	4,332
Tax effect of share of result of a jointly controlled entity	—	—	(9)	(4)	(6)
Tax effect of share of results of associates	(8)	(27)	(6)	5	(9)
Tax effect of expenses that are not deductible in determining taxable profit	550	340	575	324	361
Tax effect of income that is not taxable in determining taxable profit	(337)	(122)	(52)	(1)	(17)
Tax effect of tax losses not recognised	104	438	223	154	19
Tax effect of tax concession	(177)	(78)	(28)	(4)	(198)
Effect on different applicable tax rates of subsidiaries	182	(265)	(280)	(131)	(13)
Effect of tax benefit arising from Labuan Tax Act	—	(133)	(629)	(260)	(627)
Overprovision in prior years	(6)	(21)	(11)	(7)	(11)
Utilisation of tax loss previously not recognised	(169)	(3)	—	—	(2)
Tax effect of change in tax rate in the current year	(38)	—	—	—	—
Deferred tax arising from withholding tax on undistributed profit of a PRC subsidiary	—	839	925	409	525
Others	19	3	3	(2)	1
Taxation charge for the year/period	1,672	4,487	6,096	3,243	4,355

Note: The applicable PRC Enterprise Income Tax rate of 15%, 18%, 20%, 20% and 22% for the years ended 31 December 2007, 2008 and 2009 and six months ended 30 June 2009 and 2010 respectively is the prevailing tax rate in Shenzhen, the PRC, where the operations of the Group are substantially based and the taxation charge mainly represents income tax of Kangzhe Shenzhen.

10. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Profit for the year/period has been arrived at after charging:					
Directors' remuneration					
Fees	188	193	161	77	81
Other emoluments	308	328	340	173	151
Pension costs	17	12	15	4	8
	513	533	516	254	240
Other staff costs	7,633	10,668	13,082	5,658	5,656
Pension costs	529	626	674	287	306
Key employee benefit expense (note 43)	—	—	451	—	104
Total staff costs	8,675	11,827	14,723	6,199	6,306
Auditor's remuneration	165	135	150	75	75
Listing expenses (note)	2,773	—	—	—	1,221
Allowance for bad and doubtful debts	44	23	57	32	21
Allowance for inventories	92	119	10	8	116
Release of prepaid lease payments	6	7	7	4	33
Depreciation of property, plant and equipment	637	772	898	445	380
Amortisation of intangible assets (included in cost of goods sold)	59	793	1,115	585	419
Cost of inventories recognised as an expense	17,413	25,753	34,078	16,349	23,255
Minimum lease payment under operating lease in respect of property	448	591	621	359	294

Note: For the year ended 31 December 2007, the listing expenses represented the expenses paid for the admission of the shares to AIM of the London Stock Exchange plc. For the six months ended 30 June 2010, the listing expenses represent expenses paid for the listing of the shares on the Main Board of the Hong Kong Stock Exchange.

11. DIVIDENDS

Prior to the share sub-division effective on 28 June 2010 (see note 32) the directors of the Company declared or proposed following dividend for every ordinary share with par value of US$0.10.

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Dividend paid					
Interim dividend paid	—	2,362	4,741	—	—
Final dividend paid	—	3,307	4,725	4,725	4,741
Special dividend paid	—	1,418	—	—	—
	—	7,087	9,466	4,725	4,741
Dividends proposed					
Proposed final dividend	3,307	4,725	4,741	—	—
Proposed special dividend	1,418	—	—	—	—
Proposed interim dividend	—	—	—	4,725	—
	4,725	4,725	4,741	4,725	—

During the years ended 31 December 2007, 2008 and 2009 and six months ended 30 June 2009 and 2010, the directors of the Company declared an interim dividend of nil, US$0.05, US$0.10, US$0.10 and nil per ordinary share of par value of US$0.10 each amounting to nil, US$2,362,000, US$4,741,000, US$4,725,000 and nil respectively.

The directors of the Company propose to declare a final dividend of US$0.07, US$0.10 and US$0.10 and a special dividend of US$0.03, nil and nil per ordinary share of par value of US$0.10 each for the years ended 31 December 2007, 2008 and 2009 respectively. The proposed final dividend and special dividend proposed are subject to the approval by the shareholders of the Company in the forthcoming annual general meeting. As a result, an amount of US$4,725,000, US$4,725,000 and US$4,741,000 has been transferred to the dividend reserve for the years ended 31 December 2007, 2008 and 2009 respectively.

12. DISTRIBUTION IN SPECIE

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Distribution of one Healthlink share per one ordinary share with par value of US$0.10 of the Company in December 2009 (note 39(a))	—	—	8,681	—	—
Cash dividend	—	—	1,969	—	—
	—	—	10,650	—	—

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Earnings for the purposes of basic and diluted earnings per share (profit attributable to owners of the Company)	8,685	14,946	20,684	10,448	15,230

	Number of ordinary shares				
	As at 31 December			As at 30 June	
	2007	2008	2009	2009	2010
Weighted average number of ordinary shares for the purpose of basic earnings per share	874,647,599	944,927,520	946,290,084	944,927,520	946,963,529
Effect of dilutive potential ordinary shares on share options	538,965	—	5,132,705	—	10,643,868
Weighted average number of ordinary shares for the purpose of diluted earnings per share	875,186,564	944,927,520	951,422,789	944,927,520	957,607,397

The number of shares for the purpose of calculating basic and diluted earnings per share for the years ended 31 December 2007, 2008 and 2009 and six months ended 30 June 2009 and 2010 has been adjusted to reflect the share sub-division (see note 32) effective in June 2010.

For the purpose of the calculation of basic earnings per share for the year ended 31 December 2007, the weighted average number of shares for that year was adjusted for the capitalisation of 39,980,000 new ordinary shares on 25 April 2007 as if the capitalisation was occurred on 1 January 2007.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options for the year ended 31 December 2008 and to the six months ended 30 June 2009 as the exercise price of those options is higher than the average market price of the Company's shares.

14. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Buildings	Leasehold improvement	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
COST							
At 1 January 2007	2,298	18	2,447	886	757	527	6,933
Currency realignment	158	—	169	61	53	35	476
Additions	—	177	75	281	256	6	795
Acquired on acquisition of a subsidiary	—	—	—	—	6	—	6
Transfer	20	—	548	—	—	(568)	—
Disposals	—	(18)	(16)	—	(17)	—	(51)
At 31 December 2007	2,476	177	3,223	1,228	1,055	—	8,159
Currency realignment	170	12	227	102	78	—	589
Additions	—	—	112	614	233	—	959
Disposals	—	—	—	(108)	(32)	—	(140)
At 31 December 2008	2,646	189	3,562	1,836	1,334	—	9,567
Currency realignment	2	—	4	2	1	—	9
Additions	—	—	108	127	45	—	280
Disposals	—	—	(32)	(409)	(24)	—	(465)
Disposal of a subsidiary	—	—	—	—	(12)	—	(12)
Distribution of a subsidiary	—	—	(926)	—	(57)	—	(983)
At 31 December 2009	2,648	189	2,716	1,556	1,287	—	8,396
Currency realignment	15	1	15	9	7	—	47
Additions	—	—	—	51	50	—	101
Disposals	—	—	—	(31)	(1)	—	(32)
At 30 June 2010	2,663	190	2,731	1,585	1,343	—	8,512

	Buildings	Leasehold improvement	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
DEPRECIATION							
At 1 January 2007. . . .	653	18	847	422	494	—	2,434
Currency realignment . .	50	—	65	33	38	—	186
Provided for the year . .	132	28	278	117	82	—	637
Eliminated on disposals.	—	(18)	(7)	—	(13)	—	(38)
At 31 December 2007. .	835	28	1,183	572	601	—	3,219
Currency realignment . .	62	4	92	41	44	—	243
Provided for the year . .	142	62	300	156	112	—	772
Eliminated on disposals.	—	—	—	(97)	(29)	—	(126)
At 31 December 2008. .	1,039	94	1,575	672	728	—	4,108
Currency realignment . .	1	—	2	1	1	—	5
Provided for the year . .	135	63	291	262	147	—	898
Eliminated on disposals.	—	—	(30)	(305)	(17)	—	(352)
Disposal of a subsidiary	—	—	—	—	(6)	—	(6)
Distribution of a subsidiary	—	—	(600)	—	(37)	—	(637)
Impairment loss recognised (note) . . .	—	—	805	—	—	—	805
At 31 December 2009. .	1,175	157	2,043	630	816	—	4,821
Currency realignment .	7	1	11	4	5	—	28
Provided for the period.	63	32	84	129	72	—	380
Eliminated on disposals.	—	—	—	(26)	(1)	—	(27)
At 30 June 2010	1,245	190	2,138	737	892	—	5,202
CARRYING VALUES							
At 31 December 2007. .	1,641	149	2,040	656	454	—	4,940
At 31 December 2008. .	1,607	95	1,987	1,164	606	—	5,459
At 31 December 2009. .	1,473	32	673	926	471	—	3,575
At 30 June 2010	1,418	—	593	848	451	—	3,310

Note: During the year ended 31 December 2009, the directors conducted a review of certain of the Group's property, plant and equipment for production of medicines and determined that these plant and machinery were impaired. An impairment loss of US$805,000 (see note 6) was recognised in the consolidated statement of comprehensive income. The impairment was due to deteriorating demand in the medicines produced. The recoverable amount of the plant and machinery was determined based on a value-in-use calculation. For impairment test purpose, the calculation uses cash flow projections for the operation of production of medicines based on financial budgets approved by the management covering a five-year period at a discount rate of 15%.

The property, plant and equipment are depreciated over their estimated useful lives as follows:

Buildings	4.75%
Leasehold improvement	Over the lease term
Plant and machinery	18%
Motor vehicles	18%
Furniture, fixtures and equipment	18%

15. PREPAID LEASE PAYMENTS

THE GROUP

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
The Group's prepaid lease payments comprise:				
Leasehold land in PRC:				
Medium-term leases	263	274	267	3,164
Analysed for reporting purposes as:				
Current asset (included in trade and other receivables)	6	7	7	66
Non-current asset	257	267	260	3,098
	263	274	267	3,164

16. INVESTMENTS IN SUBSIDIARIES

THE COMPANY

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Investments at cost				
Unlisted shares	20	20	10	10

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

THE GROUP

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Cost of unlisted investment in a jointly controlled entity	—	—	—	—
Share of post-acquisition profits and other comprehensive income	—	—	43	68
	—	—	43	68

As at 31 December 2007, 2008 and 2009 and 30 June 2010, the details of the jointly controlled entity are as follows:

Name of jointly controlled entity	Place of establishment and business	Attributable interest held by the Group	Principal activity
Guangdong Lan Tai Kanghong Pharmaceutical Ltd.* ("Guangdong Lantai") 廣東蘭太康虹醫藥有限公司	PRC	55% (Note)	Distribution of medicine

* The English name is translated for identification purpose only.

Note: In November 2007, the Group acquired a 55% equity interest in Guangdong Lantai at nil consideration from a third party. The Group holds 55% of the registered share capital of Guangdong Lantai and has the power to appoint three out of the five directors of Guangdong Lantai. The remaining shareholding is held by one independent shareholder. However, under Guangdong Lantai's memorandum and articles of association, the power to govern the financial and operating policies rests with the Board of Directors of Guangdong Lantai and it requires two-third of the directors to approve the respective policies. The directors of the Company consider that the Group does not have control over Guangdong Lantai and has classified Guangdong Lantai as a jointly controlled entity.

The summarised financial information in respect of the Group's interest in a jointly controlled entity which is accounted for using equity method is set out below:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Total assets	433	476	782	854
Total liabilities	(459)	(518)	(704)	(731)
Net (liabilities) assets	(26)	(42)	78	123
Group's share of net assets of a jointly controlled entity	—	—	43	68

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000	US$'000
Turnover	—	525	1,179	224	580
(Loss) profit for the year/period	(14)	(14)	121	38	45
Group's share of result of a jointly controlled entity	—	—	43	21	25

18. INTEREST IN AN ASSOCIATE

THE GROUP

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Cost of unlisted investment in an associate	229	378	1,687	1,687
Share of post-acquisition (losses) profits and other comprehensive income, net of dividends received	(52)	157	(180)	(189)
Unrealised profit recognised	21	—	—	—
	198	535	1,507	1,498

As at 31 December 2007, 2008 and 2009 and 30 June 2010, the details of the associates are as follows:

Name of associate	Place of establishment/ incorporation	Attributable interest held by the Group				Principal activities
		As at 31 December			As at 30 June	
		2007	2008	2009	2010	
Shenzhen Shenke Medical Instrument Technological Development Limited* ("Shenzhen Shenke") 深圳市深科醫療器械技術開發有限公司 (Note 1)	PRC	51%	51%	—	—	Research and development, production and distribution of medical devices
Ophol Limited ("Ophol") (Note 2)	Hong Kong	—	—	24.49%	24.49%	Investment holding and provision of agency service

* The English name is translated for identification purpose only.

Notes:

(1) The Group held 51% of the registered share capital of Shenzhen Shenke and has the power to appoint four out of seven directors of Shenzhen Shenke. The other three shareholders of Shenzhen Shenke each has the power to appoint one director of Shenzhen Shenke. Pursuant to the shareholders' agreement, the power to govern the financial and operating policies rests with the Board of Directors of Shenzhen Shenke and it requires two-third of the directors to approve the respective policies. As a result, the Group does not have control over Shenzhen Shenke. The directors of the Company consider that the Group does exercise significant influence over Shenzhen Shenke and it is therefore classified as an associate of the Group.

During the year ended 31 December 2009, the associate was disposed of to third parties and a related company (note 41) at a consideration of RMB1,235,000 and RMB1,765,000 (equivalent to approximately US$181,000 and US$258,000) respectively and loss on disposal of US$70,000 was recognised in profit or loss.

(2) On 20 February 2009, the Group entered into an agreement (the "Ophol Agreement") with the controlling shareholder of Ophol to acquire its equity interest of 73.47% in Ophol at a consideration of RMB22,500,000 (equivalent to approximately US$3,295,000). In which, RMB18,000,000 (equivalent to approximately US$2,636,000) was paid at initial and the rest RMB4,500,000 (equivalent to approximately US$659,000) would be paid over four years beginning from 2010. Before the completion of the transaction under the Ophol Agreement, on 15 March 2009, the Group entered into separate agreements (the "March Agreements") with each of the other two original shareholders of Ophol. Pursuant to the two March Agreements, the Group transferred a 24.49% equity interest in Ophol to each of the other two original shareholders of Ophol at the consideration of RMB7,500,000 (equivalent to approximately US$1,098,000) each. Upon the completion of the March Agreements, the Group holds 24.49% equity interest in Ophol, while the other two original shareholders of Ophol hold equity interest of 38.78% and 36.73% respectively. On the same date, the Group entered into a supplementary agreement with the controlling shareholder of Ophol, the other two original shareholders of Ophol, Ophol and Qingdao League Pharmaceutical Co., Ltd. ("Qingdao League") for the purpose to ratify the terms of the Ophol Agreement and the March Agreements.

All the transactions mentioned above were completed in June 2009. As a result of all the agreements above, the Group in substance acquired 24.49% equity interest in Ophol at a consideration of RMB7,500,000 (equivalent to approximately US$1,098,000). In which, RMB6,000,000 (equivalent to approximately US$879,000) was paid at initial and the rest RMB1,500,000 (equivalent to approximately US$219,000) would be paid over four years beginning from 2010.

The holding of 24.49% equity interest in Ophol was classified as an associate of the Group and discount on acquisition of US$647,000 is recognised in the profit or loss.

The summarised financial information in respect of the Group's associate is set out below:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Total assets	453	1,211	6,154	6,117
Total liabilities	(65)	(161)	—	(1)
Net assets	388	1,050	6,154	6,116
Group's share of net assets of an associate	198	535	1,507	1,498

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000	US$'000
Turnover	1,084	1,654	2,170	907	175
Profit for the year/period	151	298	178	(9)	170
Other comprehensive income (expense)	—	71	(3)	—	(23)
Group's share of results of associates for the year/period	56	152	30	(26)	42
Group's share of other comprehensive income and expense of associates	—	36	(1)	—	(5)

19. AVAILABLE-FOR-SALE INVESTMENT

THE GROUP

In February 2007, the Group acquired a 51% equity interest in Qingdao League, a limited liability company established in the PRC, from independent third parties pursuant to an existing joint venture agreement commencing on 7 February 2007 and expiring 20 years from that date. The cash consideration amounting to RMB5,865,000 (equivalent to approximately US$770,000) was paid by the Group.

On 10 February 2007, the Group entered into an operation agreement (the "Operation Agreement") with Ophol, the other shareholder of Qingdao League. Pursuant to the Operation Agreement, Ophol is wholly responsible for the management and operation of the business of Qingdao League in particular, the wholesale of supermarket business. The Group does not participate in the management and operation of Qingdao League and the resulting operating results and liabilities of Qingdao League are solely borne by Ophol. With reference to the joint venture agreement of Qingdao League and the Operation Agreement, the directors of the Company consider that the Group does not have control over Qingdao League nor exercise a significant influence on Qingdao League; therefore the investment in Qingdao League is regarded as an available-for-sale investment of the Group.

As at 31 December 2007, the directors of the Company are of the view that the Group can fully recover the contributed capital attributable to the Group in Qingdao League amounting to RMB2,550,000 (equivalent to approximately US$335,000) upon the expiry of the joint venture period of Qingdao League. The fair value of the available-for-sale investment is determined by discounting the amount of US$335,000 to be recovered after 20 years to its present value as at the date of purchase of US$126,000.

On 16 July 2008, Kangzhe Shenzhen entered into a sale and purchase agreement with Qingdao Leatu Trading Ltd ("Qingdao Leatu"), a company which has common shareholder with Ophol, to dispose the Group's 51% equity interest in Qingdao League with a consideration of approximately RMB1,329,000 (equivalent to approximately US$187,000). The carrying amount as at disposal date is equaled to the consideration and no gain or loss arose from this transfer (see note 20(b)).

20. INTANGIBLE ASSETS

THE GROUP

	Exclusive distribution right	Exclusive agency right	Total
	US$'000 (Note a)	US$'000 (Note b)	US$'000
COST			
Acquired during the year ended 31 December 2007 (note a(i))	644	—	644
Exchange realignment	27	—	27
At 31 December 2007	671	—	671
Exchange adjustments	78	—	78
Additions (note a(ii))	919	6,775	7,694
Transfer	(717)	628	(89)
At 31 December 2008	951	7,403	8,354
Exchange adjustments	1	—	1
At 31 December 2009	952	7,403	8,355
Exchange adjustments	5	—	5
Adjustment (note a(iii))	(258)	—	(258)
At 30 June 2010	699	7,403	8,102
AMORTISATION			
Charge for the year ended 31 December 2007	(59)	—	(59)
Exchange realignment	(2)	—	(2)
At 31 December 2007	(61)	—	(61)
Exchange adjustments	(14)	—	(14)
Charge for the year	(302)	(491)	(793)
Transfer	89	—	89
At 31 December 2008	(288)	(491)	(779)
Charge for the year	(294)	(821)	(1,115)
At 31 December 2009	(582)	(1,312)	(1,894)
Exchange adjustments	(3)	—	(3)
Charge for the period	(49)	(370)	(419)
At 30 June 2010	(634)	(1,682)	(2,316)
CARRYING VALUES			
At 31 December 2007	610	—	610
At 31 December 2008	663	6,912	7,575
At 31 December 2009	370	6,091	6,461
At 30 June 2010	65	5,721	5,786

(a) Exclusive distribution right

(i) On 10 February 2007, the Group entered into a supplemental agreement with Qingdao League, which gave the Group an exclusive distribution right of Augentropfen Stulln Mono ("Stulln"), which is a finished drug product under the trade name of Augentropfen Stulln Mono in the PRC for a term of ten years with effect from 1 January 2007 to 31 December 2016. In the opinion of the directors of the Company, the exclusive distribution right of Stulln was acquired by the Group in connection with the Operation Agreement (as defined in note 19). Accordingly, the cost of the intangible asset of exclusive distribution right amounting to US$644,000 obtained from Qingdao League was determined as the excess of the consideration paid of US$770,000 over the fair value of the investment in Qingdao League as at the date of acquisition of US$126,000. The expected useful life of the exclusive distribution right of Stulln was 10 years.

The exclusive distribution right of Stulln was early terminated when the Group entered into a supplementary agreement with Ophol and the supplier of Stulln in Germany in July 2008. The remaining unamortised carrying amount of this exclusive distribution right of Stulln qualified as a direct attributable cost in acquiring the exclusive agency right of Stulln, pursuant to the Group entered into such supplementary agreement with Ophol and the supplier of Stulln in Germany in July 2008 (see (b) below).

Accordingly, the remaining unamortised carrying amount of the exclusive distribution right of Stulln amounting to US$628,000 was then transferred to the exclusive agency right of Stulln. The details are set out in (b) below.

(ii) On 9 March 2008, the Group entered into an exclusive distribution agreement and a supplementary agreement (the "Nesiritide Agreements") with 西藏諾迪康藥業股份有限公司 (Tibet Rhodiola Pharmaceutical Holding Co., Ltd.) ("Rhodiola") in connection to a finished drug product (Lyophilized Recombinant Human Brain Natriuretic Peptide) which is distributed in the PRC market since 2005 under the trade name of Nesiritide for a term of three years with effect from 1 July 2008 to 30 June 2011.

Pursuant to the Nesiritide Agreements, the Group has obtained the exclusive distribution right of Nesiritide at nil consideration and has committed to handle the Phase IV clinical trials of Nesiritide for 2,000 cases in the PRC to meet the drug safety standards set by the Food and Drug Administration in the PRC ("SFDA"). The drug, Nesiritide, to be used in the 2,000 case clinical trials will be provided by Rhodiola free of charge. All other costs of the 2,000 case clinical trials should be borne by the Group. The management of the Group estimates the total costs to be incurred for completion of the 2,000 case clinical trials would be approximately RMB6,500,000 (equivalent to approximately US$919,000).

In the opinion of the directors of the Company, the Group obtained the exclusive distribution right of Nesiritide on the basis that the Group should complete the clinical trials of Nesiritide and bear all the costs of the clinical trials. Therefore, the estimated costs to be incurred in clinical trials of US$919,000 are capitalised as an intangible asset with corresponding liability recognised on initial recognition.

The expected useful life of the exclusive distribution right of Nesiritide is 3 years.

(iii) During the six months ended 30 June 2010, an adjustment of RMB 1,755,000 (equivalent to approximately US$258,000) in respect of an over accrual of cost of clinical trials in the previous years was made as a result of completion of the 2,000 case clinical trials.

(b) Exclusive agency right

On 26 April 2008, a transfer agreement was entered into between Ophol, Qingdao League and Pharma Stulln GmbH ("Pharma", the supplier of Stulln in Germany) in connection to the transfer of the exclusive agency right of Stulln in the PRC from Qingdao League to Ophol at nil consideration. After Ophol has obtained the exclusive agency right of Stulln in the PRC, Ophol agreed to transfer such exclusive agency right to the Group on condition that the 51% equity interest of Qingdao League owned by Kangzhe Shenzhen would be transferred to Qingdao Leatu under the sale and purchase agreement as described in note 19 above. On 15 July 2008, the Group entered into a supplementary agreement with Ophol and Pharma in connection to the transfer of exclusive agency right of Stulln, from Ophol to CMS Pharmaceutical Agency, a wholly-owned subsidiary of the Company, at a consideration of RMB60,000,000 (equivalent to approximately US$8,779,000). CMS Pharmaceutical Agency will pay annually of RMB6,000,000 (equivalent to approximately US$878,000) to Ophol over the next ten years to settle the consideration. The directors of the Group recognise the payable as a deferred consideration (see note 30) in the amount of US$6,775,000, which represents the present value of the consideration of US$878,000 over next 10 years discounted at 5%. CMS Pharmaceutical Agency has replaced Qingdao League as the exclusive agent of Stulln for Pharma in the PRC from 1 August 2008 to 31 July 2018.

The expected useful life of the exclusive agency right is 10 years.

21. GOODWILL

THE GROUP

	US$'000
At 1 January 2007	
Arising on acquisition of a subsidiary	581
At 31 December 2007 and 31 December 2008	581
Eliminated on disposal of a subsidiary	(202)
At 31 December 2009 and 30 June 2010	379

For the purposes of impairment testing, the entire amount of goodwill has been allocated to two cash generating units ("CGUs") representing two subsidiaries, one is engaged in distribution and import of drugs which amounted to US$379,000 for the three years ended 31 December 2009 and six months ended 30 June 2010 and the other one is engaged in production of medical devices which amounted to US$202,000 for the two years ended 31 December 2008. In December 2009, the Group disposed of its equity interest in a subsidiary, Shandong Baolihao which engaged in the production of medical devices.

Particulars regarding impairment testing on goodwill arising from acquisition of subsidiaries are disclosed as follows:

The recoverable amount of each of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the Relevant Periods. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past performance and expectations of future changes in the market.

During the Relevant Periods, the Group performed impairment review for goodwill based on the cash flow projections which was derived from the financial budgets approved by the management covering a three-year period with discount rate of 10%, 20%, 15% and 15% for the years ended 31 December 2007, 2008 and 2009 and six months ended 30 June 2010 respectively. For impairment review purpose, the cash flow projections was extrapolated for two years to a five-year period based on the assumption that no growth is expected after the third year. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectation for the market development. The directors of the Company consider that no impairment loss on goodwill should be recognised.

22. DEFERRED TAX

THE GROUP

The following are the deferred tax assets (liabilities) recognised and movements thereon during the Relevant Periods:

	Unrealised profits on inventories	Undistributed profits of PRC subsidiary	Others (note)	Total
	US$'000	US$'000	US$'000	US$'000
At 1 January 2007	222	—	—	222
Credit to profit or loss for the year (note 9)	152	—	17	169
Effect of change in tax rate (note 9)	38	—	—	38
At 31 December 2007	412	—	17	429
Credit (charge) to profit or loss for the year (note 9)	653	(839)	(17)	(203)
Exchange differences	8	—	—	8
At 31 December 2008	1,073	(839)	—	234
Credit (charge) to profit or loss for the year (note 9)	244	(925)	120	(561)
Exchange differences	(5)	—	—	(5)
At 31 December 2009	1,312	(1,764)	120	(332)
Charge to profit or loss for the period (note 9)	(268)	(525)	(12)	(805)
Exchange differences	1	—	—	1
At 30 June 2010	1,045	(2,289)	108	(1,136)

Note: These mainly represent the deferred tax assets recognised in relation to impairment loss on plant and machinery for the year ended 31 December 2009 as explained in note 14.

The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Deferred tax assets	429	1,073	1,432	1,153
Deferred tax liabilities	—	(839)	(1,764)	(2,289)
	429	234	(332)	(1,136)

The Group has unused tax losses of approximately US$4,310,000, US$6,659,000, US$2,178,000 and US$2,294,000 as at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively available for offsetting against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2007, 2008 and 2009 and 30 June 2010 are tax losses of approximately US$3,804,000, US$5,859,000, US$1,378,000 and US$1,439,000 respectively that will expire within 5 years from the year of originating. Other tax losses may be carried forward indefinitely.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided for in the Financial Information in respect of temporary differences attributable to accumulated profits of the PRC subsidiary amounting to nil, US$16,772,000, US$35,280,000 and US$45,766,000 at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively.

23. INVENTORIES

THE GROUP

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Raw materials	164	46	222	97
Work in progress	27	104	32	35
Finished goods	10,486	5,795	10,806	17,305
	10,677	5,945	11,060	17,437

24. TRADE AND OTHER RECEIVABLES

THE GROUP

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Trade receivables	14,785	17,441	20,959	29,166
Less: Allowance for bad and doubtful debts	(307)	(221)	(213)	(235)
	14,478	17,220	20,746	28,931
Bills receivables	2,669	7,062	9,513	8,910
Other receivables and deposits	2,158	3,402	2,535	3,644
Total trade and other receivables	19,305	27,684	32,794	41,485

The Group normally allows a credit period ranging from 0 to 90 days to its trade customers. Lengthened credit period up to six months was allowed to some selected customers.

An aging analysis of the trade receivables net of allowance for bad and doubtful debts presented based on the invoice date at the respective reporting dates is as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
0 - 90 days	12,164	14,811	17,879	25,640
91 - 365 days	2,188	2,316	2,839	3,262
Over 365 days	126	93	28	29
	14,478	17,220	20,746	28,931

The bills receivables of the Group are of the age within six months at the end of the reporting periods.

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of US$4,107,000, US$4,291,000, US$4,476,000 and US$5,929,000 at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, trade receivables past due but not impaired are generally recoverable. The Group does not hold any collateral over these balances.

The following is an aging analysis of trade receivables which are past due but not impaired:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
0 - 90 days	1,797	2,127	2,274	3,004
91 - 365 days	2,184	2,071	2,174	2,896
Over 365 days	126	93	28	29
	4,107	4,291	4,476	5,929

The Group has provided fully for all receivables over 3 years because historical experience is such that receivables that are past due beyond 3 years are generally not recoverable.

Movement in the allowance for bad and doubtful debts:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Balance at beginning of the reporting period	244	307	221	213
Impairment losses recognised on receivables	44	23	57	21
Amount written off as uncollectible	—	(127)	(65)	—
Currency realignment	19	18	—	1
Balance at end of the reporting period	307	221	213	235

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of US$307,000, US$221,000, US$213,000 and US$235,000 at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively as the management considered it is not probable to recover these amounts. The Group does not hold any collateral over these balances.

25. OTHER ASSET/LIABILITIES

THE GROUP

(a) The amount due from an associate and amounts due from directors were unsecured, interest-free and repayable on demand.

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Amounts due from directors				
Hou Xiaoxuan	5	—	—	—
Chen Hongbing	3	—	—	—
Hui Ki Fat	12	43	—	—
	20	43	—	—

(b) Included in amount due from a jointly controlled entity amounting to US$312,000 and US$335,000 at 31 December 2009 and 30 June 2010 respectively is trade nature and is aged within three months. The Group allows a credit period of three months to its jointly controlled entity. The remaining amount is unsecured, interest-free and repayable on demand.

THE COMPANY

(a) The amounts due from subsidiaries are unsecured, interest-free and repayable on demand. In the opinion of directors, the amount will be realised within one year from the end of the reporting period.

(b) The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

26. HELD FOR TRADING INVESTMENTS

THE GROUP

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Held for trading investments include:				
- Equity securities listed in PRC.	—	—	31	406

27. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

THE GROUP

The bank deposits and pledged bank deposits carry interest at the prevailing market rate of approximately 0.72% to 5.00%, 0.36% to 5.00%, 0.36% to 1.71% and 0.50% to 2.25% per annum for the years ended 31 December 2007, 2008 and 2009 and six months ended 30 June 2010 respectively.

As at 31 December 2008, the pledged bank deposits amounting to US$1,060,000 represent deposits pledged to banks to secure the issuance of letters of credit and therefore classified as current assets.

As at 31 December 2009 and 30 June 2010, included in pledged bank deposits amounting to US$17,380,000 and US$17,456,000 respectively represent deposits pledged to banks to secure short-term bank borrowings (see note 29). The remaining pledged bank deposits amounting to US$261,000 and US$336,000 respectively represent deposits pledged to banks to secure the issuance of foreign currency forward contracts. Therefore the pledged bank deposits are classified as current assets.

28. TRADE AND OTHER PAYABLES

THE GROUP

An aging analysis of the trade payables presented based on the invoice date at the end of each reporting period is as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Trade payables				
0 - 90 days	1,272	5,562	6,067	4,299
91 - 365 days	9,122	24	5	1
Over 365 days	7	7	7	7
	10,401	5,593	6,079	4,307
Payroll and welfare payables	1,049	1,564	2,239	2,052
Other tax payables	440	461	926	1,614
Other payables and accruals	1,030	1,634	1,818	4,262
	12,920	9,252	11,062	12,235

The credit period on purchases of goods is ranging from 0 to 120 days.

29. BANK BORROWINGS - SECURED

THE GROUP

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Import trade loans	—	—	7,557	5,906
Bank loans	—	—	8,960	10,440
	—	—	16,517	16,346
Carrying amount repayable within one year	—	—	16,517	16,346

The bank borrowings are denominated in US$. Import trade loans carried fixed interest at a range from 1.53% to 1.87% and 1.39% to 1.87% per annum for the year ended 31 December 2009 and six months ended 30 June 2010, respectively.

The remaining bank loans bear interest at a range from LIBOR to LIBOR + 0.35% per annum. The range of effective interest rates (which are also equal to contracted interest rates) on the bank loans was from 0.58% to 1.62% and 0.25% to 0.89% per annum for the year ended 31 December 2009 and six months ended 30 June 2010, respectively.

The bank borrowing are secured by the Group's pledged bank deposits amounting to US$17,380,000 and US$17,456,000 at 31 December 2009 and 30 June 2010, respectively (see note 27).

30. DEFERRED CONSIDERATION PAYABLES

THE GROUP

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Non-current	—	6,179	5,291	4,986
Current	—	685	838	811
	—	6,864	6,129	5,797

During the year ended 31 December 2008, the Group acquired an agency right from Ophol which has become the associate of the Group during the year ended 31 December 2009 for a consideration of RMB60,000,000 (equivalent to approximately US$8,779,000) (see note 20(b)). The consideration is payable annually of RMB6,000,000 (equivalent to approximately US$878,000) for 10 years commencing on 26 April 2008. The present value of the discounted consideration at an interest rate of 5% amounting to US$6,775,000 was accounted for by the Group as deferred consideration payables at initial recognition. The carrying value amounting to US$6,864,000, US$5,966,000 and US$5,633,000 at 31 December 2008, 31 December 2009 and 30 June 2010 respectively is included in deferred consideration payables.

At 31 December 2009 and 30 June 2010, the remaining deferred consideration payables represented consideration for the acquisition of an associate, Ophol (see note 18(2)).

31. DERIVATIVE FINANCIAL INSTRUMENTS

THE GROUP

Derivative under hedge accounting

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Cash flow hedges				
- Interest rate swaps	—	—	74	131
- Foreign currency forward contracts	—	—	71	(18)
	—	—	145	113

(i) Interest rate swaps

The Group uses interest rate swaps to minimise its exposure to interest expenses of certain of its floating-rate US dollar bank borrowings by swapping floating interest rates to fixed interest rates. The interest rate swaps and the corresponding bank borrowings have the same terms and the directors of the Company considered that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps are set out below:

At 31 December 2009

Notional amount	Maturity	Swaps
US$3,765,000	28 September 2010	From 1-month LIBOR + 0.35% to 1.47%
US$1,470,000	29 November 2010	From 3-month LIBOR + 0.35% to 1.68%
US$1,617,000	14 December 2010	From 3-month LIBOR + 0.35% to 1.68%
US$2,108,000	30 December 2010	From 3-month LIBOR + 0.35% to 1.68%

At 30 June 2010

Notional amount	Maturity	Swaps
US$3,765,000	28 September 2010	From 1-month LIBOR + 0.35% to 1.47%
US$1,470,000	29 November 2010	From 3-month LIBOR + 0.35% to 1.68%
US$1,617,000	14 December 2010	From 3-month LIBOR + 0.35% to 1.68%
US$2,108,000	30 December 2010	From 3-month LIBOR + 0.35% to 1.68%
US$1,481,000	9 February 2011	From 3-month LIBOR to 1.68%

(ii) Foreign currency forward contracts

The Group had the following foreign currency forward contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to US dollar interest and principal payments of its US dollar bank borrowings.

The terms of the foreign currency forward contracts have been negotiated to match the terms of the respective designated hedged items. Major terms of the foreign currency forward contracts are as follows:

At 31 December 2009

Notional amount	Maturity	Exchange rates
Buy US$2,140,000	23 August 2010	US$1: RMB 6.822
Buy US$3,821,000	28 September 2010	US$1: RMB 6.858
Buy US$1,470,000	2 December 2010	US$1: RMB 6.638
Buy US$1,620,000	14 December 2010	US$1: RMB 6.719
Buy US$2,140,000	30 December 2010	US$1: RMB 6.686

At 30 June 2010

Notional amount	Maturity	Exchange rates
Buy US$2,140,000	23 August 2010	US$1: RMB 6.822
Buy US$3,821,000	28 September 2010	US$1: RMB 6.858
Buy US$1,470,000	2 December 2010	US$1: RMB 6.638
Buy US$1,620,000	14 December 2010	US$1: RMB 6.719
Buy US$2,140,000	30 December 2010	US$1: RMB 6.686
Buy US$1,510,000	9 February 2011	US$1: RMB 6.699

32. SHARE CAPITAL

THE GROUP AND THE COMPANY

	Number of shares	Amount
	'000	US$'000
Authorised share capital:		
At 1 January 2007	10,000	1,000
Increase in authorised share capital (note 1)	990,000	99,000
At 31 December 2007, 2008 and 2009	1,000,000	100,000
Increase in authorised share capital (note 5)	19,000,000	—
At 30 June 2010	20,000,000	100,000
Issued and fully paid:		
At 1 January 2007	20	2
Issue of shares on capitalisation (note 1)	39,980	3,998
Issue of shares upon placing and admission to AIM (note 2)	7,246	725
At 31 December 2007 and 2008	47,246	4,725
Issue of shares to Key Employee Benefit Scheme (note 3)	162	16
At 31 December 2009	47,408	4,741
Issue of shares to Key Employee Benefit Scheme (note 3)	12	1
Issue of shares in consideration of acquisition of additional interest in a subsidiary (note 4)	264	26
Share sub-division (note 5)	906,007	—
At 30 June 2010	953,691	4,768

Notes:

(1) Pursuant to the written shareholders' resolutions of the Company dated on 25 April 2007, the Company increased its authorised share capital from 10,000,000 to 1,000,000,000 through the creation of 990,000,000 ordinary shares at US$0.10 per share.

On the same day, the shareholders authorised a capitalisation issue of 39,980,000 ordinary shares. The Group has transferred US$3,998,000 from the capital reserve to the share capital to reflect this issue. Such new ordinary shares were credited as fully paid and rank pari passu with the then existing shares.

(2) On 26 June 2007, 7,246,376 new ordinary shares of US$0.10 of the Company were issued at GBP1.38 per share (equivalent to US$2.76 per share) by way of placing and initial public offering on AIM.

(3) On 31 July 2009 and 14 May 2010, 162,528 and 11,835 new ordinary shares of US$0.10 of the Company were issued at GBP1.68 per share (equivalent to US$2.78 per share) and GBP5.99 per share (equivalent to US$8.8 per share) respectively for cash to the trust under the Key Employee Benefit Scheme (the "Scheme") (see note 43).

(4) On April 2010, pursuant to sales and purchase agreement entered on 19 April 2010, the Company issued 263,833 new ordinary shares of the Company of US$0.10 as the consideration for the acquisition of additional interest in Sky United.

(5) Pursuant to the resolutions of the shareholders passed on 25 June 2010 and effective on 28 June 2010, each issued and unissued share in the share capital of the Company of a par value of US$0.10 was sub-divided into 20 new shares of a par value of US$0.005 each. Effective from 28 June 2010, the authorised and issued share capital of the Company is 20,000,000,000 ordinary shares of a par value of US$0.005 each and 953,691,440 ordinary shares of a par value of US$0.005 each respectively.

All the shares which were issued by the Company during the year ended 31 December 2007 and 31 December 2009 and six months ended 30 June 2010 rank pari passu with each other in all respects.

33. SHARE OPTIONS

THE GROUP AND THE COMPANY

The Company granted share options of 708,695 shares with an exercise price of GBP1.38 per share on 26 June 2007. These options were granted to Evolution, the underwriters of the Company on the Company's initial public offering on AIM, in exchange for a payment of GBP1.00 from Evolution to the Company. These options are exercisable over a period of five years and vest on 26 June 2007. The share options will expire on 25 June 2012. The estimated fair value per share of these options is GBP0.4019 (equivalent to US$0.8046) with a total fair value of US$570,000. In addition to the share options granted to Evolution on successful basis, the Company paid an underwriting commission of US$1,151,000 (equivalent to GBP575,000) to Evolution representing 5.75% to the gross proceeds of the new issue. Such underwriting commission of US$1,151,000 settled in cash was recognised in the share premium account together with other listing expenses allocated to the new issued shares.

On 9 March 2009, Mr. Chen Hong Bing, a director of the Company, acquired the share options of 708,695 shares from Evolution. There was no other movement in the share options for the Relevant Periods.

On 28 June 2010, pursuant to the terms of the share options, the exercisable shares and exercise price had been adjusted to 14,173,900 share and GBP0.069 per share respectively to reflect the share sub-division (note 32).

This fair value was calculated using the binominal model. The inputs into the model were as follows:

	2007
Stock price at date of grant	GBP1.380
Exercise price	GBP1.380
Standard deviation	35%
Expected life	5 years
Risk-free rate	5.689%
Expected dividend yield	4%
Exercise multiple	2

The Group recorded the fair value of these options of US$570,000 to a share options reserve for the year ended 31 December 2007 as these options were granted by the Company in connection with the underwriting of the shares of the Company.

34. RESERVES

THE GROUP

Capital reserve

Capital reserve resulted from transactions between the Group and its shareholders. It mainly represents equity shares of Kangzhe Shenzhen granted by Mr. Lam Kong to certain employees for their services rendered before the Relevant Periods, rights granted by Mr. Lam Kong to certain employees to receive cash at a pre-determined formula for their services rendered before the Relevant Periods, waiver of an advance to the Company by Mr. Lam Kong in 2006, discount on acquisitions of additional interest in subsidiaries from Mr. Lam Kong in 2004 and 2005, the difference between the transfer of the entire interest in Kangzhe Shenzhen to Sino Talent pursuant to the group restructuring in 2005 and the nominal value of Kangzhe Shenzhen's share capital, and difference between the par value of shares issued by the Company for the entire interest in CMS International and Healthlink pursuant to the Group Reorganisation and the nominal value of the issued share capital of CMS International and Healthlink in preparation for the listing of the Company's shares. The balance was reduced by capitalisation issue in 2007 (note 32). The equity shares and rights granted by Mr. Lam Kong to certain employees had been terminated before the Relevant Periods.

During the six months ended 30 June 2010, the Group acquired additional interest in Sky United. An amount of US$2,221,000, representing the excess of the fair value of the new ordinary shares issued by the Company (note 32) over the carrying value of the non-controlling interest is charged to capital reserve.

Surplus reserve fund

Articles of Association of the Group's subsidiaries established in the PRC require the appropriation of certain percentage of their profit after taxation each year to the surplus reserve fund until the balance reaches 50% of the registered capital of the relevant subsidiaries. In normal circumstances, the surplus reserve fund shall only be used for making up losses, capitalisation into registered capital and expansion of the subsidiaries' production and operation. For the capitalisation of surplus reserve fund into registered capital, the remaining amount of such reserve shall not be less than 25% of the registered capital.

Public welfare fund

The public welfare fund could only be utilised on capital nature items for the collective welfare of employees. The public welfare fund formed part of the shareholders' equity but it was not distributable other than in liquidation.

Pursuant to the changes of the relevant PRC regulations, the Group was no longer required to appropriate part of its profit to the public welfare fund. The balance of the public welfare fund at 1 January 2007 was then transferred to the surplus reserve fund during the year ended 31 December 2007.

	Share premium	Capital reserve	Share options reserve	Accumulated (losses) profits	Dividend reserve	Total
	US$'000	US$'000 (Note)	US$'000	US$'000	US$'000	US$'000
THE COMPANY						
At 1 January 2007	—	5,707	—	—	—	5,707
Loss for the year	—	—	—	(2,864)	—	(2,864)
Issue of shares on capitalisation	—	(3,998)	—	—	—	(3,998)
Issue of shares upon placing and admission to AIM	19,264	—	—	—	—	19,264
Recognition of equity-settled share-based payment	(570)	—	570	—	—	—
Expenses incurred in connection with the issue of shares upon placing and admission to AIM	(1,547)	—	—	—	—	(1,547)
Dividends proposed - 2007	—	—	—	(4,725)	4,725	—
At 31 December 2007	17,147	1,709	570	(7,589)	4,725	16,562
Loss for the year	—	—	—	(744)	—	(744)
Dividends paid	—	—	—	(2,362)	(4,725)	(7,087)
Dividends proposed - 2008	—	—	—	(4,725)	4,725	—
At 31 December 2008	17,147	1,709	570	(15,420)	4,725	8,731
Profit for the year	—	—	—	25,412	—	25,412
Issue of shares	435	—	—	—	—	435
Effect of distribution in specie	(11,503)	—	—	—	—	(11,503)
Dividends paid	—	—	—	(4,741)	(4,725)	(9,466)
Dividends proposed - 2009	—	—	—	(4,741)	4,741	—
At 31 December 2009	6,079	1,709	570	510	4,741	13,609
Loss for the period	—	—	—	(1,534)	—	(1,534)
Issue of shares	103	—	—	—	—	103
Issue of shares consideration of acquisition of additional interest in a subsidiary	2,299	—	—	—	—	2,299
Dividends paid	—	—	—	—	(4,741)	(4,741)
At 30 June 2010	8,481	1,709	570	(1,024)	—	9,736

Note: Capital reserve resulted from transactions between the Company and its shareholders. It mainly represents waiver of an advance to the Company by Mr. Lam Kong in 2006, and difference between the par value of shares issued by the Company for the entire interest in CMS International and Healthlink pursuant to the Group Reorganisation and the nominal value of the issued share capital of CMS International and Healthlink in preparation for the listing of the Company's shares. The balance was reduced by the capitalisation issue in 2007 (note 32).

35. NON-CONTROLLING INTERESTS

THE GROUP

As at 31 December 2007 and 2008, the amounts represented the agreed share of net liabilities of subsidiaries by non-controlling shareholders.

Pursuant to supplementary shareholders' agreements entered on 28 April 2004 and 2 January 2007, the non-controlling shareholders of Hunan Pharmapep and Crosspac respectively, 70% subsidiaries of the Company, agreed to contribute additional capital to Hunan Pharmapep and Crosspac to make good of the losses incurred.

36. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Group consists of cash and cash equivalents, bank borrowings and equity attributable to owners of the Company, comprising issued share capital and reserves including accumulated profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues.

37. FINANCIAL INSTRUMENTS

Categories of financial instruments

	THE GROUP			
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	34,932	45,657	63,494	66,479
Available-for-sale financial assets	162	—	—	—
Held-for-trading financial assets	—	—	31	406
Derivative instruments in designated hedge accounting relationship	—	—	—	18
Financial liabilities				
Derivative instruments in designated hedge accounting relationship	—	—	(145)	(131)
Amortised cost	(12,920)	(16,116)	(29,771)	(28,582)

	THE COMPANY			
	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	22,365	13,623	18,482	14,312
Financial liabilities				
Amortised cost	(1,098)	(182)	(142)	—

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, bank borrowings, deferred consideration payables and derivative financial instruments. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk, currency risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Company's major financial instruments include amounts due from (to) subsidiaries, bank balances and cash and other payables. The risks associated with these financial instruments include credit risk and liquidity risk. The directors of the Company consider that the market risk is minimal.

Market risk

Interest rate risk

The Group's fair value interest rate risk is the risk that the fair value of a fixed rate financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. In order to keep borrowings at fixed rate and to minimise the cash flow interest rate risk, the Group uses floating to fixed interest rate swaps to manage the cash flow interest rate risk exposure associated with the bank borrowings amounting to US$8,960,000 and US$10,440,000 at 31 December 2009 and 30 June 2010 respectively carrying at floating rates (see note 31 for details) and therefore no sensitivity analysis is provided. Interest rate swaps, fixed rate bank balances and bank borrowings expose the Group to fair value interest rate risk.

Currency risk

Some subsidiaries of the Company have foreign currency purchases, which also expose the Group to foreign currency risk. During the years ended 31 December 2007, 2008 and 2009 and six months ended 30 June 2010, approximately 75.1%, 70.1%, 76.4% and 81.7% of the Group's purchases are denominated in currencies other than the functional currency of the group entities making the purchase. All sales of the Group are denominated in functional currency of the group entities making the sale.

The Group has entered into appropriate hedging instruments, mentioned in note 31(ii), to hedge against the potential currency risk arising from US$ denominated bank borrowings. The Group reviews the continuing effectiveness of hedging instruments at least at the end of each reporting period and until the hedging instrument expires or is terminated or the hedge no longer meets the criteria for hedge accounting. It is the Group's policy to negotiate the terms of the hedge derivatives to match the term of the hedged item to maximise hedge effectiveness (see note 31 for details).

The carrying amounts of the Group's foreign currency denominated monetary assets (representing bank balances) and monetary liabilities (representing trade and other payables and import trade loans without any hedging instruments) at the reporting date are as follows:

	As at 31 December						As at 30 June	
	2007		2008		2009		2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
US$	5,026	6,535	245	4,935	595	9,628	4,946	8,373
Euro	—	1,266	16	2,243	316	1,719	1,524	90
Others	32	—	89	—	140	—	51	—

Management conducts periodic review of exposure and settlements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

The Group is mainly exposed to currency risk of the Euro and the US$. The following table details the Group's sensitivity to a 7% increase and decrease in the RMB against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 7% change in foreign currency rates. The sensitivity analysis includes bank balances, trade and other payables and import trade loans without any hedging instruments. A positive number below indicates an increase in post-tax profit for the Relevant Periods where the RMB strengthens 7% against the relevant currency. If there is a 7% weakening in RMB against the relevant foreign currencies, there would be an equal and opposite impact on the result for the Relevant Periods:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
US$	106	328	632	237
Euro	89	156	98	(94)

Other price risk

The Group's held for trading investments in listed securities are measured at fair value at each reporting date with reference to the listed share prices. Therefore, the Group is exposed to equity price risk and the management will monitor the price movements and take appropriate actions when it is required. The exposure of the equity price risk is minimal and no sensitivity to equity price risk is provided.

The Group is also exposed to other price risk through its investments in derivative financial instruments. The Group's other price risk is mainly concentrated on the foreign exchange forward contracts entered during the year/period.

The sensitivity analyses have been determined based on the exposure to other price risks for derivative at the reporting date. If the forward rate of the foreign exchange forward contracts had been 5% higher/lower and all other variables were held constant, the fair value changes which deferred in equity as hedging reserve for the year ended 31 December 2009 and six months ended 30 June 2010 would increase/decrease by US$558,000 and US$635,000 respectively.

Credit risk

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated and Company's statements of financial position. In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Other than concentration of credit risk on liquid funds which are deposited with several banks with good reputation, the Group has no significant concentration of credit risk on trade and other receivables, with exposure spread over a number of counterparties and customers and across diverse geographical areas.

The Company has concentration of credit risk in respect of amounts due from several subsidiaries. The credit risk is limited because these subsidiaries are in good financial positions.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments settled on a net basis, and the undiscounted gross (inflows) and outflows on those derivatives that require gross settlement. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the interest rate existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

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	Repayable on demand or less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2007
	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2007					
Trade and other payables.	12,920	—	—	12,920	12,920

	Repayable on demand or less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2008
	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2008					
Trade and other payables.	9,252	—	—	9,252	9,252
Deferred consideration payables . .	741	3,512	4,389	8,642	6,864
	9,993	3,512	4,389	17,894	16,116

	Repayable on demand or less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2009
	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2009					
Trade and other payables.	7,125	—	—	7,125	7,125
Deferred consideration payables . .	879	3,679	3,032	7,590	6,129
Fixed interest rate borrowings. . . .	7,682	—	—	7,682	7,557
Variable interest rate borrowings . .	9,014	—	—	9,014	8,960
	24,700	3,679	3,032	31,411	29,771
Derivatives - net settlement					
Foreign currency forward contracts	95	—	—	95	71
Derivatives - gross settlement					
Interest rate swaps					
- inflows	(53)	—	—	(53)	
- outflows	142	—	—	142	
	89	—	—	89	74

	Repayable on demand or less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 30 June 2010
	US$'000	US$'000	US$'000	US$'000	US$'000
As at 30 June 2010					
Trade and other payables	6,439	—	—	6,439	6,439
Deferred consideration payables	884	3,699	2,575	7,158	5,797
Fixed interest rate borrowings	6,003	—	—	6,003	5,906
Variable interest rate borrowings	10,520	—	—	10,520	10,440
	23,846	3,699	2,575	30,120	28,582
Derivatives - net settlement					
Foreign currency forward contracts	(18)	—	—	(18)	(18)
Derivatives - gross settlement					
Interest rate swaps					
- Inflows	(35)	—	—	(35)	
- Outflows	70	—	—	70	
	35	—	—	35	131

THE COMPANY

The Company's financial liabilities are repayable on demand.

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of derivative instruments is calculated using discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow.

The carrying amounts of financial assets and liabilities carried at amortised cost approximate their respective fair values.

Fair value measurements recognised in the consolidated statements of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 2 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

	As at 31 December						As at 30 June	
	2007		2008		2009		2010	
	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Available-for-sale investment								
Unlisted equity . .	—	162	—	—	—	—	—	—
Held-for-trading investments								
Listed equity securities	—	—	—	—	31	—	406	—
Derivative financial instruments	—	—	—	—	—	145	—	113

There were no transfers between Level 1 and 2 in the years ended 31 December 2007, 2008 and 2009 and six months ended 30 June 2010.

38. ACQUISITION OF SUBSIDIARIES

(a) In January 2007, the Group acquired 60% equity interest in Sky United, a private limited liability company incorporated in Hong Kong, from Mr. Vincent Hui and his father for aggregate cash consideration of HK$3 million (equivalent to approximately US$386,000) and Sky United has become a 60% subsidiary of the Company thereafter. Mr. Vincent Hui is an employee of the Group. Sky United was the importer of medicine products for the Group.

The net assets acquired in this transaction are as follows:

	Acquiree's carrying amount and fair value
	US$'000
Net assets acquired:	
Property, plant and equipment	2
Trade and other receivables	2,968
Amount due from a director	553
Bank balances and cash	42
Trade and other payables	(1)
Other borrowings	(2,831)
Amount due to a director	(6)
Dividend payable	(257)
Tax payable	(5)
Bank borrowings	(454)
	11
Non-controlling interests	(4)
Goodwill	379
Total consideration, satisfied by cash	386
Net cash outflow arising on acquisition:	
Cash consideration paid	(386)
Cash and cash equivalents acquired	42
	(344)

The goodwill arising on the acquisition of Sky United is attributable to the anticipated future operating synergies from the business combination.

During the year ended 31 December 2007, the acquiree has contributed insignificant turnover and profit to the Group for the period between the date of acquisition and 31 December 2007.

Had the acquisition been completed on 1 January 2007, there would have insignificant impact on the turnover and profit to the Group respectively.

On April 2010, pursuant to sales and purchase agreement entered on 19 April 2010, the Group acquired additional 40% equity interest in Sky United from Mr. Hui Ki Fat, a director of the Company. Upon the completion of the acquisition, Sky United becomes a wholly owned subsidiary of the Group. The consideration of the acquisition was satisfied by the allotment and issue of 263,833 ordinary shares with par value US$0.10. The fair value of the ordinary shares of the Company was determined using the market price at the date of acquisition.

(b) In August 2007, the Group acquired a 100% equity interest in Shandong Baolihao, a private limited liability company incorporated in PRC from independent third parties for aggregate cash consideration of RMB1.5 million (equivalent to approximately US$198,000) and Shandong Baolihao has become a 100% subsidiary of the Company from the date of acquisition until the disposal in 2009. Details are set out in note 39(b). Shandong Baolihao is engaged in manufacturing medical instruments in the PRC.

The net assets acquired in this transaction are as follows:

	Acquiree's carrying amount and fair value
	US$'000
Net liabilities acquired:	
Property, plant and equipment	4
Trade and other receivables	2
Inventory	4
Bank balances and cash	5
Trade and other payables	(19)
	(4)
Goodwill	202
Total consideration, satisfied by cash	198
Net cash outflow arising on acquisition:	
Cash consideration paid	(198)
Cash and cash equivalents acquired	5
	(193)

The goodwill arising on the acquisition of Shandong Baolihao is attributable to the anticipated future operating synergies from the business combination.

During the year ended 31 December 2007, the acquiree has contributed insignificant turnover and profit to the Group for the period between the date of acquisition and 31 December 2007.

Had the acquisition been completed on 1 January 2007, there would have been an insignificant impact on the turnover and profit to the Group respectively.

39. DISPOSAL OF SUBSIDIARIES

(a) On 11 December 2009, the Board of Directors of the Company approved the payment of a dividend. The dividend is payable by way of a distribution in specie ("the Distribution") of the entire share capital of Healthlink on the basis of one Healthlink share for every one ordinary share of the Company with par value of US$0.1 each in the capital of the Company, with cash alternative. Healthlink Group is engaged in the research and development of medicine in PRC.

On 15 December 2009, 17.9% shareholders elected for cash alternative and 82.1% shareholders elected to receive shares in Healthlink. Under a repurchase agreement between the Company and Healthlink, the 17.9% Healthlink shares held by the Company were repurchased by Healthlink for aggregate cash consideration of US$1,969,000. The 82.1% remaining Healthlink shares were distributed to the shareholders who elected to receive shares in Healthlink.

On 16 December 2009, the Company has made the Distribution of US$8,681,000, which is equivalent to the net asset value of Healthlink Group on that date, in the form of distribution in specie of the 38,921,747 ordinary shares of US$0.01 each, representing entire share capital of Healthlink, and cash dividend of US$1,969,000. The Distribution was made to the shareholders on the register of members on 27 November 2009.

The net assets of Healthlink at the date of the Distribution were as follows:

	11 December 2009
	US$'000
NET ASSETS DISTRIBUTED OF	
Property, plant and equipment	346
Other receivables	91
Bank balances and cash	8,099
Other payables	(185)
	8,351
Non-controlling interests	330
	8,681
Satisfied by:	
Interim dividend in specie (note 12)	8,681
Cash outflow arising on the Distribution:	
Bank balances and cash distributed of	8,099
Cash dividend	1,969
	10,068

During the years ended 31 December 2007, 2008 and 2009 and six months ended 30 June 2009, Healthlink has no contribution on the turnover and contributed loss which amounted to US$1,948,000, US$2,299,000, US$1,138,000 and US$955,000 to the Group respectively. The loss for the year included other gains, administrative expenses and research and development

costs of US$8,000, US$622,000 and US$1,334,000, for year ended 31 December 2007, US$3,000, US$280,000 and US$2,022,000 for year ended 31 December 2008, US$782,000, US$275,000 and US$1,645,000 for year ended 31 December 2009 and US$136,000, US$894,000 and US$197,000 for six months ended 30 June 2009, respectively.

(b) On 17 December 2009, the Group disposed of a subsidiary, Shandong Baolihao, to the independent third parties. The net liabilities of Shandong Baolihao at the date of disposal were as follows:

	17 December 2009
	US$'000
NET LIABILITIES DISPOSED OF	
Property, plant and equipment	6
Inventories	107
Trade and other receivables	1
Bank balances and cash	1
Trade and other payables	(341)
	(226)
Attributable goodwill	202
	(24)
Gain on disposal	24
Total consideration	—
Cash outflow arising on disposal:	
Bank balances and cash disposed of	1

During the years ended 31 December 2007, 2008 and 2009 and six months ended 30 June 2009, Shandong Baolihao has contributed turnover amounting to nil, US$5,000, US$15,000 and nil and loss amounting to US$44,000, US$95,000, US$75,000 and US$43,000 to the Group respectively.

40. OPERATING LEASE

THE GROUP AS LESSEE

At the end of the reporting period, the Group's total future minimum lease payments under non-cancellable operating lease in respect of property which fall due as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Within one year	181	462	487	413
In the second to fifth years inclusive	363	631	390	202
	544	1,093	877	615

The lease is negotiated for a lease term of 1 to 5 years at fixed monthly rental.

41. RELATED PARTY TRANSACTIONS

(a) Apart from details of the balances with related parties disclosed in note 25, the Group entered into the following transactions with related parties during the Relevant Periods:

			Year ended 31 December			Six months ended 30 June	
Name of related company	Relationship	Nature of transactions	2007	2008	2009	2009	2010
			US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
*Continuing transactions**							
Ophol	Associate	Finance cost	—	—	347	191	149
Guangdong Lantai	Jointly controlled entity	Sales of goods	131	303	743	307	395
Sunpharma GmbH	Related company (note)	Purchases of goods	107	—	157	—	—
Discontinued transactions#							
Shenzhen Shenke	Associate	Purchases of goods	112	—	—	—	—
Shenzhen Kangzhe Industrial Investment Co. Ltd. (深圳市康哲實業投資有限公司)	Related company (note)	Consideration received for disposal of interest in an associate	—	—	258	—	—
Hui Ki Fat	Director	Consideration paid for acquisition of additional interest in a subsidiary	—	—	—	—	2,325

* The transactions will continue after the listing of the shares of the Company on the Main Board of the Hong Kong Stock Exchange.

\# The transactions have discontinued by the end of 31 December 2009.

Note: Sunpharma GmbH and Shenzhen Kangzhe Industrial Investment Co. Ltd. 深圳市康哲實業投資有限公司 are companies in which Mr. Lam Kong, the director of the Company has beneficial and controlling interests.

(b) The Group entered into the following banking facilities which were secured by personal guarantees executed by related parties during the Relevant Periods:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	
Bank A (note i)				
- letters of credit and other facilities amount	3,000	4,537	11,606	11,600
- working capital facilities amount	—	1,463	4,394	4,400
	3,000	6,000	16,000	16,000
- letters of credit and other utilised amount	2,062	3,450	5,277	2,437
- working capital utilised amount	—	—	—	—
	2,062	3,450	5,277	2,437
Bank B (note ii)				
- letters of credit and other facilities amount	—	—	10,252	10,308
- working capital facilities amount	—	—	2,929	2,945
	—	—	13,181	13,253
- letters of credit and other utilised amount	—	—	1,648	4,267
- working capital utilised amount	—	—	—	—
	—	—	1,648	4,267

Notes:

(i) The banking facilities were secured by personal guarantees executed by a director, Mr. Lam Kong. The banking facilities were expired on 13 July 2010.

(ii) The banking facilities were secured by personal guarantees executed by the directors of the Company. Mr. Lam Kong, Mr. Chen Hongbing, Ms. Chen Yanling, Ms. Huo Xiaoxuan and personal guarantees executed by a director of Kangzhe Shenzhen, Ms. Sa Manlin. The Group terminated this banking facilities on 30 July 2010.

(c) The key management personnel includes solely the directors of the Company and the compensation paid to them is disclosed in note 8.

42. RETIREMENT BENEFITS SCHEMES

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The employees employed in Hong Kong are required to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Contributions to the MPF Scheme are made in accordance with the statutory limits prescribed by the Mandatory Provident Fund Ordinance of Hong Kong.

During the years ended 31 December 2007, 2008 and 2009 and six months ended 30 June 2010, the total expense recognised in the profit or loss for the above schemes amounted to US$546,000, US$638,000, US$689,000 and US$314,000 respectively.

43. KEY EMPLOYEE BENEFIT SCHEME

The Scheme was adopted by the Board on 31 July 2009 ("Adoption Date"). Unless terminated earlier by the Board, the Scheme shall be valid and effective for a term of 20 years commencing on the Adoption Date. Pursuant to the rules of the Scheme, the Company set up a trust through a trustee (the "Trustee"), Fully Profit Management (PTC) Limited, for the purpose of administration the Scheme. A summary of some of the principal terms of the Scheme is set out in below.

(a) The purpose of the Scheme is to recognise the contributions by certain employees who have been actively involved in the business development of the Group and to establish and maintain a superannuation fund for the purpose of providing retiring allowances for certain employees (including without limitation employees who are also directors) of the Group, and to give incentive in order to retain them for the continual operation and development of the Group.

(b) Under the Scheme, the Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think to select an employee (the "Member") who completed 10 years' services in the Group (subject to consent of the Board if the employee completed 5 years' services in the Group) for participation in the Scheme for 10 years after retirement (the "Payment Period") (subject to adjustment set out in (d) below).

(c) The Company will, on a yearly basis, contribute the sum equal to an amount not less than 0.5%, but no more than 3% of its after tax profits shown on the audited consolidated financial statements of the Group, or issue such number of shares of the Company to the Trustee in consideration of payment of such amount as the Board may determine with reference to the aforesaid contribution as against the then market value of the shares of the Company (the "Yearly Contributions"), subject to the Board's approval.

(d) The amount payable to the Members depends on the value of the assets held by the Trustee (the "Fund"). If the value of the Fund is less than the aggregate amount of contributions previously made by the Company, the amount payable to the Members and the Payment Period will be adjusted by a factor derived from the value of the Fund and the aggregate amount of contributions previously made by the Company. The only obligation of the Company is to make the Yearly Contributions to the Fund.

During the year ended 31 December 2009 and six months ended 30 June 2009 and 2010, the Company contributed cash amounting to US$451,000, nil and US$104,000 respectively to the Fund and which were recognised as key employee benefit expenses in the consolidated statements of comprehensive income. On the other hand, the Scheme subscribed 162,528 shares and 11,835 shares of the Company during the year ended 31 December 2009 and six months ended 30 June 2010 respectively (see note 32).

B. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The Company's immediate and ultimate holding company is Treasure Sea Limited, a company which is incorporated in the British Virgin Islands.

C. DIRECTORS' REMUNERATION

Save as disclosed in the Financial Information, no other remuneration has been paid or payable by the Group to the directors of the Company in respect of the Relevant Periods.

Under the arrangement currently in force, the aggregate amount of the directors' fees and other emoluments for the year ending 31 December 2010 is estimated to be approximately US$499,000.

D. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 30 June 2010, the Group does not have any significant subsequent event.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies of the Group subsequent to 30 June 2010.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the accountants' report prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the accountants' report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS OF THE GROUP

For illustrative purposes only, the following statement of unaudited pro forma adjusted net tangible assets of the Group is prepared to show the effect on the audited consolidated net tangible assets of our Group as at 30 June 2010 as if the Global Offering had occurred on 30 June 2010 and is based on the consolidated net tangible assets of our Group as at 30 June 2010 attributable to the owners of our Company derived from the accountants' report, as set out in Appendix I to this prospectus and adjusted as described below.

The unaudited pro forma adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of the Group as at 30 June 2010 or any future date.

	Audited consolidated net tangible assets of our Group attributable to the owners of our Company as at 30 June 2010[1]	Estimated net proceeds from the Global Offering[2]	Unaudited pro forma adjusted net tangible assets attributable to the owners of our Company	Unaudited pro forma adjusted net tangible assets per Share[3]	
	US$ '000	US$ '000	US$ '000	US$	HK$
Based on an Offer Price of HK$3.60 per Share	58,789	73,219	132,008	0.12	0.91
Based on an Offer Price of HK$5.06 per Share	58,789	104,687	163,476	0.15	1.13

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2010 are arrived at after deducting the intangible assets and goodwill with aggregate carrying amount of approximately US$6,165,000 from the audited consolidated net assets attributable to the owners of the Company as at 30 June 2010 of approximately US$64,954,000 as set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$3.60 and HK$5.06 on each of the 170,000,000 new Shares to be issued, respectively, after deduction of the underwriting fees and other related expenses payable by the Company. They do not take into account any Shares which may be issued or repurchased pursuant to the exercise of the Over-allotment Option, the exercise of the Existing Share Options, the Issuing Mandate or the Repurchase Mandate. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into United States dollars at an exchange rate of HK$7.77 to US$1.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 1,123,691,440 Shares expected to be in issue immediately following completion of the Global Offering. It does not take into account of any Shares which may be issued or repurchased pursuant to the exercise of the Over-allotment Option, the exercise of the Existing Share Options, the Issuing Mandate or the Repurchase Mandate.

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share for the year ending 31 December 2010 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2010. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial results of the Group following the Global Offering.

Forecast consolidated profit attributable to owners of the Company *(Note 1)* ..... Not less than US$30 million (equivalent to approximately HK$233 million)

Unaudited pro forma forecast basic earnings per Share *(Note 2)* ..... Not less than US$2.7 cents (equivalent to approximately HK$20.8 cents)

Notes:

1. The bases and assumptions on which the forecast consolidated profit attributable to the owners of our Company for the year ending 31 December 2010 has been prepared are summarised in Appendix III to this prospectus. The forecast consolidated profit attributable to the owners of our Company for the year ending 31 December 2010 is based on the audited consolidated results of the Group for the six months ended 30 June 2010, the unaudited management accounts of the Group for the one month ended 31 July 2010 and a forecast of the results of the Group for the remaining five months ending 31 December 2010.

2. The calculation of the unaudited pro forma forecast basic earnings per Share is based on the forecast consolidated profit attributable to the owners of our Company for the year ending 31 December 2010 assuming that the Global Offering had occurred on 1 January 2010 and a total of 1,123,691,440 Shares were in issue, assuming that the Shares to be issued pursuant to the Global Offering had been in issue on 1 January 2010 but does not take into account of any Shares which may be issued or repurchased pursuant to the exercise of the Over-allotment Option, the exercise of the Existing Share Options, the Issuing Mandate or the Repurchase Mandate. The unaudited pro forma forecast earnings per Share is translated at the exchange rate of US$1 to HK$7.77.

C. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS AND UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following is the text of a report received from our reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for the purposes of incorporation in this prospectus, in respect of the additional unaudited pro forma financial information of the Group.

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED

We report on the unaudited pro forma financial information of China Medical System Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the global offering of 200,000,000 shares of US$0.005 each in the Company might have affected the financial information of the Group presented, for inclusion in part A and part B of Appendix II to the prospectus dated 15 September 2010 (the "Prospectus"). The basis of preparation of the unaudited pro forma financial information is set out on pages II-1 to II-2 of Appendix II to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at 30 June 2010 or any future date; or
- the earnings per share of the Group for the year ending 31 December 2010 or any future period.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

15 September 2010

1. OVERVIEW

Our forecasted consolidated profit attributable to the owners of our Company for the year ending 31 December 2010 is set out in the section headed "Financial Information — Profit forecast for the year ending 31 December 2010" in this prospectus.

2. BASES AND ASSUMPTIONS

Our Directors have prepared the forecast of the consolidated profit attributable to the owners of our Company for the year ending 31 December 2010 based on the audited consolidated financial statements of the Group for the six months ended 30 June 2010, the unaudited management accounts for the one month ended 31 July 2010 and a forecast of the consolidated results of our Group for the remaining five months ending 31 December 2010. 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 Appendix I and on the following principal assumptions:

(1) there will be no material changes in the existing political, legal, fiscal, market or economic conditions in the countries in which we carry on business or from which we buy or to which we sell the products;

(2) there will be no material changes in inflation, exchange rates and interest rates from those presently prevailing;

(3) there will be no changes in government policies, legislation or regulations whether in the PRC, Hong Kong or the Cayman Islands, or any other country or territory where we carry on our business; and

(4) there will be no material changes in the bases or rates of taxations, both directly and indirectly, in the PRC, Hong Kong or the Cayman Islands, or any other country or territory where we carry on our business.

3. LETTERS

Set out below are texts of letters received by our Directors from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, our reporting accountants, and from the Sole Sponsor in connection with the forecasted consolidated profit attributable to the owners of our Company for the year ending 31 December 2010.

(a) Letter from the reporting accountants

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

15 September 2010

The Board of Directors
China Medical System Holdings Limited
UBS AG, Hong Kong Branch

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit of China Medical System Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31 December 2010 attributable to owners of the Company (the "Forecast"), for which the directors of the Company are solely responsible, as set out in the prospectus dated 15 September 2010 issued by the Company (the "Prospectus"). The Forecast is prepared based on the audited results of the Group for the six months ended 30 June 2010, the results shown in the unaudited management accounts of the Group for the one month ended 31 July 2010, and a forecast of the results for the remaining five months of the financial year ending 31 December 2010.

In our opinion, the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of the Company as set out in part 2 of Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report of the financial information on the Group for the three years ended 31 December 2009 and the six months ended 30 June 2010 as set out in Appendix I to the Prospectus.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

(b) Letter from the Sole Sponsor

The following is the text of a letter, prepared for inclusion in this prospectus by the Sole Sponsor in connection with the profit forecast of the Group for the year ending 31 December 2010.

52nd Floor, One International Finance Centre
8 Finance Street
Central
Hong Kong

15 September 2010

The Directors
China Medical System Holdings Limited

Dear Sirs,

We refer to the forecast of the consolidated net profit attributable to the owners of China Medical System Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ending 31 December 2010 (the "Forecast") as set out in the prospectus issued by the Company dated 15 September 2010 (the "Prospectus").

The Forecast, for which the Directors of the Company are solely responsible, has been prepared by them based on the audited consolidated results of the Group for the six months ended 30 June 2010, the unaudited consolidated results as shown in the unaudited management accounts of the Group for the one month ended 31 July 2010 and a forecast of the consolidated results of the Group for the remaining five months ending 31 December 2010.

We have discussed with you the bases made by the Directors of the Company as set out in Appendix III to the Prospectus upon which the Forecast has been made. We have also considered the letter dated 15 September 2010 addressed to yourselves and ourselves from Deloitte Touche Tohmatsu regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the information comprising the Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the Forecast, for which you as Directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
UBS AG, Hong Kong Branch

Ronald Tam
Executive Director

Bingling Lu
Director

The following is the text of letter, summary of valuation and valuation certificates, prepared for the purpose of incorporation in this prospectus, received from Vigers Appraisal & Consulting Limited, an independent property valuer, in connection with their valuation as at 30 June 2010 of the property interests held by the Group in the People's Republic of China and Hong Kong.

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

15 September 2010

The Directors
China Medical System Holdings Limited
Unit 6 on 21st Floor,
Island Place Tower,
Island Place,
No. 510 King's Road,
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by China Medical System Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group") in the People's Republic of China ("the PRC") and the Hong Kong Special Administrative Region of the PRC ("Hong Kong") we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at 30 June 2010 ("date of valuation") for the purpose of incorporation into the prospectus issued by the Company on the date hereof.

Our valuation is our opinion of the market value of the property interest where we would define market value 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".

In valuing the property interest no. 1 in Group I, which is held by the Group for self-occupation in the PRC, we have adopted a combination of the market and depreciated replacement cost approach in assessing the land portion of the property and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the market value of the property as a whole. In the valuation of the land portion, reference has been made to the standard land price in Changde City and the sales evidence as available to us in the locality. As the nature of the buildings and structures cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement costs. The depreciated replacement cost approach considers the current cost of replacement (reproduction) of the buildings and improvements less deductions for

physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparables sales. The approach is subject to adequate potential profitability of the business.

In valuing the property interest no. 2 in Group I, which is held by the Group for self-occupation in the PRC, direct comparison approach is adopted with reference to comparable transactions in the open market and on the basis of vacant possession.

In valuing the property interest in Group II, which is held by the Group for future development in the PRC, direct comparison approach is adopted with reference to the standard land price in Shenzhen City and the sales evidence as available to us in the locality.

The property interests in Groups III and IV have no commercial value due to the short-term nature, prohibition against transfer, subletting or otherwise due to lack of substantial profit rent.

Our valuation has been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation.

We have caused searches to be made at the relevant Land Registry for property in Hong Kong but have not caused title searches to be made for the property interests at the relevant government bureaus in the PRC for properties located in the PRC. We have been provided with certain extracts of title documents relating to the property interests in the PRC. However, we have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the property interests in the PRC, we have relied on the legal opinion ("the PRC legal opinion") provided by the Group's PRC legal adviser, Zhong Lun Law Firm.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us by the Group on such matters as planning approvals or statutory notices, easements, tenure, occupancy, lettings, site and floor areas and in the identification of the properties and other relevant matter. We have no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to the valuations. We have also been advised by the Group that no material facts had been concealed or omitted in the information provided to us and have no reason to suspect that any material information has been withheld. All documents have been used for reference only. We consider that we have been provided with sufficient information to reach an informed view.

All dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties, in the course of our inspection, we did not note any serious defects. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the properties are free from defect though in the course of our inspections we did not note any serious defects. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the property interests, we have fully complied with the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors (HKIS), the RICS Appraisal and Valuation Standards (6th Edition 2007) published by the Royal Institution of Chartered Surveyors (the "RICS") and the requirements set out in Chapter 5 of and Practice Note 12 to the Rule Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars (HK$). The exchange rate adopted in valuing the property interests in the PRC as at 30 June 2010 was HK$ 1 : RMB 0.8747. There has been no significant fluctuation in the exchange rate for this currency against Hong Kong Dollars between that date and the date of this letter.

We enclose herewith a summary of valuation and the valuation certificates.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor (GP)
MRICS MHKIS MSc(e-com)
Managing Director

Note: Mr. Raymond Ho Kai Kwong, Chartered Surveyor, MRICS MHKIS MSc(e-com), has over twenty four years' experience in undertaking valuations of properties in Hong Kong and has over seventeen years' experience in valuations of properties in the PRC, Taiwan, Macau and the Asia-Pacific region. Raymond joined Vigers in 1989.

SUMMARY OF VALUATION

Group I — Property interests held by the Group for self-occupation in the PRC

	Property	Market Value in existing state as at 30 June 2010	Interest attributable to the Group	Market Value in existing state attributable to the Group as at 30 June 2010
1.	Land and Buildings located at Danyang Villagers' Committee, (also known as No. 7 Linjiang Road West) Liyang Town, Li Prefecture, Changde City, Hunan Province, the PRC	RMB15,100,000 (equivalent to approximately HK$17,260,000)	100%	RMB15,100,000 (equivalent to approximately HK$17,260,000)
2.	Unit B1, Level 14, Fangdichan Building, Renmin Road South, Luohu District, Shenzhen City, Guangdong Province, the PRC	RMB1,300,000 (equivalent to approximately HK$1,490,000)	100%	RMB1,300,000 (equivalent to approximately HK$1,490,000)
	Sub-total	**RMB16,400,000 (equivalent to approximately HK$18,750,000)**		**RMB16,400,000 (equivalent to approximately HK$18,750,000)**

Group II — Property interest held by the Group for future development in the PRC

3.	A land parcel (Lot No. G14315-0115) located at Kengzi Town, Industrial District, Pingshan New District, Shenzhen City, Guangdong Province, the PRC	RMB 19,400,000 (equivalent to approximately HK$22,180,000)	100%	RMB 19,400,000 (equivalent to approximately HK$22,180,000)

SUMMARY OF VALUATION

Group III — Property interest leased by the Group in Hong Kong

	Property	Market Value in existing state as at 30 June 2010	Interest attributable to the Group	Market Value in existing state attributable to the Group as at 30 June 2010
4.	Unit 6 on 21st Floor, Island Place Tower, Island Place, No. 510 King's Road, Hong Kong	No commercial value	100%	Nil

Group IV — Property interests leased by the Group in the PRC

5.	Levels 6 and 8, Block A, Tongfang Information Harbour, No. 11 Langshan Road North, Nanshan Science & Technology Park, Nanshan District, Shenzhen City, Guangdong Province, the PRC	No commercial value	100%	Nil

SUMMARY OF VALUATION

	Property	Market Value in existing state as at 30 June 2010	Interest attributable to the Group	Market Value in existing state attributable to the Group as at 30 June 2010
6.	Level 3, Zone A, No. 1063 Xilichaguang Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC	No commercial value	100%	Nil
7.	Unit 1303, Level 13, Hong Fu Loi International Building, No. 313 Yanjiang Road Central, Yuexiu District, Guangzhou City, Guangdong Province, the PRC	No commercial Value	55%	Nil
8.	The godown of the original cotton company, Chengyuanluoshi, Xiaozhong Street, Jiefang Road North, Liyang Town, Li Prefecture, Changde City, Hunan Province, the PRC	No commercial value	100%	Nil
	Sub-total	**Nil**		**Nil**
	Grand-total	**RMB 35,800,000** (equivalent to approximately HK$40,930,000)		**RMB 35,800,000** (equivalent to approximately HK$40,930,000)

VALUATION CERTIFICATE

Group I — Property interests held by the Group for self-occupation in the PRC

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2010
1.	Land and Buildings located at Danyang Villagers' Committee, (also known as No. 7 Linjiang Road West) Liyang Town, Li Prefecture, Changde City, Hunan Province, the PRC	The property comprises a parcel of land together with 16 single to 5-storey buildings and structures completed in between 1980 and 2006 erected thereon. The site area and total gross floor area of the property are approximately 35,014.68 sq.m. and 11,955.85 sq.m. respectively. The land use rights of the property were granted for a term expiring on 11 January 2047 for industrial, mining and storage uses.	The property at present is occupied by the Group for industrial and ancillary uses.	RMB 15,100,000 (equivalent to approximately HK$17,260,000) **Interest attributable to the Group** 100% **Market Value in existing state attributable to the Group as at 30 June 2010** RMB 15,100,000 (equivalent to approximately HK$17,260,000)

Notes:

1. According to a State-owned Land Use Rights Certificate (Document No.: Li Guo Yong (2009) No. 350), the land use rights of the property with a site area of approximately 35,014.68 sq.m. were granted to Kangzhe (Hunan) Medical Company Limited for a term expiring on 11 January 2047 for industrial, mining and storage uses.
2. Pursuant to sixteen Building Ownership Certificates, the ownership of 16 buildings with a total gross floor area of approximately 11,955.85 sq.m. is vested in Kangzhe (Hunan) Medical Company Limited. The particulars are summarised as follows:

Buildings	Approximate Gross Floor Area (sq.m.)	Year of completion	No. of storey	Building Ownership Certificate (Document No.)
Office Building	624.08	2000	2	Li Fang Quan Zheng Li Yang Zhen Zi No. 710000297
Factory	672.49	2000	1	Li Fang Quan Zheng Li Yang Zhen Zi No. 710000302
Vial Injection Workshop	2,848.88	2001	2	Li Fang Quan Zheng Li Yang Zhen Zi No. 710000303
Security Guard Room	26.70	1987	1	Li Fang Quan Zheng Li Yang Zhen Zi No. 710000300
Office/Workshop	1,789.31	1987	2	Li Fang Quan Zheng Li Yang Zhen Zi No. 710000304
Dormitory	1,331.17	2001	5	Li Fang Quan Zheng Li Yang Zhen Zi No. 710000292

Buildings	Approximate Gross Floor Area	Year of completion	No. of storey	Building Ownership Certificate
	(sq.m.)			(Document No.)
Transformer Room	57.24	1990	1	Li Fang Quan Zheng Li Yang Zhen Zi No. 710000299
Godown	359.15	2000	1	Li Fang Quan Zheng Li Yang Zhen Zi No. 710000290
Boiler Room	160.06	1997	1	Li Fang Quan Zheng Li Yang Zhen Zi No. 710000294
Power Station	34.50	1989	1	Li Fang Quan Zheng Li Yang Zhen Zi No. 710000295
Office/Workshop	31.17	1989	1	Li Fang Quan Zheng Li Yang Zhen Zi No. 710000293
Materials Workshop	773.36	2005	2	Li Fang Quan Zheng Li Yang Zhen Zi No. 710000289
Solid Workshop	1,520.57	2003	1	Li Fang Quan Zheng Li Yang Zhen Zi No. 710000288
Animals Room	194.37	1987	1	Li Fang Quan Zheng Li Yang Zhen Zi No. 710000298
Checking Centre	520.82	1980	2	Li Fang Quan Zheng Li Yang Zhen Zi No. 710000291
UDCA Workshop	1,011.98	2006	2	Li Fang Quan Zheng Li Yang Zhen Zi No. 710000296
Total	**11,955.85**			

3. According to the information provided by the Group, Kangzhe (Hunan) Medical Company Limited is a sino-foreign equity joint venture established in the PRC and a wholly-owned subsidiary of the Company.

4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Zhong Lun Law Firm, which contains, inter alia, the following information:

   (a) Kangzhe (Hunan) Medical Company Limited is the current registered owner of the property, which is entitled to occupy, use, transfer, lease and mortgage the property in the market; and

   (b) the property is free from mortgages, orders and other legal encumbrances which may cause adverse effects on the ownership of the property.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2010
2.	Unit B1, Level 14, Fangdichan Building, Renmin Road South, Luohu District, Shenzhen City, Guangdong Province, the PRC	The property comprises a unit on Level 14 of a 17-storey composite building completed in about 1986. The gross floor area of the property is approximately 179.35 sq.m. The land use rights of the property were granted for a term of 50 years commencing on 6 August 1981 and expiring on 5 August 2031 for commercial and financial uses.	The property at present is occupied by Kangzhe Shenzhen Medical Instrument Company Limited for office and storage uses.	RMB 1,300,000 (equivalent to approximately HK$1,490,000) **Interest attributable to the Group** 100% **Market Value in existing state attributable to the Group as at 30 June 2010** RMB1,300,000 (equivalent to approximately HK$1,490,000)

Notes:

1. Pursuant to a Real Estate Ownership Certificate (Document No.: Shen Fang Di Zi No. 2000254492), the ownership of the property with a gross floor area of approximately 179.35 sq.m. is vested in Kangzhe Shenzhen Pharmaceutical Company Limited.

   As stipulated in the aforesaid Real Estate Ownership Certificate, the land use rights of the property were granted to Kangzhe Shenzhen Pharmaceutical Company Limited for a term of 50 years commencing on 6 August 1981 and expiring on 5 August 2031 for commercial and financial uses.

2. According to the information provided by the Group, Kangzhe Shenzhen Pharmaceutical Company Limited is a wholly foreign-owned enterprise established in the PRC and a wholly-owned subsidiary of the Company.

3. According to an announcement issued by Kangzhe Shenzhen Pharmaceutical Company Limited dated 1 March 2010, the property is permitted to be occupied by Kangzhe Shenzhen Medical Instrument Company Limited for a term commencing on 1 March 2010 and expiring on 1 March 2014 freely.

4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Zhong Lun Law Firm, which contains, inter alia, the following information:

   (a) Kangzhe Shenzhen Pharmaceutical Company Limited is the current registered owner of the property, which is entitled to occupy, use, transfer, lease and mortgage the property in the market; and

   (b) the property is free from mortgages, orders and other legal encumbrances which may cause adverse effects on the ownership of the property.

VALUATION CERTIFICATE

Group II — Property interest held by the Group for future development in the PRC

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2010
3.	A land parcel (Lot No. G14315-0115) located at Kengzi Town, Industrial District, Pingshan New District, Shenzhen City, Guangdong Province, the PRC	The property comprises a parcel of industrial land with a site area of approximately 36,422.4 sq.m. The land use rights of the property were granted for a term of 50 years commencing on 15 January 2010 and expiring on 14 January 2060 for industrial use.	The property at present is a clear site.	RMB 19,400,000 (equivalent to approximately HK$22,180,000) **Interest attributable to the Group** 100% **Market Value in existing state attributable to the Group as at 30 June 2010** RMB 19,400,000 (equivalent to approximately HK$22,180,000)

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract (Document No.: Shen Di He Zi (2009) No. 5063) entered into between the Pingshan Management Bureau of Shenzhen Planning and State-owned Land Resources Committee (Party A) and Kangzhe Shenzhen Pharmaceutical Company Limited (Party B) dated 15 January 2010, the property with a site area of approximately 36,422.4 sq.m. were granted from Party A to Party B for a term of 50 years commencing on 15 January 2010 and expiring on 14 January 2060 for industrial use at a consideration of RMB 19,300,500.
   As stipulated in the aforesaid State-owned Land Use Rights Grant Contract, the relevant development requirements are summarized as follows:

(a) Permitted site coverage :	less than or equal to 40%
(b) Permitted plot ratio :	less than or equal to 2.2
(c) Permitted no. of storey :	Multi-storey
(d) Greenery ratio :	not less than 30%
(e) No. of carparking space:	not fewer than 229 carparking spaces
(f) Estimated completion date	Before 14 January 2012

2. Pursuant to a Real Estate Ownership Certificate (Document No.: Shen Fang Di Zi No. 6000412991), the property with a site area of approximately 36,422.4 sq.m. were granted to Kangzhe Shenzhen Pharmaceutical Company Limited for a term of 50 years commencing on 15 January 2010 and expiring on 14 January 2060 for industrial use.
3. Pursuant to a Construction Land Planning Permit (Document No.: Shen Gui Tu Xu PS-2010-0018) dated 30 June 2010, the property will be developed for industrial and ancillary purpose with the estimated total gross floor area of approximately 80,130 sq.m., in which, the estimated gross floor areas of the factory and the ancillary office building are approximately 76,630 sq.m. and 3,500 sq.m. respectively. According to the information provided by the Group, the development of the property will be completed in early 2012. Furthermore, no buildings or part thereof will be erected within 12 meters on the south and west boundaries and 9 meters on the east and north boundaries of the property.

4. According to the information provided by the Group, Kangzhe Shenzhen Pharmaceutical Company Limited is a wholly foreign-owned enterprise established in the PRC and a wholly-owned subsidiary of the Company.

5. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Zhong Lun Law Firm, which contains, inter alia, the following information:

   (a) Kangzhe Shenzhen Pharmaceutical Company Limited is the current register owner of the property, which is entitled to occupy, use, transfer, lease and mortgage the property in the market;

   (b) the land premium has been fully settled; and

   (c) the property is free from mortgages, orders and other legal encumbrances which may cause adverse effects on the ownership of the property.

VALUATION CERTIFICATE

Group III — Property interest leased by the Group in Hong Kong

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2010
4.	Unit 6 on 21st Floor, Island Place Tower, Island Place, No. 510 King's Road, Hong Kong	The property comprises a unit on 21st Floor of a 27-storey office building completed in 1997. The gross floor area and saleable area of the property are approximately 1,964 sq.ft. and 1,351 sq.ft. respectively.	The property is leased by an independent third party to CMS International Investment Limited for a term of three years commencing on 1 November 2007 and expiring on 31 October 2010 at a monthly rent of HK$68,544 exclusive of rates, air-conditioning and management charges and all other operating outgoings. The property at present is occupied by the Group for office use.	No commercial value

Notes:

1. According to the Land Register, the current registered owner of the property is the Lessor, Island Communication Investments Limited.
2. According to the information provided by the Group, the Lessor is an independent third party, which is not connected with and is independent of, any of the directors, or any of their respective associates of the Group.
3. According to the information provided by the Group, CMS International Investment Limited is a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company.
4. The property lies within an area zoned as "Commercial / Residential (3)" under North Point Outline Zoning Plan.

VALUATION CERTIFICATE

Group IV — Property interests leased by the Group in the PRC

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2010
5.	Levels 6 and 8, Block A, Tongfang Information Harbour, No. 11 Langshan Road North, Nanshan Science & Technology Park, Nanshan District, Shenzhen City, Guangdong Province, the PRC	The property comprises the whole on Levels 6 and 8 of a 12-storey (exclusive of a 2-storey basement) office building completed in about 2007. The total gross floor area of the property is approximately 2,451.14 sq.m.	The property at present is leased by an independent third party to Kangzhe Shenzhen Pharmaceutical Company Limited for a term commencing on 18 January 2010 and expiring on 7 March 2012 at a monthly rent of RMB 98,046 exclusive of management fee and other operating outgoings. The property at present is occupied by the Group for office use.	No commercial value

Notes:

1. According to a Real Estate Ownership Certificate (Document No.: Shen Fang Di Zi No. 4000388861), the ownership of the property is vested in the Lessor, Shenzhen Tongfang Holdings Company Limited.

   As stipulated in the aforesaid Real Estate Ownership Certificate, the land use rights of the property were granted to Shenzhen Tongfang Holdings Company Limited for a term of 50 years commencing on 19 May 2003 and expiring on 18 May 2053 for High Technology Park use.

2. According to the information provided by the Group, the Lessor is an independent third party, which is not connected with and is independent of, any of the directors, or any of their respective associates of the Group.

3. According to the information provided by the Group, Kangzhe Shenzhen Pharmaceutical Company Limited is a wholly foreign-owned enterprise established in the PRC and a wholly-owned subsidiary of the Company.

4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Zhong Lun Law Firm, which contains, inter alia, the following information:

   (a) the Lessor is the current registered owner of the property, which is entitled to lease the property to Kangzhe Shenzhen Pharmaceutical Company Limited. The tenancy agreement entered into between the Lessor and Kangzhe Shenzhen Pharmaceutical Company Limited is valid and legally effective;

   (b) the tenancy agreement has been duly registered in the relevant government organizations; and

   (c) the property is subject to a mortgage. The tenancy may be invalid unless the consent on the tenancy from the mortgagee is obtained. However, it is not difficult for Kangzhe Shenzhen Pharmaceutical Company Limited to rent similar property in the locality, thus it would not cause any substantial effect on the operation of Kangzhe Shenzhen Pharmaceutical Company Limited.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2010
6.	Level 3, Zone A, No. 1063 Xilichaguang Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC	The property comprises the whole on Level 3 of an 8-storey industrial building completed in about 2000. The total gross floor area of the property is approximately 2,383 sq.m.	The property at present is leased by an independent third party to Kangzhe Shenzhen Pharmaceutical Company Limited for a term of two years commencing on 1 October 2009 and expiring on 30 September 2011 at a monthly rent of RMB 65,532.5 exclusive of management fee and other operating outgoings. The property at present is occupied by the Group for office and storage uses.	No commercial value

Notes:

1. According to a Real Estate Ownership Certificate (Document No.: Shen Fang Di Zi No. 4000340325), the land use rights of the property has been granted to the Lessor, Shenzhen Yiben Investment Development Co. Ltd. for a term of 50 years commencing on 20 March 2006 and expiring on 19 March 2056 for storage use.
2. According to the information provided by the Group, the Lessor is an independent third party, which is not connected with and is independent of, any of the directors, or any of their respective associates of the Group.
3. According to the information provided by the Group, Kangzhe Shenzhen Pharmaceutical Company Limited is a wholly foreign-owned enterprise established in the PRC and wholly-owned subsidiary of the Company.
4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Zhong Lun Law Firm, which contains, inter alia, the following information:
   (a) the Lessor is the current registered owner of the property, which is entitled to lease the property to Kangzhe Shenzhen Pharmaceutical Company Limited. The tenancy agreement entered into between the Lessor and Kangzhe Shenzhen Pharmaceutical Company Limited is valid and legally effective;
   (b) the tenancy agreement has been duly registered in the relevant government organizations; and
   (c) the property is subject to a mortgage after the signing of the tenancy agreement between the Lessor and Kangzhe Shenzhen Pharmaceutical Company Limited. Thus, it would not cause any adverse effects on the occupancy of the property by Kangzhe Shenzhen Pharmaceutical Company Limited during the tenancy period.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2010
7.	Unit 1303, Level 13, Hong Fu Loi International Building, No. 313 Yanjiang Road Central, Yuexiu District, Guangzhou City, Guangdong Province, the PRC	The property comprises a unit on Level 13 of a 26-storey (exclusive of a single-storey basement) composite building completed in about 2002. The gross floor area of the property is approximately 263.58 sq.m.	The property at present is leased by an independent third party to Guangdong Lantai Kanghong Pharmaceutical Company Limited for a term commencing on 16 November 2009 and expiring on 15 November 2010 at a monthly rent of RMB 12,651.84 exclusive of management fee and other operating outgoings. The property at present is occupied by the Group for office use.	No commercial value

Notes:

1. According to the Real Estate Ownership Certificate (Document No.: Yue Fang Di Zheng Zi No. C3904620), the ownership of the property is vested in Guangzhou Hong Fu Loi Real Estate Development Company Limited.
2. According to the information provided by the Group, the Lessor is an independent third party, which is not connected with and is independent of, any of the directors, or any of their respective associates of the Group.
3. According to the information provided by the Group, Guangdong Lantai Kanghong Pharmaceutical Company Limited is a company established in the PRC and indirectly owned as to 55% by the Company.
4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Zhong Lun Law Firm, which contains, inter alia, the following information:
   (a) the Lessor is the current registered owner of the property, which is entitled to lease the property to Guangdong Lantai Kanghong Pharmaceutical Company Limited. The tenancy agreement entered into between the Lessor and Guangdong Lantai Kanghong Pharmaceutical Company Limited is valid and legally effective;
   (b) the tenancy agreement has been duly registered in the relevant government organizations; and
   (c) The property is subject to a mortgage in favour of DBS (Hong Kong) Company Limited — Shenzhen Branch vide a Memorial No. 2006 Deng Ji 1065011. The tenancy may be invalid unless the consent on the tenancy from the mortgagee is obtained. However, it is not difficult for Guangdong Lantai Kanghong Pharmaceutical Company Limited to rent similar property in the locality, thus it would not cause any substantial effect on the operation of Guangdong Lantai Kanghong Pharmaceutical Company Limited.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2010
8.	The godown of the original cotton company, Chengyuanluoshi, Xiaozhong Street, Jiefang Road North, Liyang Town, Li Prefecture, Changde City, Hunan Province, the PRC	The property comprises the whole of a 3-storey godown completed in about 1988. The total gross floor area of the property is approximately 1,477.77 sq.m.	The property at present is leased by an independent third party to Changde Kangzhe Pharmaceutical Company Limited for a term of five years commencing on 1 June 2008 and expiring on 31 May 2013. The rental is exempted from 1 June 2008 to 31 May 2011 and the rental will be reviewed for the period from 1 June 2011 to 31 May 2013 subject to negotiation. The property at present is occupied by the Group for storage use.	No commercial value

Notes:

1. According to the Building Ownership Certificate (Document No. Li Fang Quan Zheng Li Yang Zhen No. 00042826), the ownership of the godown of the property with a gross floor area of approximately 1,477.77 sq.m. is vested in Lixian City Construction Investment Development Company Limited for storage use.
2. According to a lease agreement entered into between Lixian City Construction Investment Development Company Limited (the Lessor) and Kangzhe (Hunan) Medical Company Limited (Lessee) dated 20 June 2008, the property was leased from Lessor to Lessee for a term of five years commencing on 1 June 2008 and expiring on 31 May 2013. The rental is exempted from 1 June 2008 to 31 May 2011 and the rental will be reviewed for the period from 1 June 2011 to 31 May 2013 subject to negotiation.
3. Pursuant to a sub-lease agreement entered into between Kangzhe (Hunan) Medical Company Limited (Sub-Lessor) and Changde Kangzhe Pharmaceutical Company Limited (Sub-Lessee) dated 20 June 2008, the property was sub-leased from Sub-Lessor to Sub-Lessee for a term of five years commencing on 1 June 2008 and expiring on 31 May 2013. The rental is free from 1 June 2008 to 31 May 2011 and the rental will be reviewed for the period from 1 June 2011 to 31 May 2013 subject to negotiation.
4. Pursuant to a supplementary lease agreement entered into between Lixian City Construction Investment Development Company Limited (the Lessor), Kangzhe (Hunan) Medical Company Limited (Lessee) and Changde Kangzhe Pharmaceutical Company Limited (Sub-Lessee) dated 16 March 2010, the property with a total gross floor area of approximately 1,477.77 sq.m. was leased from the Lessor to the Sub-Lessee with the same terms stated in Note 3.
5. According to the information provided by the Group, the Lessor is an independent third party, which is not connected with and is independent of, any of the directors, or any of their respective associates of the Group.
6. According to the information provided by the Group, Kangzhe (Hunan) Medical Company Limited is a sino-foreign equity joint venture established in the PRC and a wholly-owned subsidiary of the Company and Changde Kangzhe Pharmaceutical Company Limited is a company established in the PRC and a wholly-owned subsidiary of the Company.

7. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Zhong Lun Law Firm, which contains, inter alia, the following information:

   (a) the Lessor is the current registered owner of the property, which is entitled to lease the property to the Group. The tenancy agreement entered into between the Lessor and Kangzhe (Hunan) Medical Company Limited is valid and legally effective. Hence, the sub-lease agreement entered into between Kangzhe (Hunan) Medical Company Limited and Changde Kangzhe Pharmaceutical Company Limited is valid and legally effective;

   (b) the tenancy agreement has not been duly registered in the relevant government organizations though this will not cause any adverse effects on the validity of the lease or the use of the property by Changde Kangzhe Pharmaceutical Company Limited; and

   (c) the property is subject to a mortgage after the signing of the tenancy agreement between the Lessor and Kangzhe (Hunan) Medical Company Limited. Thus, it would not cause any adverse effects on the occupancy of the property by Changde Kangzhe Pharmaceutical Company Limited during the tenancy period.

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1. Memorandum Of Association

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 18 December 2006 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

The Memorandum of Association of the Company was adopted on 20 August 2010, effective on the date on which the shares of the Company are listed on the Hong Kong Stock Exchange and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix VII in the section headed "Documents delivered to the Registrar of Companies and available for inspection".

2. Articles Of Association

The Articles of Association of the Company were adopted on 20 August 2010, effective on the date on which the shares of the Company are listed on the Hong Kong Stock Exchange and include provisions to the following effect:

A. Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of effectiveness of the Articles of Association is US$100,000,000 divided into 20,000,000,000 ordinary shares of US$0.005 each.

B. Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which he or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

(i) the giving to such Director or his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal concerning any other company in which the Director or his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or any of his associates is/are beneficially interested in shares of that company, provided that, the Director and any of his associates are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights;

(v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:

(aa) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or his associates may benefit;

(bb) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(vi) any contract or arrangement in which the Director or his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the dispatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

(i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;

(ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

(iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;

(iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;

(vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

(vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) Proceedings of the Board

The Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

C. Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

D. Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

E. Alteration of Capital

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

(i) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(ii) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and

(iii) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or, any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

F. Special resolution - majority required

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

G. Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member of the Company is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll.

If a recognised clearing house (or its nominee) is a member of the Company it may, by resolution of its directors or other governing body or by power of attorney, authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

H. Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Hong Kong Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

I. Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

J. Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

(b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(a) the declaration and sanctioning of dividends;
(b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
(c) the election of Directors in place of those retiring;
(d) the appointment of auditors;
(e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
(f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
(g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

K. Transfer of Shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Hong Kong Stock Exchange and approved by the Directors.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

(a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
(b) the instrument of transfer is in respect of only one class of share;
(c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
(d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
(e) the shares concerned are free of any lien in favour of the Company; and
(f) a fee of such maximum as the Hong Kong Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement on the Hong Kong Stock Exchange's website or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, or by advertisement published in the newspapers be suspended and the

register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

L. Power of the Company to purchase its own Shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Hong Kong Stock Exchange and the Securities and Futures Commission of Hong Kong.

M. Power of any subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

N. Dividends and other methods of distributions

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the

allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

O. Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of

a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

P. Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15 per cent. per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

Q. Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement published on the Hong Kong Stock Exchange's website, or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

R. Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph D. above.

S. Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

T. Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

U. Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such

shares and a period of three months has elapsed since such advertisement and the Hong Kong Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

A. Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

B. Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 18 December 2006 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

C. Share capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

(a) paying distributions or dividends to members;
(b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
(c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
(d) writing-off the preliminary expenses of the company;
(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
(f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

D. Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see C above for further details).

E. Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

F. Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

G. Disposal of assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

H. Accounting and auditing requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

I. Register of members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

J. Inspection of books and records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

K. Special resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

L. Subsidiary owning shares in parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

M. Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

N. Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

O. Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

P. Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (i) by a special resolution of its members if the company is solvent or (ii) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

Q. Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

R. Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Council:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(2) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

    (i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking is for a period of twenty years from 2 January 2007.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made to or by the Company.

S. Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

T. General

Maples and Calder, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

Our Company was incorporated in the Cayman Islands on 18 December 2006 as an exempted company with limited liability under the Cayman Companies Law and the Shares have been listed and admitted to trading on AIM since 26 June 2007. Our Company has established a principal place of business in Hong Kong at Unit 2106, 21/F, Island Place Tower, 510 King's 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 5 March 2010. Our Company secretary, Mr. Hui Vincent Wing Sin, has been appointed as the authorised representative of our Company for acceptance of service of process in Hong Kong. The address for acceptance of service of process in Hong Kong of Mr. Hui Vincent Wing Sin is Unit 2106, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Cayman Islands laws and its constitutive documents comprising the memorandum of association and the articles of association. A summary of certain parts of our Memorandum and Articles of Association, which were conditionally adopted on 20 August 2010 and to become effective on the Listing Date, and relevant aspects of the Cayman Companies Law is set out in Appendix V to this prospectus.

2. Changes in share capital

The following changes in the share capital of the Company took place during the two years immediately preceding the date of this prospectus:

(a) Pursuant to the resolutions of the Board passed on 31 July 2009, 162,528 Shares of US$0.1 each were allotted and issued to Fully Profit acting as trustee for the Key Employee Benefit Scheme in cash for 168.3 pence per Share. Following such issue, the issued share capital of the Company increased to US$4,740,890.40 divided into 47,408,904 Shares of US$0.1 each.

(b) On 19 April 2010, our Company issued 263,833 Shares of US$0.1 each to Archiever Development Limited, a company wholly-owned by Mr. Hui Ki Fat, a Director, at 488.5 pence per Share credited as fully paid up as consideration for Mr. Hui Ki Fat transferring four issued shares in, representing 40% of the issued share capital of Sky United to Sino Talent. Following such issue, the issued share capital of the Company increased to US$4,767,273.70 divided into 47,672,737 Shares of US$0.1 each.

(c) On 14 May 2010, 11,835 Shares of US$0.1 each were allotted and issued to Fully Profit acting as trustee for the Key Employee Benefit Scheme in cash for 598.9 pence per Share. Following such issue, the issued share capital of the Company increased to US$4,768,457.20 divided into 47,684,572 Shares of US$0.1 each.

(d) Pursuant to a resolution of our Shareholders passed on 25 June 2010, each of the issued and unissued Shares of US$0.1 each was sub-divided into 20 Shares of nominal value US$0.005 each with effect from 28 June 2010. Following the sub-division and as at the date of this prospectus, the authorised share capital of our Company is US$100,000,000 divided into 20,000,000,000 Shares of nominal value US$0.005 each, and the issued share capital of our Company is US$4,768,457.20 divided into 953,691,440 Shares of nominal value US$0.005 each.

Save as disclosed above, there has been no alteration in the share capital of our Company during the two years immediately preceding the date of this prospectus.

3. Resolutions of the Shareholders of our Company

Pursuant to the resolutions of our Shareholders passed at the extraordinary general meeting of our Company held on 20 August 2010:

(a) the Company approved and adopted the new Memorandum of Association and the Articles of Association in substitution for and to the exclusion of the existing memorandum and articles of association, subject to and with effect from the Listing;

(b) a general unconditional mandate was given to the Directors to exercise all the powers of our Company to allot, issue and otherwise deal with additional relevant securities (as defined in the existing articles of association) of our Company and to make or grant offers, agreements and options which might require the exercise of such powers up to a maximum aggregate number which is not more than 20% of the aggregate nominal value of the Shares in issue as at the date of passing of the resolution to such persons, at such times and on such terms as they think fit (the "Issuing Mandate");

(c) an authority was given to the Directors to allot the Shares pursuant to the Issuing Mandate for cash, with such authority to expire at the conclusion of the next annual general meeting of the Company or, if earlier, 15 months from the passing of this resolution, unless previously revoked or varied by the Company in general meeting, save that the Company may, before such expiry, make an offer or agreement which would or might require Shares to be allotted after such expiry and the Directors may allot Shares pursuant to such an offer or agreement as if such authority had not expired, provided that, conditional on and with effect from the Listing, such authority shall lapse and instead the Company shall rely on the Issuing Mandate subject to Rule 13.36(2)(b) of the Listing Rules;

(d) a general unconditional mandate was given to the Directors authorising them to exercise all powers of our Company to repurchase or otherwise acquire on any stock exchange on which our securities are listed or admitted to trading, our securities up to an aggregate nominal amount not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue and to be issued pursuant to the Global Offering (excluding Share which may be issued pursuant to the exercise of the Over-allotment Option and the Existing Share Options), subject to and with effect from the Listing (the "Repurchase Mandate");

(e) each of the Issuing Mandate and the Repurchase Mandate is to remain in effect until the earlier of:

  (i) the conclusion of the next annual general meeting of our Company; or

  (ii) the date on which such mandate is revoked or varied in general meeting;

  save that the Company may, before such expiry, (A) in respect of the Issuing Mandate, make or grant an offer, agreement or option which would or might require Shares to be allotted after such expiry and the Directors may allot and issue Shares pursuant to such offer, agreement or option as if the Issuing Mandate had not expired, and (B) in respect of the Repurchase Mandate, enter into a contract to purchase or otherwise acquire the securities of the Company which will or may be executed wholly or partly after the expiry of such authority; and

(f) pursuant to Rule 41 of the AIM Rules, the cancellation of the admission of our Shares to trading on the AIM was approved, conditional upon and with effect from the Listing provided that the Listing occurs no later than 19 November 2010.

4. Changes in share capital of our subsidiaries

The following sets out the changes in the share capital of our subsidiaries during the two years immediately preceding the date of this prospectus:

(a) On 19 April 2010, four issued shares in, representing 40% of the issued share capital of, Sky United, were transferred from Mr. Hui Ki Fat, a Director, to Sino Talent for a consideration of HK$15,407,828 which was satisfied by the Company issuing and allotting 263,833 Shares of US$0.1 each credited as fully paid up to Archiever Development Limited, a company wholly-owned by Mr. Hui Ki Fat.

Save as disclosed above, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

5. Repurchase of our own securities

The following paragraphs include, among others, certain information required by the Hong Kong Stock Exchange to be included in this prospectus concerning the repurchase of our own securities.

The Listing Rules permit companies with a primary listing on the Hong Kong Stock Exchange to repurchase their securities on the Hong Kong Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(a) Shareholders' approval

All proposed repurchases by our Company of our own securities (which must be fully paid up) must be approved in advance by an ordinary resolution of our Shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

(b) Number of Shares which may be repurchased

The exercise in full of the Repurchase Mandate, on the basis of 1,123,691,440 Shares in issue immediately following completion of the Global Offering (but before the exercise of the Over-allotment Option and the Existing Share Options) could accordingly result in up to 112,369,144 Shares being repurchased by our Company during the period prior to (x) the conclusion of the next annual general meeting of our Company; or (y) the revocation or variation of the Repurchase Mandate in a general meeting, whichever occurs first.

(c) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders to have general authority from our Shareholders to enable us to repurchase our own securities in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and our assets and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(d) Source of funds

Repurchases by our Company must be funded out of funds legally available for such purpose in accordance with the Articles of Association, the applicable laws and regulations of Cayman Islands and the Listing Rules. A listed company is prohibited from repurchasing its own securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange from time to time.

(e) Impact of repurchase

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate was to be exercised in full, it might have a material adverse effect on our working capital and/or our gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(f) Directors' intention to sell our securities

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates has any present intention, in the event that the Repurchase Mandate is exercised, to sell any of our securities to our Company.

(g) Directors' undertakings

Our Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Articles of Association and the applicable laws and regulations of the Cayman Islands.

(h) Takeover Code

If, as a result of any repurchase of our own securities, a shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Code on Takeovers and Mergers of Hong Kong (the "Takeovers Code"). Accordingly, a shareholder or a group of shareholders acting in concert, depending on the level of increase of such shareholders' interest could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

(i) Share repurchase by our Company

Our Company has not repurchased any of its securities during six months immediately preceding the Latest Practicable Date.

(j) Status of repurchased securities

The listing of all purchased securities (whether on the Hong Kong Stock Exchange, or otherwise) is automatically cancelled and to the extent that the purchased securities are represented by certificates, the relative certificates must be cancelled and destroyed.

(k) Connected persons

The Listing Rules prohibit a company, subject to the grant of any waiver to the contrary, from knowingly purchasing securities on the Hong Kong Stock Exchange from connected persons and a connected person shall not knowingly sell his securities to us.

No connected person of our Company has notified us that he has a present intention to sell his Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

(a) An agreement dated 16 July 2008 entered into between Qingdao Leatu Trading Company Limited and Kangzhe Shenzhen in relation to the sale and purchase of 51% equity in Qingdao League Pharmaceutical Co. Ltd for a cash consideration of RMB1,328,888.

(b) An agreement dated 20 February 2009 entered into between CMS Pharmaceutical Agency and Winpro Development Limited in relation to the sale and purchase of shares representing 73.47% of the issued share capital of Ophol Limited for a cash consideration of RMB22,500,000.

(c) An assignment agreement dated 9 March 2009 entered into between Evolution as assignor, Mr. Chen Hongbing as assignee and our Company in relation to the assignment of the Existing Share Options for a cash consideration of GBP148,825.95 payable by Mr. Chen to Evolution.

(d) A memorandum dated 15 March 2009 entered into between CMS Pharmaceutical Agency and Synda Limited under which CMS Pharmaceutical Agency agreed to the transfer of such number of shares representing 24.49% of the issued share capital of Ophol Limited to Synda Limited for a cash consideration of RMB6,000,000. Under the memorandum, Synda Limited also agreed to bear a portion of the deferred payment of RMB4,500,000 payable by CMS Pharmaceutical Agency to Winpro Development Limited for the acquisition of 73.47% of the issued share capital of Ophol Limited proportional to its shareholding in Ophol Limited.

(e) An agreement dated 15 June 2009 entered into between CMS Pharmaceutical Agency and Synda Limited in relation to the sale and purchase of shares representing 24.49% of the issued share capital of Ophol Limited for a cash consideration of RMB6,000,000.

(f) A memorandum dated 15 March 2009 entered into between CMS Pharmaceutical Agency and Karl Luschmann under which CMS Pharmaceutical Agency agreed to the transfer of such number of shares representing 24.49% of the issued share capital of Ophol Limited to Karl Luschmann for a cash consideration of RMB6,000,000. Under the memorandum, Karl Luschmann also agreed to bear a portion of the deferred payment of RMB4,500,000 payable by CMS Pharmaceutical Agency to Winpro Development Limited for the acquisition of 73.47% of the issued share capital of Ophol Limited proportional to its shareholding in Ophol Limited.

(g) An agreement dated 15 June 2009 entered into between CMS Pharmaceutical Agency and Karl Luschmann in relation to the sale and purchase of shares representing 24.49% of the issued share capital of Ophol Limited for a cash consideration of RMB6,000,000.

(h) An agreement dated 15 December 2009 entered into between Kangzhe Pharmaceutical Technology and Shenzhen Kangzhe Enterprise Investment Co. Ltd. in relation to the sale and purchase of 30% equity interest in Shenzhen Shenke for a cash consideration of RMB1,764,705.

(i) An agreement dated 15 December 2009 entered into between Kangzhe Pharmaceutical Technology and Mr. Gu Qun in relation to the sale and purchase of 7% equity interest in Shenzhen Shenke for a cash consideration of RMB411,765.

(j) An agreement dated 15 December 2009 entered into between Kangzhe Pharmaceutical Technology and Mr. Hu Jifan in relation to the sale and purchase of 7% equity interest in Shenzhen Shenke for a cash consideration of RMB411,765.

(k) An agreement dated 15 December 2009 entered into between Kangzhe Pharmaceutical Technology and Mr. Tan Yonghong in relation to the sale and purchase of 7% equity interest in Shenzhen Shenke for a cash consideration of RMB411,765.

(l) An agreement dated 17 December 2009 entered into between Kangzhe Pharmaceutical Technology, Mr. Ma Qin and Ms. Pang Lirong in relation to the sale and purchase of the entire equity interest in Shangdong Baolihao for nil consideration.

(m) An agreement dated 19 April 2010 entered into between Sino Talent, the Company and Mr. Hui Ki Fat in relation to the sale and purchase of four issued shares in the share capital of Sky United for a consideration of HK$15,407,828 which was satisfied by the Company issuing and allotting 263,833 Shares of nominal value US$0.1 each credited as fully paid up to Archiever Development Limited, a company wholly-owned by Mr. Hui.

(n) The Hong Kong Underwriting Agreement.

(o) A deed of non-compete undertaking dated 14 September 2010 given by Mr. Lam Kong and Treasure Sea in favour of our Company.

2. Information about our subsidiaries

The accountants' report set out in Appendix I to this prospectus contains certain particulars about our subsidiaries, except for Guangdong Lantai as it is accounted for as a jointly controlled entity in our Group's consolidated financial statements on the basis that we do not have control over Guangdong Lantai, although we hold a 55% of equity interest. Guangdong Lantai was established on 19 May 2005 in the PRC as a limited liability company with a registered capital of RMB7 million. It is owned as to 55% by Kangzhe Pharmaceutical Technology and as to the remaining 45% by Mr. Guo Yuandong, who would have been an independent third party but for his directorship and equity interest in Guangdong Lantai. The principal business of Guangdong Lantai is the sale and trading of pharmaceutical products in China.

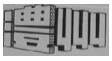
3. Intellectual property rights

(a) Trademarks

(i) As at the Latest Practicable Date, we had registered the following trademarks in the PRC:

Trademark	Registration No.	Classification	Registered owner	Validity period
康 哲	3570103	Product Class 29	Kangzhe Shenzhen	7 December 2004 to 6 December 2014
康 哲	3690075	Service Class 44	Kangzhe Shenzhen	14 October 2005 to 13 October 2015
康 哲	3690077	Service Class 42	Kangzhe Shenzhen	14 January 2006 to 13 January 2016
康 哲	3690078	Service Class 41	Kangzhe Shenzhen	7 September 2005 to 6 September 2015
康 哲	3690079	Service Class 40	Kangzhe Shenzhen	14 August 2005 to 13 August 2015
康 哲	3690080	Service Class 36	Kangzhe Shenzhen	7 January 2006 to 6 January 2016
康 哲	3690081	Service Class 35	Kangzhe Shenzhen	14 August 2005 to 13 August 2015
康 哲	3690082	Product Class 10	Kangzhe Shenzhen	21 April 2005 to 20 April 2015
康 哲	3690083	Product Class 9	Kangzhe Shenzhen	21 April 2005 to 20 April 2015
康 哲	3690084	Product Class 5	Kangzhe Shenzhen	28 December 2005 to 27 December 2015
CMS	1998436	Product Class 10	Kangzhe Shenzhen	7 December 2002 to 6 December 2012
CMS	1049816	Service Class 37	Kangzhe Shenzhen	7 July 2007 to 6 July 2017
CMS	1091826	Service Class 42	Kangzhe Shenzhen	28 August 2007 to 27 August 2017
CMS	1495740	Service Class 42	Kangzhe Shenzhen	21 December 2000 to 20 December 2010

Trademark	Registration No.	Classification	Registered owner	Validity period
CMS	1202277	Product Class 5	Kangzhe Shenzhen	28 August 2008 to 27 August 2018
优思弗 YOU SI FU	1320259	Product Class 5	Kangzhe Shenzhen	7 October 2009 to 6 October 2019*
喜达康	3134098	Product Class 5	Kangzhe Shenzhen	14 February 2004 to 13 February 2014
百健葆	3513160	Product Class 5	Kangzhe Shenzhen	28 January 2005 to 27 January 2015
百力靖	3570287	Product Class 3	Kangzhe Shenzhen	28 June 2005 to 27 June 2015
泰億欣 TAIYIXIN	1196307	Product Class 5	Kangzhe Hunan	7 August 2008 to 6 August 2018
芬喜原 FENXIYUAN	1200319	Product Class 5	Kangzhe Hunan	21 August 2008 to 20 August 2018
素尔松 SUERSONG	1200320	Product Class 5	Kangzhe Hunan	21 August 2008 to 20 August 2018
善素高 SHANSUGAO	1200321	Product Class 5	Kangzhe Hunan	21 August 2008 to 20 August 2018
给尔安 GEIERAN	1200322	Product Class 5	Kangzhe Hunan	21 August 2008 to 20 August 2018
予尔宁 YUERNING	1202274	Product Class 5	Kangzhe Hunan	28 August 2008 to 27 August 2018
慧保欣 HUIBAOXIN	1202279	Product Class 5	Kangzhe Hunan	28 August 2008 to 27 August 2018
泰尔定 TAIERDING	1236295	Product Class 5	Kangzhe Hunan	7 January 2009 to 6 January 2019
净力樂 JING LI LE	1236296	Product Class 5	Kangzhe Hunan	7 January 2009 to 6 January 2019
金爾倫 JIN ER LUN	1236297	Product Class 5	Kangzhe Hunan	7 January 2009 to 6 January 2019
伦尔欣 LUNERXIN	1242252	Product Class 5	Kangzhe Hunan	28 January 2009 to 27 January 2019
祥尔克 XIANGERKE	1246225	Product Class 5	Kangzhe Hunan	14 February 2009 to 13 February 2019
施尔星 SHIERXING	1246226	Product Class 5	Kangzhe Hunan	14 February 2009 to 13 February 2019
Transbroncho 之保克	1295223	Product Class 5	Kangzhe Hunan	21 July 2009 to 20 July 2019
幼尔新 YOUERXIN	1320258	Product Class 5	Kangzhe Hunan	7 October 2009 to 6 October 2019

Trademark	Registration No.	Classification	Registered owner	Validity period
盖尔贝 GAIERBEI	1320260	Product Class 5	Kangzhe Hunan	7 October 2009 to 6 October 2019
格利舒 GELISHU	1365151	Product Class 5	Kangzhe Hunan	21 February 2010 to 20 February 2020
优速平	1468579	Product Class 5	Kangzhe Hunan	7 November 2000 to 6 November 2010
阿赛奇	1468583	Product Class 5	Kangzhe Hunan	7 November 2000 to 6 November 2010
奇诺宁 QINUONING	1496582	Product Class 5	Kangzhe Hunan	28 December 2000 to 27 December 2010
利尔诺	1521838	Product Class 5	Kangzhe Hunan	14 February 2001 to 13 February 2011
	544158	Product Class 5	Kangzhe Hunan	28 February 2001 to 27 February 2011
奇诺宁	1540517	Product Class 5	Kangzhe Hunan	21 March 2001 to 20 March 2011
瑞妥舒	1560469	Product Class 5	Kangzhe Hunan	28 April 2001 to 27 April 2011
瑞洛素	1620448	Product Class 5	Kangzhe Hunan	21 August 2001 to 20 August 2011
新尔汀	1908461	Product Class 5	Kangzhe Hunan	28 September 2002 to 27 September 2012
金尔恙 JINERYANG	1265204	Product Class 5	Kangzhe Hunan	21 April 2009 to 20 April 2019

Note:

* The trademark is held by us for the benefits of Dr. Falk Pharma GmbH.

(ii) As at the Latest Practicable Date, we had registered the following trademarks in Hong Kong:

Trademark	Registration No.	Classification	Registered owner	Validity period
康 哲	301542122	Classes 5 & 10	Kangzhe Shenzhen	10 February 2010 to 9 February 2020
CMS	301542113	Classes 5 & 10	Kangzhe Shenzhen	10 February 2010 to 9 February 2020

(b) Patents

As at the Latest Practicable Date, we had been granted the following patents in the PRC:

Type	Patent description	Patent no.	Registered owner	Application date (Note)
Invention	The application of substituted morphinan and its pharmaceutically acceptable salt in preparing drugs treating persistent vegetative state (取代的嗎啡喃及其藥學上可接受的鹽在制備用於治療持續性植物狀態的藥物中的用途)	ZL031138834.9	Kangzhe Hunan	25 February 2003
Invention	Method of tyrosyl-seryl-leucyl tripeptide preparation (製備酪-絲-亮三肽的方法)	ZL03117845.6	Kangzhe Shenzhen	9 May 2003
Invention	Method of thymopentin preparation (胸線五肽的製備方法)	ZL200410022741.6	Kangzhe Hunan	1 June 2004
Invention	Biologically active peptides with SEQ ID No. 16 (序列號16的生物活性肽)	ZL02141038.0	Kangzhe Shenzhen	11 July 2002
Invention	Method for examining the anti-cancer effect of tyroserleutide and the reagent kit and DNA chip employed (檢測酪絲亮肽抗癌效果的方法及所用試劑盒與基因晶片)	ZL200510021939.7	Kangzhe Shenzhen	20 October 2005

Note: Invention patents are valid for a period of 20 years from the application date.

(c) Domain names

As at the Latest Practicable Date, Kangzhe Shenzhen had registered the following domain names:

Domain Name	Date of registration
www.cms.net.cn	9 December 1999
www.chinamedicalsystem.com.	18 January 2007
www.chinamedicalsystem.hk.	17 April 2008
www.chinamedicalsystem.net	18 January 2007
www.kangzhe.net	4 October 2008
www.kzzy.net.	5 March 2009

(d) Copyrights

As at the Latest Practicable Date, Kangzhe Shenzhen had registered the following copy rights in the PRC:

Copyright	Registration no.	Valid period
CMSERP enterprise management system (CMSERP企業管理系統)	2007SR17508	30 October 2002 to 31 December 2052

Save as disclosed in this prospectus, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material in relation to our business.

4. Imported drug licences

The following table sets out certain details of the imported drug licences of our key import in-licensed products:

Product	Generic name	Dosage	Validity period
Deanxit	Flupentixol and Melitracen Tablets	Flupentixol 0.5mg & Melitracen 10mg per tablet	21 April 2008 to 20 April 2013
Ursofalk	Ursodeoxycholic Acid Capsules	250mg	5 July 2010 to 4 July 2015
Augentropfen Stulln Mono eye-drops	Escuilin and Digitalisglycosides Eye-drops	0.4ml: digitalin (counting on digitalin) 0.006 mg, Esculin 0.040 mg	15 May 2008 to 14 May 2013
Cystistat	Sterile Hyaluronate Solution	40mg/50ml	13 March 2009 to 12 March 2013
Salofalk	Mesalazine Enteric-coated Tablets	0.25g	10 April 2010 to 9 April 2015
	Mesalazine Enteric-coated Tablets	0.5g	11 February 2010 to 10 February 2015
	Mesalazine Suppositories	0.25g	11 February 2010 to 10 February 2015
	Mesalazine Suppositories	0.5g	11 February 2010 to 10 February 2015
	Mesalazine Enema	60g:4g	8 April 2010 to 7 April 2015
Bioflor	Saccharomyces Boulardii Sachets	0.25g/pack	27 July 2004 to 26 July 2009*
	Saccharomyces Boulardii Capsules	0.25g/pack	27 July 2004 to 26 July 2009*

Note:

* Applications have been submitted to the SFDA for the renewal of these imported drug licences.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Particulars of service agreements

None of our Directors has or is proposed to have a service contract with any member of our Group, other than contracts expiring or determinable by the employer within one year without the payment of compensation other than the statutory compensation.

2. Directors' remuneration

Remuneration comprising the director's fee and, in the case of the executive Directors, salaries, allowances and retirement benefits scheme contributions of approximately US$516,000 in aggregate were paid by our Group to our Directors in respect of the year ended 31 December 2009.

Under the current arrangements, our Directors will be entitled to receive remuneration which, for the year ending 31 December 2010, is expected to be approximately US$499,000, excluding the discretionary bonuses payable to our Directors.

3. Interests and/or short positions of Directors in the shares, underlying shares or debentures of the Company and its associated corporations

Following completion of the Global Offering (but without taking into account Shares which may be taken up under the Global Offering and Shares falling to be allotted and issued or sold upon the exercise of the Over-allotment Option and the Existing Share Options), the interests and/or short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning 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 in which they are taken or deemed to have under such provisions of the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, will be required to be notified to the Company and the Hong Kong Stock Exchange, will be as follows:

Long position in the shares, underlying shares and debentures of our Company or the associated companies of our Company:

Name of Director	Name of corporation	Nature of interest	Total number of Shares held	Approximate percentage of interest in the corporation
Mr. Lam Kong	Our Company	Interest in controlled corporation	650,000,000 *(Note 1)*	57.8%
		Interest in controlled corporation	3,539,820 *(Note 2)*	0.3%
Mr. Chen Hongbing	Our Company	Beneficial owner	14,195,820	1.3%
		Interest in controlled corporation	40,000,000 *(Note 3)*	3.6%
		Beneficiary of a trust	3,539,820 *(Note 4)*	0.3%
		Derivatives	14,173,900 *(Note 5)*	1.3%
Ms. Chen Yanling	Our Company	Beneficial owner	2,930,000	0.3%
		Interest in controlled corporation	2,000,000 *(Note 6)*	0.2%
		Beneficiary of a trust	3,539,820 *(Note 4)*	0.3%
Ms. Hou Xiaoxuan	Our Company	Beneficial owner	1,600,000	0.1%
		Interest in controlled corporation	40,000,000 *(Note 7)*	3.6%
		Family interest	2,106,000 *(Note 8)*	0.2%
		Beneficiary of a trust	3,539,820 *(Note 4)*	0.3%
Mr. Hui Ki Fat	Our Company	Interest in controlled corporation	5,276,660 *(Note 9)*	0.5%

Notes:

(1) These Shares are held by Mr. Lam Kong through Treasure Sea, a company wholly owned by him.

(2) These Shares are held by Fully Profit, a company wholly owned by Mr. Lam Kong. Fully Profit is the trustee of the Key Employee Benefit Trust, a discretionary trust established by our Company on 31 July 2009 for the Key Employee Benefits Scheme. Please refer to note 4 below for further details.

(3) These Shares are held by Mr. Chen Hongbing through Viewell Limited, a company wholly owned by him.

(4) These Shares are held by Fully Profit acting as the trustee of the Key Employee Benefit Trust. The discretionary objects of the discretionary trust include Mr. Chen Hongbing, Ms. Chen Yanling and Ms. Hou Xiaoxuan and they are deemed to be interested in these 3,539,820 Shares. The references to these 3,539,820 Shares in respect of which Mr. Lam Kong is deemed to be interested in (as disclosed above) relate to the same block of Shares.

(5) This represents the Existing Share Options.

(6) These Shares are held by Ms. Chen Yangling through Great Creation Holdings Limited, a company wholly owned by her.

(7) These Shares are held by Ms. Hou Xiaoxuan through Wide Harvest Limited, a company wholly owned by her.

(8) These Shares are held by Mr. Jia Jinbin, the spouse of Ms. Hou Xiaoxuan, in respect of which Ms. Hou Xiaoxuan is deemed to be interested in.

(9) These Shares are held by Mr. Hui Ki Fat through Archiever Development Limited, a company wholly owned by him.

Short position in the Shares of our Company:

Name of Director	Capacity	Number of Shares in short position	Approximate percentage of issued Shares
Mr. Lam Kong	Interest in controlled corporation	30,000,000 *(Notes 1 and 2)*	2.7%
	Interest in controlled corporation	10,000,000 *(Notes 1 and 3)*	0.9%

Notes:

(1) These Shares are held by Treasure Sea, a company wholly-owned by Mr. Lam Kong.

(2) They are the maximum number of Shares that may be borrowed by the Sole Global Coordinator from Treasure Sea, a company wholly owned by Mr. Lam Kong, pursuant to the Stock Borrowing Agreement in order to facilitate the settlement of over-allocations in connection with the International Offering.

(3) These represent Shares that will be sold by Treasure Sea upon exercise of the Over-allotment Option in full.

4. Interests and/or short position of substantial shareholders in the Shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as is known to the Directors, immediately following the completion of the Global Offering (but without taking account of Shares which may be taken up under the Global Offering and Shares falling to be allotted and issued upon the exercise of the Over-allotment Option and the Existing Share Options), the following persons (not being a Director or chief executive of the Company) will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Nature of interest	Total number of Shares held	Approximate percentage of interest in our Company
Martin Currie (Holdings) Limited *(Note)*	Interest in controlled corporation	72,353,760 (L)	6.4%
Martin Currie Limited *(Note)*	Interest in controlled corporation	72,353,760 (L)	6.4%

Name of shareholder	Nature of interest	Total number of Shares held	Approximate percentage of interest in our Company
Martin Currie Inc. *(Note)*	Interest in controlled corporation	72,353,760 (L)	6.4%
China Fund, Inc. *(Note)*	Beneficial owner	72,353,760 (L)	6.4%

Note: China Fund, Inc. is a company incorporated in Maryland, the United States. It is a wholly-owned subsidiary of Martin Currie Inc., a company incorporated in Edinburgh, the United Kingdom, which in turn is wholly-owned by Martin Currie Limited, a company incorporated in Edinburgh, the United Kingdom. Martin Currie Limited is a wholly-owned subsidiary of Martin Currie (Holdings) Limited, which is a company incorporated in Edinburgh, the United Kingdom. The references to the interest in 72,353,760 Shares in respect of each of these entities relate to the same block of Shares.

5. Others

Save as disclosed in this prospectus,

(a) none of the Directors or chief executive of our Company has any interest and/or short position in the shares, underlying shares, listed or unlisted derivatives of or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, will be required to be notified to our Company and the Hong Kong Stock Exchange once the Shares are listed;

(b) none of our Directors or the experts named in the paragraph headed "D. Other information — 1. Consents of experts" in this Appendix has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(c) none of the Directors is materially interested in any contract or arrangement subsisting as at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;

(d) taking no account of any Shares which may be taken up under the Global Offering and Shares falling to be allotted and issued or sold upon the exercise of the Over-allotment Option, the Directors are not aware of any person who immediately following the completion of the Global Offering will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be 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 the Group;

(e) none of the experts named in the paragraph headed "D. Other information — 1. Consents of experts" in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group or is an officer or servant or in employment of an officer or servant of the Group.

D. OTHER INFORMATION

1. Consents of experts

UBS AG, Hong Kong Branch, Deloitte Touche Tohmatsu, Vigers Appraisal & Consulting Limited, Zhong Lun Law Firm and Maples and Calder have each given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, valuation certificate, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

Name	Qualification
UBS AG, Hong Kong Branch	Licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Vigers Appraisal & Consulting Limited	Property valuer
Zhong Lun Law Firm	Legal adviser on PRC laws
Maples and Calder	Cayman Islands attorneys-at-law

2. Binding effect

This prospectus 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 Hong Kong Companies Ordinance so far as applicable.

3. Miscellaneous

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus,

(a) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(b) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries; and

(c) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

4. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

5. Particulars of the Selling Shareholder

The Selling Shareholder of the Sale Shares is Treasure Sea.

Treasure Sea is a limited liability company incorporated in the BVI with its registered office located at ATC Trustees (BVI) Limited, 2/F Abbott Building, Road Town, Tortola, British Virgin Islands. Treasure Sea is wholly owned by our Chairman, executive Director and controlling shareholder, Mr. Lam Kong.

Save as disclosed above, none of our Directors are interested in the Sale Shares.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in the section headed "D. Other information — 1. Consents of experts" in Appendix VI to this prospectus, copies of the material contracts referred to in the section headed "B. Further information about our businesses — 1. Summary of material contracts" in Appendix VI to this prospectus and a statement of particulars of the Selling Shareholder.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Unit 2106, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) our Memorandum and Articles of Association;

(b) the accountants' report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;

(c) the letter relating to the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;

(d) the letters relating to the profit forecast of our Group, the texts of which are set out in Appendix III to this prospectus;

(e) the letter and a summary of values and valuation certificates relating to the property interests of our Group prepared by Vigers Appraisal & Consulting Limited, the text of which is set out in Appendix IV to this prospectus;

(f) the PRC legal opinion issued by Zhong Lun Law Firm, our PRC legal adviser;

(g) the letter prepared by Maples and Calder, our legal adviser on Cayman Islands law, summarising certain aspects of the Cayman Companies Law referred to in Appendix V;

(h) the Cayman Companies Law;

(i) the written consents referred to under the paragraph headed "D. Other information — 1. Consents of experts" in Appendix VI to this prospectus;

(j) copies of material contracts referred to in the section headed "B. Further information about our business — 1. Summary of material contracts" in Appendix VI to this prospectus; and

(k) a statement of particulars of the Selling Shareholder.

China Medical System Holdings Limited
康哲藥業控股有限公司*

** for identification purpose only*