BUSINESS

Unless specified otherwise, information relating to market share, market position and other industry data pertaining to our business contained in this section is derived from IMS.

OVERVIEW

We are a leading pharmaceutical company with the largest cardio-cerebral vascular drug franchise in the PRC in terms of market share, accounting for approximately 7.2%, 7.3% and 7.4% of the market in 2007, 2008 and 2009, respectively. We have a differentiated and proven sales and marketing model, supported by an extensive nationwide distribution network covering close to 10,000 hospitals through over 2,000 distributors in all 31 provinces, autonomous regions and cities throughout the PRC. We have strong research and development capabilities, which focus on the development of innovative and first-to-market generic drugs. We also have a proven track record of identifying, acquiring and developing market-leading drugs.

We offer a portfolio of 14 cardio-cerebral vascular drugs, which are used for the treatment of a range of cardio-cerebral vascular diseases. There are five main sub-segments of cardio-cerebral vascular drug market. We focus on two out of the five main sub-segments of the cardio-cerebral vascular drug market: cerebral and peripheral vascular therapies and CNS agents for cardio-cerebral vascular diseases. Our best selling cardio-cerebral vascular drugs, Kelinao, Anjieli and Chuanqing, collectively accounted for approximately 17.1% of the cerebral and peripheral vascular therapies market, the largest sub-segment of the cardio-cerebral vascular drug market, in the PRC in 2009. In particular, Kelinao and Anjieli have collectively ranked first among all drugs sold in hospitals in the PRC every year since 2007. Kelinao and Anjieli are currently the only SFDA-approved drugs containing the active ingredient of cinepazide maleate in the PRC. We received 20-year patent protection for each of the synthesis process, the improved production method and the invention and production method of the crystal of cinepazide maleate in the PRC in 2004, 2006 and 2008, respectively. In addition, Chuanqing, another flagship cardio-cerebral vascular product, is the best selling ligustrazine for injection drug in the PRC in terms of market share in 2009. We also offer several CNS drugs for cardio-cerebral vascular disease, including Qu'Ao, Aogan and Qingtong. In particular, Qu'Ao ranked second in the cerebroprotein hydrolysate market in the PRC in 2009. We launched Aogan and Qingtong in 2008 and 2009, respectively, and they have quickly gained market share in their respective markets. We also market and sell a diversified portfolio of 30 anti-infective and other drugs which, combined with our cardio-cerebral vascular drugs, cover the top five medical therapeutic areas in the PRC in 2009. The majority of our products either enjoy leading market positions, or we believe are poised to grow rapidly in their respective markets.

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, sales of our cardio-cerebral vascular drugs amounted to RMB235.6 million, RMB401.4 million, RMB560.6 million and RMB393.0 million, respectively, accounting for 82.3%, 78.7%, 79.1% and 83.0% of our total revenue, respectively. Sales of our anti-infective drugs amounted to RMB17.3 million, RMB46.2 million, RMB55.5 million and RMB30.7 million, respectively, accounting for 6.0%, 9.1%, 7.8% and 6.5% of our total revenue, respectively. Sales of our other pharmaceutical products amounted to RMB33.4 million, RMB61.2 million, RMB84.8 million and RMB49.1 million, respectively, accounting for 11.7%, 12.0%, 12.0% and 10.4% of our total revenue, respectively. In particular, we rely on the sales of Kelinao and Anjieli, which accounted for 66.5%, 60.1%, 57.3% and 57.7% of our total revenue in the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively.

BUSINESS

The pharmaceutical products marketed and sold by us are either our products that are developed by us independently or jointly with third-parties or acquired by us, or third-party products owned and manufactured by third-party pharmaceutical companies and distributed by us under distribution agreements. During the Track Record Period, our product development was focused on first-to-market generic drugs, which we developed independently or jointly with other third-party research institutions at different stages of product development before obtaining the manufacturing permits. We also acquire products for which the manufacturing permits have already been obtained by third parties. We also seek to conduct research and development to improve the quality, efficacy and safety of the products we acquired. During the Track Record Period, we successfully developed 13 products, acquired and further developed 19 products and obtained nationwide distributorship rights over 12 products. The majority of our sales were contributed by the product developed by us. The following table sets forth the contribution to revenue of our products by product source for the periods indicated:

Revenue (by product source)	**For the year ended 31 December**						**For the six months ended 30 June**			
	2007		**2008**		**2009**		**2009**		**2010**	
							(unaudited)			
	RMB '000	**%**	**RMB '000**	**%**	**RMB '000**	**%**	**RMB '000**	**%**	**RMB '000**	**%**
Developed by us [(1)]	255,436	89.2	423,123	83.0	549,875	77.6	253,017	78.5	359,110	75.9
Acquired by us	28,996	10.1	76,375	14.9	115,743	16.3	52,465	16.3	75,004	15.8
Distributorship	1,917	0.7	10,550	2.1	43,289	6.1	16,912	5.2	39,323	8.3
Total	286,349	100.0%	510,048	100.0%	708,907	100.0%	322,394	100.0%	473,437	100.0%

Note:

(1) Including products developed solely by us or jointly with third parties. We own the relevant intellectual property rights to these products, including licencing revenue.

In the future, we intend to continue combining our research and development strength to originate and develop new products and the strength of identifying, acquiring and improving target products to add more products that we believe have attractive commercial potential and are complementary to our existing product portfolio.

Our sales model has proven to be highly successful and cost-efficient, and has enabled us to rapidly achieve deep market penetration in an effective manner. We differentiate ourselves from those other market players who maintain an in-house marketing and promotion team at high costs and those who outsource their marketing and promotion activities entirely, and hence have no control of the distribution network. We believe that our marketing strategy and extensive sales and distribution network are difficult to replicate and represent a significant competitive advantage. We have an extensive nationwide sales and distribution network of over 2,000 distributors covering all 31 provinces, autonomous regions and cities throughout the PRC. These distributors are supported by sales representatives who are given dedicated responsibility to promote the sale of or solicit customers for our products. The sales representatives consist of independent third parties and individuals employed by the distributors. The sales representatives also keep us generally informed of the conditions of the market, activities of our competitors, and other circumstances important to the

marketing of our products. We have a contractual arrangement with the majority of such third-party sales representatives to monitor their performance. As of the Latest Practicable Date, our distribution network has penetrated into close to 10,000 hospitals, including 890 or approximately 70% of all Class III hospitals, 3,600 or approximately 55% of all Class II hospitals and 5,400 Class I and other hospitals and medical institutions in the PRC. Sales to distributors account for substantially all of our revenue.

Our distribution network is managed and supported by an in-house team of 278 dedicated sales and product managers, the majority of whom hold professional qualifications in medicine and pharmacy. Our product managers are responsible for determining product positioning, formulating marketing strategies, maintaining a network of key opinion leaders and organising seminars and conferences to promote awareness and knowledge of our products. Our sales managers are responsible for the management and expansion of our distribution network. We believe that our distributors and third-party sales representatives have a deep understanding of their local markets and have established sales channels with local hospitals and physicians, and therefore can effectively promote our products.

We have two leading research and development teams composed of 333 personnel who focus on developing innovative drugs and first-to-market generic drugs, respectively. Our key research scientists on average have over 10 years of drug development experience from their tenures at multinational pharmaceutical companies and have expertise in areas encompassing both drug discovery and development, such as medicinal chemistry, biological assays, pharmacology, toxicology, chemical synthesis and scale-up and clinical trials. We employ a market-driven approach to selecting research and development targets that have the potential for gaining widespread market acceptance or becoming best-in-class among similar products on the market. We also collaborate with leading research institutions, universities and hospitals in the PRC to broaden our access to proprietary drugs while minimising upfront costs and risks associated with early-stage product development.

Since our establishment, we have been able to successfully develop and bring to market 13 pharmaceutical products, all of which were well accepted and achieved leading positions in their markets. Currently, we have over 30 product candidates in various stages of development for the treatment of cardio-cerebral vascular diseases, central nervous system diseases, infections, cancer and other diseases. Ten of these product candidates are innovative drugs. Among these product candidates, four products have finished, or are currently in, the clinical trial stage and are expected to be launched within the next four years. Our commitment to research and development is demonstrated through our substantial research and development spending which amounted to, on average, approximately 10% of our total revenue from 2007 to 2009.

We operate six integrated production lines, two for producing small volume liquid for injection, one for producing lyophilised powder for injection and three for producing oral solid medicines, including tablets, capsules and granules. All of our production facilities are GMP certified by the SFDA and adhere to stringent and closely monitored quality assurance and quality control processes. We outsource the manufacture of APIs for certain products to third-party manufacturers, who are also required to comply with our quality standards and GMP standards. We intend to expand our production capacities and capabilities to meet the increasing demand for our products and increase in-house production of additional key APIs required to manufacture our products. We believe this will allow us to better control the quality and cost of our products.

BUSINESS

Substantially all of our products are included in the National and Provincial Medicine Catalogue and National List of Essential Drugs. They are subject to price controls by the government in the form of fixed retail prices or maximum retail prices. Even though we do not sell our drugs at retail prices, these controls may indirectly affect the wholesale prices of our products.

We have experienced significant growth in our business in recent years. For the years ended 31 December 2007, 2008 and 2009, our revenue was RMB286.3 million, RMB510.0 million and RMB708.9 million, respectively, representing a CAGR of 57.4% over the period. For the same period, our net profit was RMB178.8 million, RMB233.4 million and RMB313.7 million, respectively, representing a CAGR of 32.5% and our net profit attributable to our equity holders was RMB179.3 million, RMB237.1 million and RMB326.3 million, respectively, representing a CAGR of 34.9%. For the six months ended 30 June 2010, our revenue was RMB473.4 million, our net profit was RMB247.4 million and our net profit attributable to our equity holders was RMB254.8 million.

OUR STRENGTHS

We believe that we have the following principal strengths:

Leading cardio-cerebral vascular drug franchise in the PRC

We have a portfolio of leading cardio-cerebral vascular drugs. We have consistently ranked first in the cardio-cerebral vascular drug market in the PRC since 2007 in terms of market share, ahead of leading multinational pharmaceutical companies such as Sanofi-Aventis and Pfizer. Further, we marketed and sold three out of the top five cardio-cerebral vascular molecules in terms of market share in the PRC in 2009. Our cardio-cerebral vascular drugs, Kelinao, Anjieli and Chuanqing, collectively, had a 17.1% market share of the cerebral and peripheral vascular therapies market in 2009. In fact, Kelinao and Anjieli have collectively ranked first among all drugs sold in hospitals in the PRC every year since 2007. Kelinao and Anjieli are currently the only SFDA-approved drugs containing cinepazide maleate as an active ingredient in the PRC, and are protected by three patents in respect to their crystal type, synthesis process and production method. Benefiting from its proprietary formulation and patent protection, Chuanqing is the best selling ligustrazine for injection drug in the PRC in terms of market share, accounting for approximately 58.1% of the total ligustrazine products sold in the PRC in 2009. Qu'Ao, our CNS drug for cardio-cerebral vascular diseases, ranked second in the cerebroprotein hydrolysate market in the PRC in 2009. We also launched Aogan and Qingtong in 2008 and 2009, respectively, and since then, they have been quickly gaining market share in their respective markets.

We believe that our position as a leader in the cardio-cerebral vascular market has provided us with strong brand recognition among neurologists and cardiologists in the PRC. We believe that these relationships will drive future growth for Kelinao, Anjieli and Chuanqing as well as future sales of our portfolio of other cardio-cerebral vascular drugs prescribed by neurologists and cardiologists.

Extensive nationwide sales and distribution network supported by strong sales and marketing capabilities

We have established an extensive nationwide sales and distribution network covering close to 10,000 hospitals through over 2,000 distributors in all 31 provinces, autonomous regions and cities throughout the PRC. As of the Latest Practicable Date, our network has penetrated into 890 or

approximately 70% of all Class III hospitals, 3,600 or approximately 55% of all Class II hospitals and 5,400 Class I and other hospitals and medical institutions in the PRC. In addition, our products have reached county-level markets in certain densely populated provinces, such as Zhejiang, Guangdong and Henan.

Our distribution network is managed and supported by our 278 in-house sales and product managers, who seek to ensure the efficiency, productivity and stability of the network. The majority of our sales and product managers have professional qualifications in medicine and pharmacy. Our sales and product managers work closely with our distributors and third-party sales representatives by formulating the marketing and promotion strategies, setting sales targets and product mix, monitoring their performance and coordinating with them in the collective tender process. We prepare and provide marketing materials for our distributors and third-party sales representatives and conduct training on a regular basis for them, so that they are equipped with the necessary product knowledge to effectively market and sell our products and to ensure that accurate and consistent messages are delivered to physicians. We believe that our distributors and third-party sales representatives have a deep knowledge and understanding of their local markets and have established sales channels with local hospitals and physicians and can therefore effectively promote our products.

We generally conduct monthly reviews of the performance of our distributors and third-party sales representatives, and based on the results of our review, we can adjust their assigned target hospitals, forfeit or release performance deposits and extend or terminate the contracts of those who either out-perform or consistently fail to meet their sales target or violate company policies. We also closely monitor the inventory level of our distributors on a monthly basis through inspecting their sales records and collecting end-user feedbacks. Based on their performance and inventory level, we can adjust their sales targets to avoid accumulation of inventory at our distributors level. We also carry out various marketing activities throughout the PRC to promote the awareness and knowledge of our products in the industry. During the Track Record Period, we organised and sponsored more than 200 national and provincial medicinal or pharmaceutical conferences and organised over 2,000 symposiums and product seminars. Our sales model has proven to be highly successful and cost-efficient, and enables us to rapidly achieve deep market penetration in an effective manner. We believe our marketing strategy and extensive sales and distribution network are difficult to replicate and represent a significant competitive advantage because they are the culmination of a process of over a decade of searching for, identifying, negotiating with and selecting qualified distributors and third-party sales representatives in different regions across the country. Our sales model also requires a highly effective internal management system to control and support a distribution network of such a large scale. Over the years, we have also developed pricing strategies, which ensure that the profit margins of our products remain attractive to our distributors. In addition, the market-leading positions of several of our products and our strong product pipeline help retain our distributors.

A diversified portfolio of products targeting large and fast-growing therapeutic areas

We have a diversified portfolio of products targeting therapeutic areas with large demand for medical treatment. We have 44 products covering the top five medical therapeutic areas in the PRC: anti-infective, metabolism, cardiovascular system, oncology and nervous system. The aggregate market size of products in these five therapeutic areas amounted to RMB166.4 billion in 2009, accounting for approximately 81.8% of the overall pharmaceutical market in the PRC. These top five

areas are projected to continue to grow rapidly and reach RMB466.8 billion by 2014, representing a CAGR of 22.9% from 2009. We believe that our leadership in the cardio-cerebral vascular drug market has provided us with strong brand recognition that we can leverage to enhance our sales of products in other therapeutic areas and further diversify our existing product portfolio.

Proven track record of identifying, acquiring and developing market-leading products

We have a proven track record of successfully identifying, acquiring and developing market leading products through acquisitions, such as Aogan and Kanglixin. We obtained 19 out of 44 of our current products through acquisition. We have a dedicated team responsible for identifying and acquiring target products which we believe have attractive commercial potential and are complementary to our existing product portfolio. In addition, we conduct research and development to improve the quality, efficacy and safety of our acquired products to differentiate them from existing products in the market. We have also obtained nationwide exclusive distribution rights for certain products, leveraging our strong sales capabilities and extensive distribution network. Currently, 12 out of our 44 current products have been obtained through the acquisition of exclusive nationwide distribution rights.

Strong research and development capabilities

We have two leading research and development teams composed of 333 personnel, including 11 Ph.D. degree holders and 134 master's degree holders. We believe that we have one of the largest innovative drug development teams in the PRC with 289 personnel led by six key research scientists. On average these key research scientists have over 10 years of drug development experience from their tenures at multinational pharmaceutical companies. We also have a second team with 44 personnel focusing on the development of first-to-market generic drugs based on proven active ingredients with the potential to result in intellectual property rights in relation to formulation, production process, improved chemical attributes or delivery system.

In total, we have over 30 product candidates in various stages of development, including four products that have finished, or are currently in, the clinical trial stage and are expected to be launched within the next four years. Among these product candidates, 10 are innovative drugs and the others are generic drugs.

In addition, we collaborate with leading research institutions, universities and hospitals to further broaden our access to proprietary products, and minimise the upfront costs and risks associated with early-stage product development. Our commitment to research and development is demonstrated through our substantial research and development spending, which amounted to, on average, approximately 10% of our total revenue from 2007 to 2009.

We believe that the development and launch of proprietary products are important to our sustainable growth and future success. We employ a market-driven approach to selecting research and development projects, based upon commercial potential and the likelihood of successful development. We primarily target cardio-cerebral vascular, anti-infective and other areas including central nervous system, respiratory and oncology therapies, as we believe these therapeutic areas represent market segments with the largest medical needs in the PRC and are areas where we believe we have the greatest ability to realise commercialisation.

An experienced and committed management team

Our senior management has an average of 15 years experience in the PRC pharmaceutical industry. Our Chairman and CEO, Dr. Che, has more than eight years of experience as a neurologist and more than 17 years of experience in the sales and marketing of pharmaceutical products and management of pharmaceutical companies. Our vice-chairman, Dr. Guo, has more than four years of experience as a general surgeon and more than 17 years of experience in the sales and marketing of pharmaceutical products. Their experiences as physicians provide our senior management with insights into the needs of medical practitioners and patients and enable them to accurately identify product candidates with great market potential. In addition, our chief operating officer, Ms. Jia Zhongxin, has over 20 years of experience in the operation and management of pharmaceutical companies in the PRC. We have benefited from our management's deep understanding of the PRC pharmaceutical market and strong expertise in management, execution, marketing, sales, distribution and operations. Their professional connections have also helped us establish and strengthen our relationships with pharmaceutical manufacturers in the PRC. We believe that the quality and stability of our senior management are one of the key factors behind our success.

OUR STRATEGIES

Our goal is to consolidate our position as the leading cardio-cerebral vascular drug franchise in the PRC and to continue to grow our sales in other targeted high growth therapeutic areas. To achieve this goal, we will pursue the following strategies:

Continue to strengthen our cardio-cerebral vascular drug franchise and further diversify our product portfolio by increasing sales of drugs targeting other high growth therapeutic areas

We intend to strengthen our leading position in the cardio-cerebral vascular market and increase penetration of our existing products in the cardio-cerebral vascular drug market. We intend to increase the sales of our key cardio-cerebral vascular products through:

- promoting them to currently uncovered geographic areas;
- promoting them to more hospitals and medical institutions in covered geographic areas;
- promoting them to hospital departments where our products are less frequently prescribed;
- acquiring additional market leading products that are complementary to our existing product lines; and
- increasing the production capacities for our key cardio-cerebral vascular products.

We also plan to increase the awareness of our brands among key opinion leaders and medical practitioners by increasing the frequency and coverage of our marketing and promotion activities. Our position as a leader in the cardio-cerebral vascular drug market provides a basis for developing strong relationships with neurologists and cardiologists in the PRC. We believe that these relationships will drive future growth for our portfolio of cardio-cerebral vascular drugs.

Furthermore, as part of our effort to further diversify our product portfolio, we will continue to leverage our reputation and leadership in the cardio-cerebral vascular drug market, as well as our

existing distribution network, to increase sales of our drugs targeted at other high growth therapeutic areas. We will seek to focus on increasing sales of selected non-cardio-cerebral vascular drugs that we expect to have attractive market potential, such as sulbenicillin sodium for injection and oxcarbazepine tablets.

Extend our sales and distribution network and strengthen our marketing efforts

We will continue to extend our sales and distribution network, with a view to further increasing our market share and deepening our market penetration. We will continue working closely with our distributors and third-party sales representatives throughout the PRC to expand sales and marketing of our products to those regions and cities in which our network currently has limited or no presence. We also intend to recruit additional sales and marketing personnel to reach 500 sales and product managers and establish additional regional offices at strategic locations in the PRC to support the expansion of our distribution network. We are seeking to further penetrate into currently uncovered hospitals, as well as more departments in hospitals where we already have a presence. We aim to increase the coverage of Class III, Class II and Class I and other hospitals to 90%, 80% and 70% respectively, over the next five years. Given the geographical size of the PRC market, we consider it critical to establish long-term business relationships with our distributors and third-party sales representatives in different locations and to work closely with them to market and sell our products. We intend to improve our distributor support and management system to maintain and attract high quality distributors. Capitalising on our leading position in the cardio-cerebral vascular drug market, we will continue to maintain relationships with the hospitals and medical institutions to whom our distributors sell, and we also intend to continue organising and sponsoring seminars and conferences and undertaking other medical affairs to provide professional education specific to the therapeutic areas related to our products and explain the clinical applications, benefits and side effects of our products. We consider our active roles in such sales and marketing activities to be crucial, particularly in assisting our distributors and third-party sales representatives in providing accurate and consistent information on our products.

Continue to develop proprietary products and further strengthen our research and development capability

Our goal is to build the leading innovative drug development platform in the PRC. We will continue to leverage our extensive drug development experience and our relationship with research partners to develop new proprietary products with strong market potential. We will continue to execute on our existing drug pipeline, as well as make further investments in new research and development programs. We plan to launch four drugs complementary to our existing portfolio within the next four years. We plan to hire additional high caliber research and development personnel to expand our leading research and development team. In addition to focusing on the development of our product candidates, we may also explore other research and development opportunities through providing technology service, undertaking research and development projects for third parties and out-licensing our product candidates to other companies. We believe such technology projects can expand the vision and enhance the capabilities of our research and development teams, as well as increase the profitability of our research and development operation. Based on the needs of our research and development projects, we will purchase more advanced equipment and facilities. We believe that continual research and development investment is necessary to maintain a strong product portfolio, give us significant advantages over potential competitors.

Expand through acquisition, collaboration and joint ventures

We will continue to actively expand through selective acquisitions of products and technologies. In the near term, our acquisitions are likely to focus on the purchase or development of specific products or product lines to complement or expand our existing product portfolio. We intend to screen acquisition opportunities by focusing on products with substantial clinical evidence of safety and efficacy that can be effectively marketed and distributed using our existing personnel and networks. We may also expand our business by acquiring other businesses or companies. We will also seek suitable investments and business partnerships where opportunities arise, including establishing alliances and joint ventures with foreign and PRC-based pharmaceutical companies to further expand and strengthen our core business. We believe that this strategy will enable us to expand our strong market position and brand to cover a broader range of pharmaceutical products.

Expand and enhance our production capacity and capability

We plan to increase our production capacity and capability by constructing new production facilities and acquiring additional production equipment, which we believe will enhance our production flexibility and reduce reliance on third-party manufacturers. Further, we intend to continue enhancing our production quality and know-how by upgrading our production facilities to the new GMP standards and selectively to EU or US FDA standards. We believe that having production facilities that exceed national standards and meet international standards can better position us in the tender process for our products.

Currently, we have two planned production facilities. One is located in Langfang, Hebei province and is mainly for the manufacture of APIs and is expected to commence production in the first half of 2011. The other facility is located in Beijing and is mainly for the manufacture of lyophilised powder for injection and small volume liquid for injection, and is expected to commence production in late 2012. Upon completion of the construction of these two facilities, we expect to increase our annual production capacity by 100 million vials of lyophilised powder for injection, 10 million vials of sterile powder for injection, 300 million vials of small volume liquid for injection and 30 tons of APIs.

We will continue to develop new, or improve existing, production techniques to enhance product quality and manufacturing efficiency. We believe that the foregoing efforts will increase our vertical integration, secure steady supply of APIs, reduce production costs and enhance our quality control.

OUR PRODUCTS

We currently market and sell 44 prescription drugs in different formulations and dosages. All the drugs that are currently marketed and sold by us are prescription drugs. Additionally, we have also obtained drug manufacturing permits from the SFDA to manufacture and sell 33 other pharmaceutical products.

BUSINESS

The following table sets forth the major therapeutic areas of our current products and the number of products for each therapeutic area:

Product Category	Total Number of Products
Cardio-cerebral vascular	14
Anti-infective	11
Others	19
CNS	4
Oncology	6
Respiratory system	1
Metabolism system	3
Others	5
Total:	**44**

The following table sets forth the details of our major products:

Product Name	Year of Launch	Major Usage	Developed by the Group	Obtained through acquisition	Distributed by the Group under nationwide distribution agreements[2]	Expiration Date of Manufacturing Permit	Manufactured by the Group	Manufactured by third-party subcontracting manufacturers	Expiration Date of Patent Protection
Kelinao, Anjieli[1] (Cinepazide Maleate Injection)	2003/ 2006	Cardio-cerebral Vascular	Yes	—	—	8 April 2008	Yes	—	22 November 2024 20 July 2026 23 April 2028
Chuanqing[1] (Ligustrazine Hydrochloride for Injection)	2003	Cardio-cerebral Vascular	Yes	—	—	1 June 2008	—	Yes	12 October 2026
Qu'Ao[1] (Cerebroprotein Hydrolysate for Injection)	2005	Cardio-cerebral Vascular	Yes	—	—	24 June 2010	—	Yes	12 October 2026
Aogan (Monosialotetrahexosylganglioside Sodium for Injection)	2008	Cardio-cerebral Vascular	—	Yes	—	23 March 2013	Yes	—	
Qingtong (Edaravone Injection)	2009	Cardio-cerebral Vascular	—	—	Yes	11 Sept 2013	—	—	
Kanglixin, Xiboao[1] (Cefpiramide sodium for Injection)	2004	Anti-infective	—	Yes	—	3 June 2009	—	Yes	6 July 2024
Anjiejian (Cefmenoxime Hydrochloride for Injection)	2007	Anti-infective	—	—	Yes	3 Jan 2012	—	—	
Pojia (Sulbenicillin Sodium for Injection)	2009	Anti-infective	—	—	Yes	4 March 2011	—	—	

Product Name	Year of Launch	Major Usage	Developed by the Group	Obtained through acquisition	Distributed by the Group under nationwide distribution agreements[2]	Expiration Date of Manufacturing Permit	Manufactured by the Group	Manufactured by third-party subcontracting manufacturers	Expiration Date of Patent Protection
Zhuo'Ao, Bi'Ao (Ambroxol Hydrochloride for Injection)	2006	Respiratory System	—	Yes	—	27 Feb 2011	—	Yes	
Naloxone Hydrochloride Line [1]	2005	CNS	Yes	—	—	16 June 2010	Yes	—	
Xinpuao (Naloxone Hydrochloride for Injection)	2006	CNS	Yes	—	—	27 April 2011	Yes	—	
Ren'Ao (Oxcarbazepine Tablets)	2006	CNS	Yes	—	—	10 August 2015	Yes	—	

Notes:

(1) The manufacturing permits for these products have expired as at the Latest Practicable Date. We have not yet obtained new manufacturing permits for these products because the re-registration procedures in the PRC are currently undergoing. According to a notice issued by SFDA on 9 March 2007 (《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), a notice issued by SFDA on 31 July 2009 (《關於做好藥品再註冊審查審批工作的通知》國食藥監註[2009]387號) and a notice issued by SFDA on 29 September 2010 (《關於做好藥品再註冊審查審批工作的補充通知》國食藥監註[2010]394號), the manufacturing permits for these products can be used during the re-registration period. Our PRC counsel has confirmed that we have submitted the applications to renew the manufacturing permits in accordance with the applicable PRC laws and regulations and that they are not aware of any legal impediment to re-registering the manufacturing permits. Since the re-registration applications have been submitted and accepted, our PRC counsel has confirmed that manufacturing permits for such products may, pending the re-registration procedures, continue to be used during such period notwithstanding their expiry and the risk of not being able to obtain the re-registration is remote.

(2) Developed and/or manufactured by third-party manufacturers.

Revenue from sales of the above major products was RMB245.3 million, RMB432.1 million, RMB623.6 million and RMB434.3 million for the three years ended 31 December 2007, 2008 and 2009, and the six months ended 30 June 2010, respectively.

Cardio-cerebral vascular drugs

We mainly engage in the research, manufacturing, marketing and sales of cardio-cerebral vascular drugs. As of the Latest Practicable Date, we market and sell 14 cardio-cerebral vascular drugs, several of which, namely Kelinao, Anjieli, Chuanqing and Qu'Ao, are among the leading products in their respective therapeutic areas in terms of market share.

Our main product portfolio focuses on the two main sub-segments of the cardio-cerebral vascular drug market: cerebral and peripheral vascular therapies and CNS agents for cardio-cerebral vascular diseases. The size of these two markets in the PRC was estimated at RMB10.4 billion and RMB5.3 billion in 2009, respectively, representing a CAGR of 24.0% and 29.2% since 2005.

The following table sets forth the contribution to revenue of our top cardio-cerebral vascular drugs during the Track Record Period.

	For the year ended 31 December						For the six months ended 30 June			
Revenue (by Product)	**2007**		**2008**		**2009**		**2009**		**2010**	
	RMB '000	**% of Revenue**	**RMB '000**	**% of Revenue**	**RMB '000**	**% of Revenue**	**RMB '000**	**% of Revenue**	**RMB '000**	**% of Revenue**
Cardio-cerebral vascular drugs										
Kelinao	177,505	62.0	258,822	50.8	330,864	46.7	148,203	46.0	215,899	45.6
Anjieli	13,010	4.5	47,523	9.3	75,252	10.6	35,606	11.0	57,018	12.1
Chuanqing	29,140	10.2	49,580	9.7	63,080	8.9	29,554	9.2	41,809	8.8
Qu'Ao	4,581	1.6	23,126	4.5	37,176	5.2	19,369	6.0	24,303	5.1
Aogan	—	—	1,775	0.4	22,837	3.2	7,877	2.4	31,277	6.6
Qingtong	—	—	—	—	12,383	1.8	4,342	1.4	12,746	2.7
Others	11,349	4.0	20,539	4.0	19,029	2.7	9.849	3.0	9,956	2.1
Total	**235,585**	**82.3**	**401,365**	**78.7**	**560,621**	**79.1**	**254,800**	**79.0**	**393,008**	**83.0**

Below are some of our key cardio-cerebral vascular products:

Kelinao and Anjieli (克林澳 and 安捷利) (cinepazide maleate injection) (馬來酸桂哌齊特注射液)

Our two key products are Kelinao and Anjieli, both of which contain the active ingredient cinepazide maleate in injection form. Kelinao and Anjieli are produced in 80mg and 320mg dosages, respectively. Cinepazide maleate is commonly used in stroke therapy in China. It increases blood flow to the brain and acts as a neuro protectant. It is used in the treatment of cardio-cerebral vascular diseases, such as cerebral arteriosclerosis, transient cerebral ischemic attack, cerebral thrombosis, cerebral embolism, cerebral hemorrhage residual, coronary artery disease, angina and myocardial infarction, as well as peripheral blood vessel diseases. As a result of its mild calcium antagonising effect, cinepazide maleate improves the blood supply to the ischemic tissues by selectively reducing the flow of calcium to the vascular smooth muscle, resulting in less contraction of the smooth muscle, and therefore an increase in arterial diameter without causing calcium antagonist-induced hypotension. At the same time, due to its enhancing effect on adenosine, cinepazide maleate can effectively protect nerve cells and myocardial cells. Cinepazide maleate injection is currently listed in the National Medicine Catalogue.

Cinepazide maleate was one of the leading molecules in the cerebral and peripheral vascular therapies market, accounting for 14.4% in terms of market share in 2009. The size of the PRC cinepazide maleate market was estimated at RMB1.5 billion in 2009, compared with RMB195.4 million in 2005, representing a CAGR of 66.1%. Kelinao and Anjieli currently are the only SFDA approved drugs containing the active ingredient of cinepazide maleate in the PRC. In fact, Kelinao and Anjieli collectively have ranked first among all drugs sold in hospitals in the PRC every year since 2007. Kelinao was sold in approximately 2,500 hospitals in 29 provinces across the PRC in 2009. Since 2003, over 80 million vials of Kelinao and Anjieli have been sold in the PRC. No severe side effects associated with the use of Kelinao or Anjieli have been reported by the National Center for ADR Monitoring.

We obtained the new medicine certificate and manufacture permit for Kelinao in 2002, and commercially launched the product in the PRC in 2003. We obtained the manufacture permit for Anjieli in July 2006 and the product was launched in the same year. Anjieli provides physicians with greater flexibility in prescribing cinepazide maleate depending on the patient's profile or the clinical settings.

We are aware of certain cases of suspected side effects in relation to the use of cinepazide maleate products in certain overseas markets in the 1980's and 1990's. Six cases of agranulocytosis were reported in France between 1981 and 1987, six cases were reported in Spain between 1983 and 1986 with an incidence rate of 0.0093% and 51 cases were reported in Japan in 1999 with an incidence rate of 0.0051%. To the best of our knowledge, no case of agranulocytosis or other severe adverse effects were reported to be associated with cinepazide maleate products in injection form in these cases.

Compared with other cinepazide maleate products with which side effects have been associated in certain overseas markets, Kelinao and Anjieli are administered in smaller doses over a shorter period of time, are in injection form and are administered under the guidance of doctors at hospitals, and have strong safety records. To the best of our knowledge, there have been no reported cases of agranulocytosis or other severe adverse effects associated with the use of Kelinao and Anjieli. According to a study we conducted with five hospitals in Shanghai, Beijing and Shenzhen, which monitored the incidence of adverse effects related to the use of Kelinao from 2004 to 2007, among 2,515 patients administered with Kelinao, a total of 34 cases of adverse effects, such as skin rash, dizziness and headache, were reported, representing an adverse effect rate of 1.35%. No incidence of agranulocytosis was reported in this study.

The following table summarises the differences in the administration of Kelinao and Anjieli versus certain other overseas cinepazide maleate products that had associated side effects:

	Kelinao and Anjieli	Overseas products
Formulation	Liquid injection	Oral tablet
Dosing	320mg per day	600mg per day
Usage period	7-14 days	30 days or longer
Method of use	Inpatient use with blood test results monitored by doctors	Outpatient use mostly

More importantly, we have conducted research and development to enhance efficacy, stability and safety of the product. In particular, we have identified and developed new synthesis and purification processes of cinepazide maleate to reduce the toxicity of the solvent residuals in the API, and hence further improve the safety of the drug. We have also successfully developed proprietary non-solvated cinepazide maleate crystal. Such crystal can improve the stability of the API and minimise its structural change during the formulation process, and therefore enhance the efficacy and safety of the drug. We received 20-year patent protection for each of the synthesis process, the improved production method and the invention and production method of the crystal of cinepazide maleate in the PRC in 2004, 2006 and 2008, respectively. In June 2010, SFDA approved our application of enhanced quality standards for cinepazide maleate products. Our standards control the existence of certain impurities, which were not monitored in the originator's standards.

As a first-to-market generic drug in the PRC, cinepazide maleate was granted a six year administrative protection by the SFDA, during which the SFDA would not approve the application for clinical trials of such product by other applicants. Effectively, no other manufacturer is allowed to manufacture or import the same product during such protection period. Such protection period expired in 2008, but the revenue from the sales of Kelinao and Anjieli continued to grow. We believe that our 20-year patent protection of the production method and the stringent quality standards make it technically difficult for our competitors to identify an alternative approach to synthesising products of comparable quality, providing us significant advantages over potential new entrants. For the three years ended 31 December 2007, 2008, 2009 and the six months ended 30 June 2010, revenue derived from sales of Kelinao and Anjieli represented 66.5%, 60.1%, 57.3% and 57.7%, respectively, of our total revenue. In the future, we expect the sales of Kelinao and Anjieli to account for a lower, yet significant, percentage of our total revenue as we further diversify our product portfolio. For our plan to mitigate our reliance on Kelinao and Anjieli, see the section headed "Financial Information — Principal Income Statement Items — Revenue" in this document.

Chuanqing (ligustrazine hydrochloride for injection) (川青) (注射用鹽酸川芎嗪)

Chuanqing is another of our key cardio-cerebral vascular drugs. It is ligustrazine hydrochloride lyophilised powder for injection, which is used in the treatment of ischemic cardio-cerebral vascular diseases related to insufficient blood supply to the brain, such as cerebral thrombosis, cerebral embolism, coronary artery disease and vasculitis. It is clinically proven to be able to inhibit platelet aggregation and expand small arteries thus improving microcirculation. Ligustrazine hydrochloride for injection is currently listed in the National Medicine Catalogue. The size of the PRC ligustrazine market was estimated at RMB493.2 million in 2009, compared with RMB183.4 million in 2005, representing a CAGR of 28.1%.

Chuanqing is the best selling ligustrazine for injection drug in the PRC in terms of market share, accounting for approximately 58.1% of total ligustrazine products sold in 2009. In 2003, we obtained the new medicine certificate and manufacturing permit for Chuanqing and the product was commercially launched in the PRC market the same year. Through our joint research and development with a prominent state sponsored research institute, we successfully developed and obtained patent registration in the PRC for the preparation of ligustrazine hydrochloride lyophilised powder for injection, which will expire in 2026. Chuanqing is the first ligustrazine hydrochloride in lyophilised powder for injection form in the PRC to receive SFDA approval, and has higher stability compared with traditional liquid injection form. Currently, Chuanqing is the only ligustrazine hydrochloride lyophilised powder for injection available in a 120mg dose in the PRC market, which is the dosing volume used frequently in clinical settings.

Qu'Ao (cerebroprotein hydrolysate for injection) (曲奧) (注射用腦蛋白水解物)

Qu'Ao is cerebroprotein hydrolysate lyophilised powder for injection, which is used primarily in the treatment of traumatic brain injury and cerebral vascular disease sequelae associated with memory impairment and the protection of brain tissue. It is clinically proven to be able to regulate and

improve nerve cell metabolism, promote synapse generation, induce nerve cell differentiation and protect nerve cells against damage from ischemia and neurotoxins. Cerebroprotein hydrolysate for injection is currently listed in the Provincial Medicine Catalogue in 11 provinces across the PRC. Cerebroprotein hydrolysate ranked third in terms of molecules sold in the CNS agents for cardio-cerebral vascular diseases market in the PRC in 2009. The size of the PRC cerebroprotein hydrolysate market was estimated at RMB733.9 million in 2009, compared with RMB501.9 million in 2005, representing a CAGR of 10.0%.

Qu'Ao is the second best selling cerebroprotein hydrolysate drug in the PRC in terms of market share, accounting for approximately 22.4% of the cerebroprotein hydrolysate products sold in the PRC in 2009. In 2005, we obtained the new medicine certificate and manufacturing permit for cerebroprotein hydrolysate lyophilised powder for injection and commercially launched the product in the PRC market in the same year. We have obtained patent registration in the PRC for the production method of cerebroprotein hydrolysate lyophilised powder for injection, which will expire in 2026.

Aogan (monosialotetrahexosylganglioside sodium injection) (澳甘) (神經節苷脂注射液)

Aogan is monosialotetrahexosylganglioside, or GM1 in injection form. We believe that it is one of the most effective drugs currently available in the market for the treatment of vascular or traumatic central nervous system damage and Parkinson's disease. It is clinically proven to have important physiological properties and impacts on neuronal plasticity and repair mechanisms, and the release of neurotrophins in the brain. GM1 in injection form is currently listed in the Provincial Medicine Catalogue in 13 provinces across the PRC. GM1 was the best selling molecule in the cardio-cerebral vascular drug market in 2009. The size of the PRC GM1 market was estimated at RMB1,869.3 million in 2009, compared with RMB133.3 million in 2005, representing a CAGR of 93.5%.

In 2008, we obtained the manufacturing permit for GM1 and commercially launched the product in the PRC market in the same year. After our acquisition of Aogan, we conducted a series of stability tests and conducted technology optimisation that improved Aogan's production yield. We also provided technical advice to the raw material provider of Aogan to improve the quality of its raw materials. The sales of Aogan have increased quickly since its launch. We expect it to become one of the main contributors to our growth. Our API supplier is required to ensure the API's purity and quality by complying with the highest and most stringent quality control standards in the GM1 manufacturing process.

Qingtong (edaravone injection) (清通) (依達拉奉注射液)

Qingtong is edaravone injection, which is used primarily in the treatment of ischemia-reperfusion injury in patients with cerebral infarction. It is clinically proven to act as a potent antioxidant and strong scavenger of free radicals and to protect against oxidative stress and neuronal apoptosis. Edaravone injection is listed in the National Medicine Catalogue. Edaravone ranked second in terms of molecules sold in the CNS agents for cardio-cerebral vascular diseases market in the PRC in 2009. The size of the PRC edaravone market was estimated at RMB1,319.5 million in 2009, compared with RMB138.2 million in 2005, representing a CAGR of 75.8%. We expect that Qingtong will experience significant growth in the future.

Anti-infective drugs

As of the Latest Practicable Date, we market and sell 11 anti-infective drugs. The size of the PRC anti-infective drugs market was estimated at RMB66.1 billion in 2009, increasing by 22.4% compared to 2008. Anti-infective drugs was the largest therapeutic area in the PRC in 2009, accounting for 27.1% of the total PRC pharmaceutical market. The following table sets forth the contribution to revenue of our top anti-infective drugs during the Track Record Period.

	For the year ended 31 December						For the six months ended 30 June			
Revenue (by Product)	2007		2008		2009		2009		2010	
	RMB '000	% of Revenue	RMB '000	% of Revenue	RMB '000	% of Revenue	RMB '000	% of Revenue	RMB '000	% of Revenue
Anti-infective drugs										
Kanglixin, Aolang and Xiboao	4,988	1.7	19,706	3.9	18,609	2.6	9,547	3.0	7,357	1.6
Anjiejian	—	—	4,233	0.8	16,130	2.3	7,226	2.2	11,521	2.4
Others	12,335	4.3	22,290	4.4	20,778	2.9	10,295	3.2	11,781	2.5

Below are some of our key anti-infective products:

Kanglixin, Aolang and Xiboao (cefpiramide sodium for injection) (抗力欣, 澳朗 and 希柏澳) (注射用頭孢匹胺鈉)

We market and sell cefpiramide sodium for injection in three dosages under three brands: Kanglixin, Aolang and Xiboao. Our cefpiramide sodium for injection is a third generation cephalosporin antibiotic lyophilised powder for injection, which is used in the treatment of microbial infections. It has a long plasma half-life and is a biliary excretion drug, which makes it safe for patients with renal dysfunctions. Cefpiramide sodium for injection is currently listed in the Provincial Medicine Catalogue in 12 provinces across the PRC. The size of the PRC cefpiramide market was estimated at RMB805.7 million in 2009, compared with RMB329.3 million in 2005, representing a CAGR of 25.1%.

Kanglixin is the first generic version of a cefpiramide sodium drug approved in the PRC. Kanglixin, Aolang and Xiboao collectively are the best selling injectable cefpiramide products in the PRC in terms of market share, accounting for approximately 14.3% of the injectable cefpiramide sold in the PRC in 2009. The manufacturing permit for cefpiramide sodium for injection was issued in June 2004 and the product was commercially launched in the PRC market in the same year.

Anjiejian (cefmenoxime hydrochloride for injection)(安捷健)(注射用鹽酸頭孢甲肟)

Anjiejian is a third generation cephalosporin antibiotic in lyophilised powder for injection form, which is used in the treatment of microbial infections. Cefmenoxime hydrochloride for injection is currently listed in the Provincial Medicine Catalogue in 13 provinces across the PRC. The size of the PRC cefmenoxime hydrochloride market was estimated at RMB1,000.6 million in 2009, compared with RMB95.6 million in 2005, representing a CAGR of 79.9%.

Anjiejian was the fastest growing injectable cefmenoxime drug in the PRC in terms of annual growth in 2009. The manufacturing permit for cefmenoxime hydrochloride for injection was issued in January 2007 and the product was commercially launched in the PRC market in May 2007.

Pojia (sulbenicillin sodium for injection) (頗佳)(注射用磺苄西林鈉)

Pojia is a broad spectrum semi-synthetic penicillin antibiotic in injection form, which is used in the treatment of microbial infections. Sulbenicillin sodium for injection is currently listed in the National Medicine Catalogue. The size of the PRC sulbenicillin market was estimated at RMB61.9 million, compared with RMB7.0 million in 2005, representing a CAGR of 72.4%.

As a result of the recent inclusion of the product in the National Medicine Catalogue and with the growth of the anti-infective market in the PRC, we believe Pojia has good market potential and will grow significantly.

Others

We have been seeking to diversify our product portfolio to include pharmaceutical products in other fast growing therapeutic areas. Specifically, in addition to cardio-cerebral vascular drugs and anti-infective drugs, we also manufacture and sell respiratory, CNS, oncology and other pharmaceutical products. The following table sets forth the contribution to revenue of our other key products.

	For the year ended 31 December						For the six months ended 30 June			
Revenue (by Product)	**2007**		**2008**		**2009**		**2009**		**2010**	
							(unaudited)			
	RMB '000	**% of Revenue**	**RMB '000**	**% of Revenue**	**RMB '000**	**% of Revenue**	**RMB '000**	**% of Revenue**	**RMB '000**	**% of Revenue**
Others										
Zhuo'Ao and Bi'Ao	3,180	1.1	17,096	3.4	36,513	5.2	16,787	5.2	19,523	4.1
Naloxone hydrochloride line[(1)]	14,727	5.2	17,270	3.4	16,143	2.3	8,211	2.6	10,436	2.2
Others	15,534	5.4	26,808	5.3	32,164	4.5	14,827	4.6	19,161	4.1

Note:

(1) Our naloxone hydrochloride line includes two products, naloxone hydrochloride lyophilised powder for injection and naloxone hydrochloride injection. Naloxone hydrochloride lyophilised powder for injection is marketed under the brand Xinpuao. Naloxone hydrochloride injection is marketed under the brands Feidiao, Pudiao and Quxinao.

Below are some of our other key products:

Zhuo'Ao and Bi'Ao (ambroxol hydrochloride for injection) (卓澳 and 必澳) (注射用鹽酸氨溴索)

Zhuo'Ao and Bi'Ao are ambroxol hydrochloride for injection in two dosages, 15mg and 30mg, respectively, which is mainly used to relieve respiratory symptoms and for the prevention of post-operative bellows complications and treatment of acute or chronic respiratory diseases. Ambroxol

hydrochloride is clinically proven to increase respiratory tract secretion, enhance pulmonary surfactant production and stimulate ciliary activity. Administration of ambroxol hydrochloride together with antibiotics leads to higher antibiotic concentration in the lung tissue. Ambroxol hydrochloride for injection is currently listed in the National Medicine Catalogue. The size of the PRC ambroxol hydrochloride market was estimated at RMB1,710.8 million in 2009, compared RMB552.0 million in 2005, representing a CAGR of 32.7%.

The manufacturing permit for ambroxol hydrochloride for injection was issued in 2006 and the product was commercially launched in the same year. Sales of Zhuo'Ao and Bi'Ao have experienced rapid growth in recent years, representing a CAGR of 238.8% in terms of revenue from 2007 to 2009. Our API supplier for ambroxol hydrochloride has obtained EU COS certification, which represents higher quality standards than the industry level in the PRC.

Naloxone Hydrochloride (鹽酸納絡酮)

Naloxone hydrochloride is used in the treatment of respiratory depression and unconsciousness caused by opioid drug overdose or alcohol intoxication. We manufacture two formulations of naloxone hydrochloride: naloxone hydrochloride lyophilised powder and naloxone hydrochloride injection. We market naloxone hydrochloride lyophilised powder under the brand Xinpuao. We market three dosages of naloxone hydrochloride injection under the brands Feidiao, Pudiao and Quxinao. Naloxone hydrochloride lyophilised powder and naloxone hydrochloride injection are currently listed in the National Medicine Catalogue and the National List of Essential Drugs. The size of the naloxone hydrochloride market in the PRC was estimated at RMB495.0 million in 2009, compared with RMB176.5 million in 2005, representing a CAGR of 29.4%.

In April 2005, we obtained the manufacturing permit to produce naloxone hydrochloride injection, which we commercially launched in the PRC market in the same year. In 2006, we obtained the new medicine certificate and manufacturing permit for naloxone hydrochloride lyophilised powder and commercially launched the product in the PRC market the same year.

Ren'Ao (oxcarbazepine tablets)(仁澳) (奧卡西平)

Ren'Ao is an anti-epileptic drug used to produce blockade of voltage-sensitive sodium channels, and thereby decreases nerve impulses that cause seizures. It has high bioavailability and low protein binding rate. Oxcarbazepine tablets is listed in the National Medicine Catalogue. The size of the PRC anti-epileptic drug market was estimated at RMB527.7 million in 2009, compared with RMB204.3 million in 2005, representing a CAGR of 26.8%. With the growth of the anti-epileptic drug market in the PRC, we believe that the potential market of oxcarbazepine tablets is large. We are one of only two companies currently manufacturing oxcarbazepine in the PRC.

The new medicine certificate and manufacturing permit for oxcarbazepine tablets were issued in August 2005 and the product was commercially launched in the PRC market in 2006.

SALES, MARKETING AND DISTRIBUTION

We have a differentiated and proven sales and marketing model, supported by an extensive nationwide distribution network covering close to 10,000 hospitals and medical institutions through over 2,000 distributors across the PRC. Our distribution network is managed and supported by our

in-house team of 278 dedicated sales and product managers, who ensure the efficiency, productivity and stability of our distribution network. Our dedicated sales and product managers work closely with our distributors and third-party sales representatives to rapidly penetrate the hospital markets throughout the PRC. Our sales, marketing and distribution model has proven to be highly successful and cost-efficient, and provides deep market penetration in a time efficient manner.

Our sales and marketing activities

As of the Latest Practicable Date, our sales and marketing activities are supported by an in-house team of 278 dedicated sales and product managers the majority of whom hold professional medical or pharmacy qualifications. We have 27 product managers who are principally responsible for formulating marketing and promoting strategies for our products. They are in charge of establishing and maintaining a network of key opinion leaders who advocate for our products, promoting our product branding and corporate image and organising educational seminars and conferences. We prepare and provide marketing materials for our distributors and third-party sales representatives and conduct training on a regular basis for them, so that they are equipped with the necessary product knowledge to effectively market and sell our products and to ensure that accurate and consistent messages are delivered to physicians.

As of the Latest Practicable Date, we have 251 sales managers who are stationed in over 50 regional sales offices. Our sales managers closely manage with our distributors and are responsible for setting sales targets and product mix, monitoring performance of our distributors and coordinating with our distributors in the collective tender process. We believe that our sales managers have deep knowledge and understanding of their local markets, including local hospitals, and competitive landscape. We provide training for our sales managers on our policies, product characteristics, pricing strategies and sales techniques to enhance the quality and effectiveness of our sales force.

To raise the awareness of our pharmaceutical products in the market, we carry out various marketing activities across all 31 provinces, autonomous regions and cities throughout the PRC. During the Track Record Period, we organised and sponsored more than 200 national and provincial medical or pharmaceutical conferences. We also engage in other brand building activities such as participating in trade fairs and product launching events. During the Track Record Period, we also organised more than 2,000 symposiums and product seminars.

Structure and management of our nationwide distribution network

All our products are prescription drugs, which are sold to hospitals and medical institutions through our distributors. Our distributors are our direct customers and are independent third parties. They are GSP certified distributors located in different regions throughout the PRC, who distribute pharmaceutical products primarily to hospitals and medical institutions. All the sales to our customers are settled in RMB. As of the Latest Practicable Date, we have established an extensive distribution network comprising over 2,000 distributors covering all provinces, autonomous regions and cities throughout the PRC. Our nationwide distribution network reaches 890 or approximately 70% of all Class III hospitals, 3,600 or approximately 55% of all Class II hospitals and 5,400 Class I and other hospitals and medical institutions in the PRC. In addition, our distribution network has penetrated into county-level markets in certain densely populated provinces, such as Zhejiang, Guangdong and Henan. We believe that our distribution network is not easily replicable because it is the culmination of a process of over a decade of searching for, identifying, negotiating with and selecting qualified

distributors and third-party sales representatives in different regions across the country. Our sales model also requires a highly effective internal management system to control and support a distribution network of such a large scale. Over the years, we have also developed pricing strategies, which ensure that the profit margins of our products remain attractive to our distributors. In addition, the market leading positions of several of our products and our strong product pipeline help retain our distributors.

The following map illustrates our regional revenue contribution by province in 2009:

We derive substantially all our revenues from sales of our products to hospitals and medical institutions through GSP certified pharmaceutical products distributors. Our relationships with our distributors vary in length, ranging from new or ad hoc relationships to long-term relationships of over five years. We enter into distribution agreements with majority of our distributors on a yearly basis. The distribution agreements set monthly and yearly sales volume targets, target hospitals, wholesale prices and other requirements by us for the distributors. Under the distribution agreements, our distributors are required to (i) have requisite operation licenses, (ii) comply with laws, regulations and our sales and pricing policies and (iii) refrain from distributing competing products with our products, and we are responsible for providing products that meet specific quality standards based on their orders placed with us and for any damages during transport from our warehouse to our distributors' warehouse. The distributors have exclusive distribution rights to the target hospitals designated by us in one geographic region. They are forbidden under the distribution agreements to sell or promote to other hospitals or regions beyond those designated by us. Under the distribution agreements, in

addition to the right to levy penalties, we have the right to cancel the distribution right of our distributors if it is discovered that the distributor sells to beyond its designated hospitals or regions. Parties may agree to extend the agreements upon expiry if the distributors complete their sales targets. The distributors are liable for any breaches of the distribution agreement and any violation of any laws and regulations and are responsible for indemnifying us for any damages to our corporate image or reputation as a result of their inappropriate conduct. We also enter into sales and purchase agreements with some of our distributors, which only set forth the sales price, quantity and logistic details for the delivery of our products and do not have sales targets.

According to our accounting policies, the revenue for sales to our customers is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to us and specific criteria have been met for each of our activities. We base our estimates on historical results, taking into consideration the type of distributor, the type of transaction and the specifics of each arrangement. This is usually at the time when products are delivered and our distributors have accepted the products. Our sales to our distributors are without recourse. During the Track Record Period, we have only received requests for product returns due to damages caused to the products during transport, which accounted for nil, nil, 0.004% and 0.004% of our total revenue for the three years ended 31 December 2007, 2008 and 2009 and six months ended 30 June 2010, respectively.

Typically, our distributors are supported by sales representatives that consist of third-party individuals, who are independent from our distributors and us, and individuals employed by the distributors. Because of the crucial role they play in the distribution of our products, we seek to have a contractual arrangement with the majority of such third-party sales representatives to monitor their performance. They are not our employees. Some of these contractual arrangements are in the form of formal written contracts, under which we monitor the third-party sales representatives who are responsible for promoting our key products. These sales representatives are given dedicated responsibilities to promote the sale of or solicit customers for our products. They are not required to obtain any permit or license under the PRC laws and regulations to perform their role. They are responsible for the day-to-day detailing activities to hospitals and physicians in accordance with our marketing plan, as well as facilitating the flow of our products, information and payments, while our distributors are responsible for the actual sales and delivery of our products. Generally, the sales representatives receive information on the demand for our products from the hospitals and medical institutions as a result of their promotion and detailing activities and pass such information to the distributors, who then proceed to place orders with us and execute the sales and delivery of our products to the hospitals and medical institutions.

We generally select distributors with proven distribution abilities, familiarity with their own target markets, financial strength, good credit records and scale of operations. We also select those independent third-party sales representatives who have a deep understanding of their local markets and have established sales channels with local hospitals and physicians, and therefore can effectively promote our products. Such understanding of the local markets includes insight into the local competitive environment and familiarity with local hospitals and physicians' demands and preferences.

Our distributors are required under PRC law to obtain drug operation permits and GSP certificates. We sell our products only to distributors that have obtained the necessary licenses and certificates required for distributing pharmaceutical products in the PRC. Our distributors are required to provide proof of GSP certificates and drug operation permits before establishing distribution relationship with us.

We believe that the sales representatives' local markets knowledge and familiarity with our products are essential to the effective selling and distribution of our products and we put significant time and resources into working with them to develop strong relationships with them. The sales representatives keep us generally informed of the conditions of the market, activities of our competitors, and other circumstances important to the marketing of our products. Developing and maintaining a close working relationship with these sales representatives is therefore an important aspect of our distribution and sales strategy.

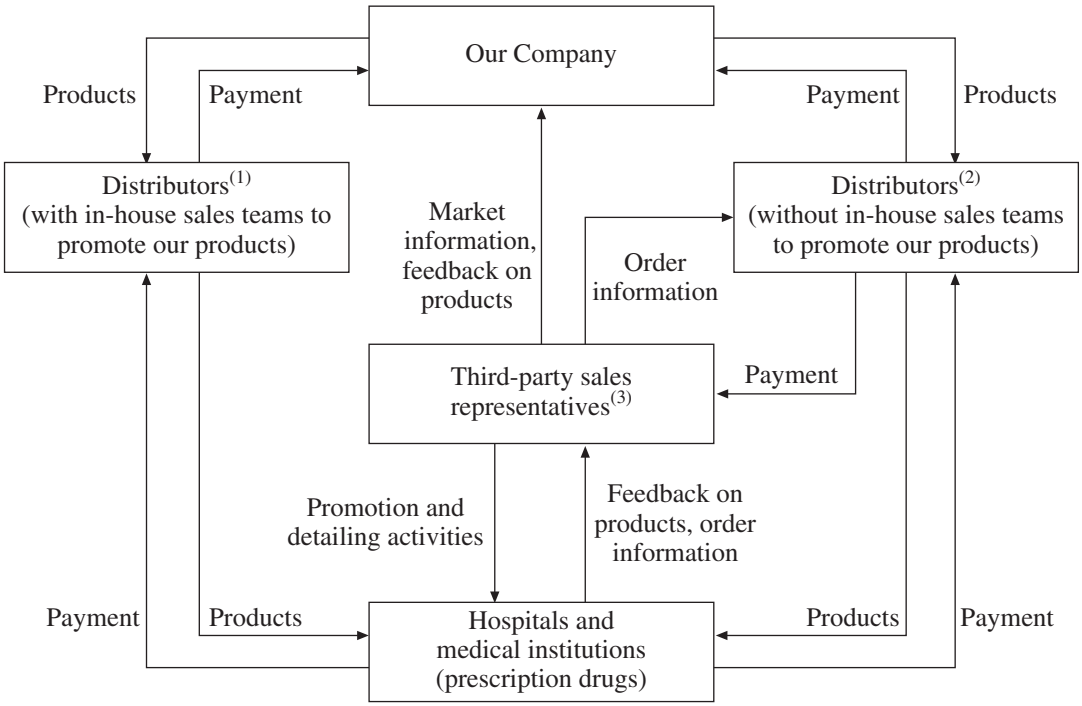
Where the third-party sales representatives are not closely controlled by our distributors and because they are primarily responsible for the day-to-day detailing activities, we seek to have a contractual arrangement also on a yearly basis with these third-party sales representatives to monitor their performance. Such arrangements typically designate target hospitals, set sales volume targets for the designated hospitals and require strict adherence to our sales and pricing policies. The parties may agree to extend the agreements upon expiry if the third-party sales representatives complied with the agreements. The third-party sales representatives are liable for any breach of the agreement and any violation of any laws and regulations and are responsible for indemnifying us for any damages to our corporate image or reputation as a result of their inappropriate conduct.

These third-party sales representatives are independent from us and are remunerated by the compensation they receive from the distributors for the hospital detailing work they perform to promote our products. In such case, the agreement between our distributors and us is a sales and purchase agreement that mainly provides for the payment and delivery of our products on an ad hoc basis. Since the distributors and the sales representatives cover different aspects of selling pharmaceutical products to hospitals and medical institutions, there is no competition between them. Sales representatives, either employed by distributors or independent third party, are assigned different hospitals or different products for their promotion activities. As such, there is no direct competition between the sales representatives.

Generally, we conduct monthly reviews of the performances of our distributors and third-party sales representatives and based on the results of our review, we adjust the designated target hospitals, forfeit or release performance deposits or renew or terminate the contracts of those who either under-perform, consistently fail to meet their sales target, or violate our policies. We do not enter into tri-party agreements with our distributors and the third-party sales representatives. They are responsible for their respective sales targets pursuant to the separate agreements with us. Where the third-party sales representatives are responsible for their sales targets pursuant to contractual arrangements between them and us, the distributors who they support are not jointly responsible for such sales targets. The distribution agreements and agreements with the third-party sales representatives allow them to terminate the agreements with one month notice to us, with our prior consent. During the Track Record Period, there have been occasional breaches of various terms of agreements by our distributors and the sales representatives, mainly for failure to meet their sales targets, and consequently we have terminated agreements with them and sought compensation in due course. However, these breaches did not have any material impact on our business, financial condition or results of operations. See the section headed "Risk Factors — We rely on our distributors and third-party sales representatives" in this document. Substantially all of our distribution and third-party sales representative contracts are on a non-exclusive basis, where our distributors may distribute, and the third-party sales representatives may promote, products manufactured by other companies. Our distribution agreements and agreements with the third-party sales representatives prohibit them from promoting products that compete with our products.

BUSINESS

The following table illustrates the relationships among us, our distributors and the third-party sales representatives:



Notes:

(1) Some of the distributors enter into distribution agreements with us.

(2) Some of the distributors enter into sales and purchase agreements with us.

(3) We seek to have contractual arrangements with the majority of the third-party sales representatives.

As of 31 December 2007, 2008 and 2009 and 30 June 2010, we had 1,594, 1,773, 2,398 and 2,022 distributors, respectively. The number of distributors decreased from the end of 2009 to the end of the six months ended 30 June 2010 as a result of our effort to consolidate our distributor resources and engage distributors with larger geographic coverage and scale of operations to streamline our distribution channels. Our Directors are of the view that our sales and distribution model is in line with the industry practice. We will continue to extend our sales and distribution network, with a view to further increasing our market share and deepening our market penetration.

We generally collect payment from our distributors before delivering goods to them. However, for our distributors with whom we have long-term relationships, we may extend short-term credit ranging between one and six months. Our distributors generally place their orders with us one month in advance, depending on their inventory level and estimated sales volume. Our sales managers also regularly communicate with target hospitals as part of our efforts to monitor our distributors' performance. Generally, our distributors have strong credit records and steady cash flow, and we have not experienced any material delays of payment by our distributors. For the three years ended 31 December 2007, 2008 and 2009 and six months ended 30 June 2010, our top five distributors accounted for 30.0%, 21.6%, 19.6% and 16.9% of our total revenues, respectively. For the three years ended 31 December 2007, 2008 and 2009 and six months ended 30 June 2010, our largest distributor

accounted for 12.3%, 7.4%, 6.2% and 4.6% of our total revenues, respectively. On average, our top five distributors have approximately three years of relationship with us. We believe that our integrated marketing strategy and management of our extensive sales and distribution network are difficult to duplicate and provide us with a significant competitive advantage.

Product prices

Substantially all of our products are subject to retail price controls by the government in the form of fixed retail prices or maximum retail prices. These controls indirectly affect the wholesale price of our products. There have not been material changes to the maximum retail prices of our major products during the Track Record Period. The rest of our products are not included in the National Medicine Catalogue, National List of Essential Drugs, or are not deemed by the government to be drugs whose production and trading tend to create monopolies, and are therefore not subject to retail price controls. We set our prices of such products with reference to a number of factors, including market trends, changes in the levels of supply and demand, our costs of production and competitors' prices.

Our products are sold at wholesale prices to our distributors, who in turn sell them to hospitals and medical institutions. The PRC government authorities do not impose restrictions over the wholesale prices at which pharmaceutical manufacturers, such as ourselves, sell products to distributors. However, controls over and adjustments to the retail price of a pharmaceutical product, if significant, could have a corresponding impact on the wholesale price of that pharmaceutical product, which may have an adverse impact on our results of operations. See the section headed "Risk Factors — Risks Relating to the Pharmaceutical Industry in the PRC — Our products are subject to price controls and we do not have full discretion over the pricing of such products" in this document.

During the Track Record Period, the wholesale prices of our major products remained relatively stable, except for several anti-infective drugs, namely Kanglixin, Xiboao, Aolang and Anjiejian, which experienced decreases in our wholesale prices between 3.9% to 14.2%. The price decreases of these anti-infective drugs were mainly caused by intense competition among the pharmaceutical manufacturers in the anti-infective drugs market in the PRC, and not due to the changes in the maximum retail prices of such products, as they are not subject to any maximum retail price.

On 1 July 2010, the NDRC issued a notice (Fagaidian [2010] No. 253) with regard to a survey of certain pharmaceutical products' wholesale prices and the operations of the relevant pharmaceutical manufacturers. The purpose of the survey is to understand the pricing structure of the selected pharmaceutical products, which may lead to further adjustment of the pharmaceutical products' retail prices based on the result of the survey. Four of our products were included in the scope of this survey, namely cinepazide maleate injection, oxcarbazepine tablets, nylestriol and octreotide acetate injection. We market and sell cinepazide maleate injection under the Kelinao and Anjieli brands and oxcarbazepine tablets under the Ren'Ao brand. Kelinao, Anjieli and Ren'Ao accounted for 46.7%, 10.6% and 0.3%, respectively, of our total revenue in 2009. We have submitted relevant information as required by the survey to relevant authorities. We have discontinued the production and sales of nylestriol and octreotide acetate injection for commercial reasons that are not related to the survey. We do not expect significant downward adjustment to the maximum retail price of oxcarbazepine tablets as a result of such survey, because the adjustment of maximum retail price depends on many other factors, including the sales channel, sales volume and bidding process.

Currently, the government authorities have not stipulated maximum retail prices for Kelinao and Anjieli. We may set the manufacturer suggested retail prices until the government authorities announce the official maximum retail prices. We expect that because Kelinao and Anjieli are the only SFDA approved drugs containing the active ingredient of cinepazide maleate in the PRC and are protected by patents, they will be considered favorably during the pricing adjustment process. We expect that because Ren'Ao is provided by only two manufacturers in the PRC and the cost of raw materials is relatively high, it will also be considered favorably during the pricing adjustment process. In addition, because the maximum retail prices are higher than our wholesale prices, we believe that we can adjust our sales channels to absorb part of the downward pressure on our wholesale prices. As a result, we do not expect any material impact on our business or results of operations from this survey.

Based on our market research, including consultation with regulators and other pharmaceutical industry participants, we do not expect any significant downward price pressure on our key products in the near future. As the wholesale prices of our products are significantly affected by the tender prices and the sales channels of our products, we will strive to take measures to mitigate the adverse impact of price controls by increasing our lobbying efforts in the tender process in order to increase our chances of successfully bidding at a stable price, tightening control of our wholesale prices to maintain our profit margin and further diversifying our product portfolio to minimise the negative impact on our results due to the price control measures on certain products.

The procurement by public hospitals and medical institutions of substantially all pharmaceutical products is subject to a collective tender process that involves bidding by pharmaceutical manufacturers. We participate in such tender processes regularly and the successful bidding prices are the hospital procurement prices at which distributors sell the products to the hospitals. We seek to improve our overall bidding position and number of successful bids through industry expertise, market intelligence and competitive pricing. After the tendering process, our distributors then distribute our products upon receiving purchase orders provided by the hospitals, which specify the brand, volume and types of pharmaceutical products. The wholesale prices at which we sell to our distributors are determined in part by the successful bidding prices.

The following table sets forth the top five products in each period during the Track Record Period and the manufacturer suggested retail prices and the maximum retail prices of three of our key products.

	For the year ended 31 December			For the six months ended 30 June
	2007	**2008**	**2009**	**2010**
Top Five Products (ranked by revenue)	1) Kelinao	1) Kelinao	1) Kelinao	1) Kelinao
	2) Chuanqing	2) Chuanqing	2) Anjieli	2) Anjieli
	3) Nalaxone	3) Anjieli	3) Chuanqing	3) Chuanqing
	4) Anjieli	4) Qu'Ao	4) Qu'Ao	4) Aogan
	5) Aodaxing	5) Nalaxone	5) Bi'Ao	5) Qu'Ao

	For the year ended 31 December			For the six months ended 30 June
	2007	2008	2009	2010
	RMB per dose	*RMB per dose*	*RMB per dose*	*RMB per dose*
Manufacturer Suggested Retail Prices				
Kelinao	62.4	61.5	61.5	61.5
Anjieli	211.6	197.1	197.1	197.1
Maximum Retail Prices				
Chuanqing (80 mg)	56	56	50.6	50.6
Chuanqing (120 mg)	69	69	69	69

RESEARCH AND DEVELOPMENT

Overview

We place great emphasis on research and development, as we believe that it is the cornerstone to our competitiveness, growth and development. Our research and development activities focus on developing new chemical entities as novel therapeutic agents and first-to-market generic drugs, as well as improving the safety, efficacy and production technologies of existing pharmaceutical products. We perform thorough market analysis before commencing any research and development projects and focus on pharmaceutical products that have the potential for gaining widespread market acceptance or becoming the best in the class of similar products on the market. Generally, in identifying and selecting drug candidates for development, we focus on those that are for treatment of diseases with high incidence or mortality rates and are therefore in strong demand, such as cardio-cerebral vascular diseases, central nervous system diseases, infectious diseases, metabolic diseases and cancer. We undertake our research and development activities mainly in-house and through collaboration with external research partners. As of the Latest Practicable Date, we have submitted 359 patent applications in the PRC and four overseas, of which 99 have been granted and 237 are still pending approval.

Our in-house research and development teams

We have established two leading research and development teams composed of 333 research and development personnel, including 11 Ph.D. degree holders and 134 master's degree holders in medical, pharmaceutical and other related areas. These highly experienced research personnel conduct drug discovery and preclinical studies, and design and manage clinical trials. In addition to research and development of new drugs, our research and development teams are also experienced in manufacturing process improvement activities. Our research facilities are equipped with advanced equipment and instruments.

Our research and development team based in Shandong primarily focuses on the discovery and development of new chemical entities as novel therapeutic agents. It has 289 personnel. The key research scientists in the team have on average over 10 years of drug development experience from their tenures at multinational pharmaceutical companies. Our team leaders have expertise in areas encompassing both drug discovery and development, such as medicinal chemistry, biological assays, pharmacology, toxicology, chemical synthesis and scale-up and clinical trials.

We carefully select drug development programs to pursue with the aim of balancing the commercial potential of the drug and the likelihood of successful development of the drug. For example, our drug development programs for innovative drugs are focused on (i) drugs targeting large unmet medical demand, (ii) drug targets that are already validated by commercialised drugs or drug candidates in late stage clinical trials (after phase II) against such targets, (iii) diseases which have well-defined bio-markers and (iv) drug targets that provide improved medication for the major segment of patient-population, for instance, diseases where existing drug treatments have side effects or unfavorable dosing but where our drug candidate may have fewer side effects, better dosing or better efficacy. We also analyse the related intellectual property, potential competition and market size of each proposed drug development program. We believe that this research and development strategy leads to the development of innovative, best-in-class products that have a high potential for commercialisation and strong intellectual property rights. We also believe that this strategy reduces development costs and risks of failure.

Currently, this research and development team has 23 research programs, five of which we expect to advance to clinical trial stage within the next three years. These clinical trial drug candidates target the anti-infective, CCV and oncology areas. This research and development team also filed for clinical trial for one drug candidate with the SFDA. During the Track Record Period, they submitted 171 patent applications and as of the Latest Practicable Date, six of these have been granted and 159 are pending approval. In addition to focusing on the development of product candidates to deepen our product portfolio, our research and development team in Shandong also seeks to out license our product candidates to other domestic and overseas pharmaceutical companies, which will serve as an additional source of revenue to us.

Our research and development team based in Hainan and Beijing focuses on the development of first-to-market generic drugs, in relation to which we have developed intellectual property rights in relation to formulation, production process, improved chemical attributes or drug delivery system. It has 44 personnel. In addition, their research also seeks to enhance our existing drugs by improving their convenience to use (such as the reduction in the frequency of administration) and/or their therapeutic benefits. In particular, this research and development team has successfully improved the safety and efficacy of cinepazide maleate and was granted three patents in relation to the synthesis process, the improved production method and the invention and production method of the crystal of cinepazide maleate. Since our establishment, this team has successfully developed and brought to the market 13 pharmaceutical products including Chuanqing and Qu'Ao, which were well accepted by the market and enjoy leading positions in their respective areas. During the Track Record Period, this research and development team submitted 27 patent applications and as of the Latest Practicable Date, one of these has been granted and 26 are pending approval.

As our two research and development teams have distinct research and development directions and positioning, we believe this arrangement optimally utilises their expertise and resources, and is a balanced approach towards managing the risk and return of the inherently uncertain pharmaceutical research and development process.

We enter into confidentiality agreements with our research employees that provide that all relevant intellectual property developed by our research staff during their employment with us shall be deemed our intellectual property.

BUSINESS

Our research and development spending, which includes spending by KBP BioSciences and Hainan Sihuan CVD Research, amounted to RMB65.0 million, RMB36.4 million and RMB48.2 million, an average of approximately 10% of our total revenues from 2007 to 2009. Details of our research and development spending are summarised below:

	For the year ended 31 December			For the six months ended 30 June
	2007	2008	2009	2010
	RMB '000	RMB '000	RMB '000	RMB '000
Revenue	286,349	510,048	708,907	473,437
Research and Development Spending	65,000	36,370	48,203	50,794
As % of Revenue	*22.7%*	*7.1%*	*6.8%*	*10.7%*
Breakdown of Research and Development Spending:				
Research and Development Expenses[(1)]	4,394	8,435	13,697	9,137
Administrative Expenses by our R&D Subsidiaries	2,355	5,851	15,617	9,132
Capital Expenditures:				
Purchase of Research and Development Projects	55,927	14,369	7,264	19,897
Purchase of Research and Development Equipment	2,324	4,344	5,666	9,941
Other Capitalised Expenditures	—	3,371	5,959	2,687

Note:

(1) For more details on research and development expenses, see the section headed "Financial Information — Principal Income Statement Items — Administrative expenses in this document."

Our research and development track record has been acknowledged by various levels of the PRC government authorities and we have received government funding in recognition of our proven capabilities of developing novel and improved pharmaceutical products. As of the Latest Practicable Date, we have successfully applied for and have been granted RMB10.7 million in form of government funding or subsidies in relation to various research and development projects and patent applications and have received RMB6.2 million of such grants.

Collaboration with external research partners

We have entered into collaboration arrangements with external research institutions, universities and hospitals in the PRC to jointly carry out research and development of new pharmaceutical products as well as to enhance our own research and development capabilities. Our research partners include many prestigious research institutions in the PRC such as two prominent state-sponsored research institutions and Beijing Hospital. Our joint research projects include the research and development of new pharmaceutical products that have not previously been developed internationally or domestically and new formulations of existing pharmaceutical products.

The terms of our collaboration arrangements for research projects vary, depending on the subject and nature of the research and our commercial arrangements with our research partners. Our research partners provide the necessary equipment, know-how and personnel. Our research and development team may take a leading role in the design and execution of the research projects and participate in the research work, including preclinical research and development, preparation and submission of applications for clinical trials, management of clinical trials, information collation and application to the relevant authorities for manufacture permits. In addition to our participation in this research and development work, we generally also provide the funding for these joint research and development projects. In most cases, we are entitled to receive the full proceeds from the sales of these products as well as the intellectual property rights and other benefits resulting from the successful development and commercialisation of the products.

We plan to increase our collaborations with external research partners to develop and market new pharmaceutical products in the PRC. Specifically, we focus on seeking strategic and commercial partners in the cardio-cerebral vascular and anti-infective fields. No specific projects have been identified, nor have we entered into any other definitive agreement for any other project. We believe these collaborations will enable us to gain valuable know-how and experience, further strengthen our research and development capabilities, and expand our product portfolio and pipeline.

Drugs under development

As of the Latest Practicable Date, we had a pipeline of over 30 product candidates, including 10 innovative drugs, that are in various stages of development through our in-house expertise and joint research and development efforts with various research institutions, universities and hospitals in the PRC. The majority of these pharmaceutical products under development are new drugs, i.e. innovative or first-to-market generic drugs.

Details of selective product candidates that we believe will be commercially launched in the next two to four years are summarised below:

Product Candidates	Indications	Expected Time to Market
Nalmefene Hydrochloride 鹽酸納美芬	Prevent or reverse the effects of opioids, including respiratory depression, sedation and hypotension	2011
Fasudil Hydrochloride Injection 鹽酸法舒地爾注射液	Circulatory system drug for the treatment of cerebral vasospasm following aneurysmal subarachnoid hemorrhage	2012
Levetiracetam Injection 左乙拉西坦注射液	Anti-epilepsy drug for the treatment of partial onset-seizures and myoclonic seizures in patients with juvenile myoclonic epilepsy	2013
Levophencynonate Hydrochloride 左旋鹽酸苯環壬酯	Vertigo symptoms caused by vertebrobasilar ischemia and other diseases	2014

Nalmefene hydrochloride (鹽酸納美芬)

Nalmefene hydrochloride is an opioid (opium) receptor inhibitor. It can be used for recovery from the after-effects of anesthesia, the treatment of respiratory depression caused by opioid drugs overdose and the treatment of heart failure, shock and alcoholism. Nalmefene hydrochloride antagonises the effects of opioids by competing for the opioid receptors in the central nervous system.

This results in a reversal of the effects of the opioid, including reversal of respiratory depression, sedation, and hypotension. The properties of nalmefene hydrochloride are similar to our existing product, naloxone hydrochloride. However, nalmefene hydrochloride is expected to have longer and better curative effects because nalmefene hydrochloride has a longer duration of action than other opioid antagonists do. It is intended to be a replacement product for naloxone hydrochloride.

We have acquired from a third party the right to use the production technology of nalmefene hydrochloride for joint successful development. We have completed the clinical trial of the product and the product development is currently at the application for production stage. We have one pending patent application for the production method of nalmefene hydrochloride. We have submitted our new drug application to SFDA and expect to obtain SFDA approval for the manufacture and sale of nalmefene hydrochloride injection in 2011.

Fasudil hydrochloride injection (鹽酸法舒地爾注射液)

Fasudil hydrochloride injection is a circulatory system drug used in the treatment of cerebral vasospasm following aneurysmal subarachnoid hemorrhage. Among the top ten best selling molecules for cerebral peripheral vascular therapies, fasudil experienced the fastest sales growth with a CAGR of 182.5% from 2005 to 2009. As a well received drug for cerebral and peripheral vascular therapy, fasudil is expected to complement and build on the success of our cardio-cerebral vascular drug franchise.

The product development is currently at stability testing stage. We expect to obtain SFDA approval for the manufacture and sale of the product in 2012.

Levetiracetam injection (左乙拉西坦注射液)

Levetiracetam injection is an anti-epileptic drug that can be used in the treatment of partial onset seizures and myoclonic seizures in patients with juvenile myoclonic epilepsy. It can be used in patients after surgery for treatment of epilepsy caused or triggered by head surgery. In 2009, levetiracetam injection recorded sales of close to US$1.2 billion globally, according to EvaluatePharma. It is expected to be a first-to-market generic drug. We believe levetiracetam injection will complement Ren'Ao, our oral drug for epilepsy, and further strengthen our CNS product offering.

The product development is currently at the preclinical stage. We expect to obtain SFDA approval for the manufacture and sale of the product in 2013.

Levophencynonate hydrochloride (左旋鹽酸苯環壬酯)

Levophencynonate hydrochloride is a new anti-cholinergic agent that can be used for the prevention and treatment of vertigo symptoms caused by vertebrobasilar ischemia and other diseases.

The research and development of levophencynonate hydrochloride is jointly undertaken by the Academy of Military Medical Sciences and our research and development team. It was awarded the National Invention Second Prize, Military Science Advancement First Prize, "The Ninth Five Year" Army's Logistics Major Scientific and Technological Achievements and World Intellectual Property Organization Gold Prize. The product development is currently at phase 1 clinical trial stage. We have applied for and obtained three patents in relation to preparation and medical use of levophencynonate,

preparation of a related compound, and the medical use of the metabolic derivative of levophencynonate, each for a patent protection period of 20 years, all expiring in 2024. We also have two pending patent applications in relation to the medical use of levophencynonate as a neuro protectant and as a selective anti-cholinergic agent. We expect to obtain SFDA approval for the manufacture and sale of levophencynonate hydrochloride in 2014.

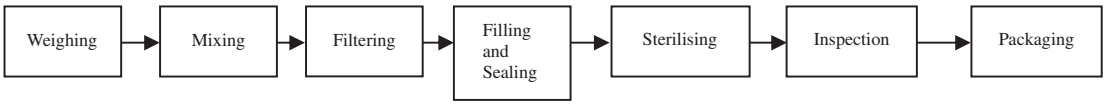
Our research and development activities are primarily funded by our working capital. The following table sets forth the amount of expense already spent and estimated to be incurred for each product under development mentioned above.

Product Candidate	Expense incurred (RMB)	Expense estimated to be incurred (RMB)
Nalmefene Hydrochloride	2.8 million	200,000
Fasudil Hydrochloride Injection	300,000	300,000
Levetiracetam Injection	500,000	3.5 million
Levophencynonate Hydrochloride	7.3 million	15.0 million

PRODUCTION PROCESS

We have obtained the GMP certificates for the production of our products in various dosages and formulations, including tablets, capsules, granules, lyophilised powder for injection and small volume liquid for injection.

The following diagram summarises the key steps to our injection formulation production process.



The following diagram summarises the key steps to our solid formulation production process.

PRODUCTION FACILITIES

Our manufacturing activities are carried out by Beijing Sihuan, whose production facilities are located at Tongzhou District in Beijing, PRC. As of the Latest Practicable Date, we own and operate production facilities occupying 25,329 sq.m. with a total gross floor area of approximately 15,305 sq.m. We operate six production lines, two for producing small volume liquid for injection, one for producing lyophilised powder for injection and three oral solid medicines production lines including capsules, tablets and granules. We have obtained GMP certification for all our production facilities operated by Beijing Sihuan in accordance with the regulatory requirements in the PRC. As of the Latest Practicable Date, our production capacities include 62.5 million vials of small volume liquid for injection, three million vials of lyophilised powder for injection, 50 million pieces of capsules, 560 million pieces of tablets and eight million packets of granules.

BUSINESS

The following table illustrates the manufacturing capacity and utilisation rates of our production facilities during the Track Record Period:

			For the years ended 31 December					
			2007		2008		2009	
Production Line	Designed Production Capacity[1]	Unit	Production Volume	Utilisation Rate (%)	Production Volume	Utilisation Rate (%)	Production Volume	Utilisation Rate (%)
Lyophilised powder for injection	3,000,000	vials	1,760,000	58.7	3,020,000	101.0[2]	3,030,000	101.0[2]
Small volume liquid for injection	62,500,000	vials	26,810,000	95.7[3]	35,810,000	57.3	45,270,000	72.4
Capsules	50,000,000	pieces	49,120,000	98.2	21,100,000	42.2	16,450,000	33.0
Tablets	560,000,000	pieces	427,000,000	76.2	373,000,000	66.6	337,000,000	60.2
Granules	8,000,000	packets	3,160,000	39.5	6,390,000	80.0	2,030,000	25.4

Notes:

(1) The maximum annual capacity for a production line is computed based on 250 effective production days a year and 8 hours per day.

(2) The actual production activities were conducted occasionally on two shifts of 8 hours per day to meet the demand for the products; therefore, the utilisation rate for such relevant period exceeded 100%.

(3) Capacity of small volume liquid for injection was 28,000,000 in 2007, which was expanded to 62,500,000 in 2008.

We plan to increase our production capacities and capabilities by constructing new production facilities and acquiring additional production equipment. Currently, we have two production facilities that are under construction. One is located in Langfang, Hebei for manufacturing APIs and pharmaceutical intermediates and is expected to commence production in the first half of 2011. Upon completion of the construction of this facility, we expect to increase our annual production capacities of cinepazide maleate API by 3 tons and other APIs by 27 tons. The other facility currently under construction is located in Beijing. This facility will manufacture lyophilised powder for injection and small volume liquid for injection and is expected to commence production in late 2012. Upon completion of the construction of this facility, we expect to increase our annual production capacities of lyophilised powder for injection by 100 million vials, sterile powder for injection by 10 million vials and small volume liquid for injection by 300 million vials. The proposed increase in production capacity is mainly for production of APIs that are currently supplied by third-party subcontracting manufacturers, and production of other products that are currently either supplied by subcontracting manufacturers or have not yet commenced production. Due to regulatory requirements and different production techniques, these products may not be able to share the current production capacities or capabilities with existing products. For example, the new small volume liquid for injection production line to be constructed is for aseptic processing of small volume liquid for injection that cannot be subject to terminal sterilisation (or heat sterilisation), compared with our existing production line, which uses terminal sterilisation. As a result, although some of our product lines did not reach their full designed production capacity during the Track Record Period, we still need to construct new production facilities to accommodate production of new products and reduce our reliance on our subcontracting manufacturers to lower the risks of supply shortages in the future.

The estimated capital expenditures in relation to the Langfang project and Beijing project are approximately RMB50 million and RMB300 million, respectively.

SUPPLIERS

Our suppliers include suppliers of raw materials, subcontracting manufacturers and the manufacturers from whom we purchase products that we distribute. All the purchases from our suppliers are settled in RMB.

For the three years ended 31 December 2007, 2008 and 2009, purchases from our five largest suppliers collectively accounted for approximately 84.7%, 68.1% and 63.6%, of our total purchases, respectively; and our largest supplier, Harbin Tri-Lion Pharmaceutical Co., Ltd., who is our major subcontracting manufacturer, accounted for approximately 25.2%, 34.3% and 28.0% of our total purchases, respectively.

None of our Directors or Substantial Shareholders has any interest, direct or indirect, in our major suppliers.

Raw materials

The principal raw materials used for our products are the APIs. We source such raw materials, as well as packaging materials, from various independent suppliers in the PRC. Our principal packaging materials include glass ampules for injection products and gelatin capsule shells, as well as external packaging and printed instructions for all of our products.

We purchase our raw materials only from our list of pre-approved suppliers that meet our quality standards. Before confirming the selection of a supplier, our quality assurance division, or QA Division, performs background checks on the operating history, track record and market reputation of the potential supplier, procures different product samples from the potential supplier for inspection and testing by our quality control divisions, or QC Division, to ensure quality and consistency of the raw materials, inspects the production facilities of the potential supplier to ensure that the quality and standards of its production processes are in conformity with our quality requirements, and where necessary, conducts interviews with the supplier to assess its suitability and ability to meet our quality requirements. In addition, our QA Division personnel regularly visit our raw material suppliers to conduct on-site assessments of their quality assurance systems to ensure that they meet our quality requirements.

Raw materials required for our production are generally readily available in the market through many suppliers. Therefore, we generally do not enter into any long-term supply agreements with our raw material suppliers. The purchase price of our raw materials is primarily based on the prevailing market prices for raw materials of similar quality. Our main raw material supplier is Beijing Gaobo Pharm-Chemicals Tech Co., Ltd., or Beijing Gaobo, which manufactures raw material for cinepazide maleate. We have established a joint venture with Beijing Gaobo in Langfang, Hebei province, Langfang Sihuan, in which we hold a 51% interest. We are currently constructing new production facilities in Langfang Sihuan to expand our production capacity of, among others, API for cinepazide maleate. See the section headed "Business — Production Facilities" in this document. We generally

contract with one to two suppliers for each major type of API due to the requirement to file information of our API supplier on record with the food and drug authority at the provincial level, which may take up to six months. However, we may replace them with other API suppliers that are readily available in the market as there are abundant supplies of these products in the PRC.

Our raw material suppliers generally extend credit terms ranging between one and two months to us. The credit period extended by our other suppliers varies from supplier to supplier depending on, inter alia, our relationship with the particular supplier and the volume and prices of our purchases. In respect of subcontracting manufacturers who manufacture certain products for us, if the raw material purchases are arranged by us, we generally make payment for the raw materials required in the production before the production commences. The balance of the subcontracting payment is usually made after the goods are delivered in good order.

Subcontracting arrangements

We have entered into subcontracting manufacturing agreements with independent third-party pharmaceutical companies to manufacture certain products that we own intellectual property rights to but where we lack the production capacities or capabilities to manufacture such products ourselves. As of the Latest Practicable Date, 21 of our pharmaceutical products, including Chuanqing and Qu'Ao, are manufactured under such subcontracting arrangements by 11 subcontracting manufacturers. We undertake an assessment of our subcontracting manufacturers before engaging their services for the production of our pharmaceutical products. In our assessment, we take into consideration the following factors with regard to the potential subcontracting manufacturer: operating history, market reputation, track record, relevant expertise, internal quality control system, product quality, state of technology used in production and GMP certificates of production facilities, its production capacity and reliability in meeting delivery schedules, competitive pricing, and competence of its management. We also visit the premises and production facilities of the subcontracting manufacturer and conduct interviews with its management to assess its suitability and ability to meet our requirements.

We maintain stable and long term relationships with our subcontracting manufacturers. The number of subcontracting manufacturers for the three years ended 31 December 2007, 2008 and 2009 was 10, 11 and 11, respectively. They are all independent third parties. The number of our subcontracting manufacturers remained stable during the Track Record Period, except that we entered into new subcontracting manufacturing agreements with Hainan Quanxing Pharmaceutical Co., Ltd. in 2008 to use their hyophilised powder for injection production line and other production lines to manufacture carbazochrome sodium sulfonate for injection, a haemostatic product and certain other products to solve our production capacity bottle neck. Under the subcontracting manufacturing agreements, which are usually long term agreements between three to ten years, the third-party subcontracting manufacturers acknowledge and confirm that we are the owners of the intellectual property rights to the products and are entitled to all economic benefits from selling the products. Under the agreements, the subcontracting manufacturers register the relevant manufacturing permits on our behalf and we are responsible for payment of the production costs and in some cases, designate raw materials suppliers who the subcontracting manufacturers procure from. The subcontracting fees

under these agreements are determined by mutual agreement and are calculated based on production volume and per unit fee. The materials used for production are purchased by our subcontracting manufacturers. We record the finished products purchased from our subcontracting manufacturers as finished goods. We generally have one subcontracting manufacturer for each product due to the requirement of obtaining a manufacturing permit for such product, which is only issued to one party at a time by the SFDA. The third-party subcontracting manufacturers are responsible for manufacturing the products within the agreed upon delivery time based on the orders that we place with them in advance. Our subcontracting manufacturers are required to adopt our production technology and comply with our quality standards, in addition to SFDA standards. In some cases ours are higher than the SFDA standards. Our subcontracting manufacturers are responsible for any quality defects in the products they manufacture. During the effective period of the subcontracting manufacturing agreement, our subcontracting manufacturers undertake to manufacture and sell the relevant pharmaceutical products exclusively to us and we have the exclusive rights to market and sell these products. If we discover that any of our subcontracting manufacturers are conducting unauthorised sales of our products, we will terminate our contract with them and seek compensation and penalty for such breach of contract. In addition, a subcontracting manufacturing agreement may be terminated by a non-breaching party, if the other party materially breaches the agreement.

In the past, we have experienced delays in delivery or shortages in production by certain subcontracting manufacturers, which has adversely affected our business and operation. See the section headed "Risk Factors — Risks Relating to Our Business — We rely on third-party subcontracting manufacturers to manufacture some of our pharmaceutical products" in this document.

For the three years ended 31 December 2007, 2008 and 2009, our revenue derived from the sales of the products that were manufactured by our subcontracting manufacturers amounted to RMB67.6 million, RMB156.4 million, and RMB197.1 million, respectively, accounting for 23.6%, 30.6% and 27.7% of our total revenue. For the six months ended 30 June 2010, our revenue derived from the sales of products that were manufactured by our subcontracting manufacturers amounted to RMB111.0 million, accounting for 23.4% of our total revenue. For the three years ended 31 December 2007, 2008 and 2009, the subcontracting fees, including payment for raw materials, amounted to RMB31.7 million, RMB93.0 million and RMB104.0 million, respectively, accounting for 52.4%, 69.6% and 54.2% of our total cost of sales for the same periods, respectively.

Distribution of third-party pharmaceuticals

We enter into distribution agreements with third-party pharmaceutical manufacturers, under which we are the distributor for the pharmaceutical products developed and/or manufactured by such third parties. We distribute these third-party pharmaceutical products using the same sales, marketing and distribution model that we use for our other products. As of the Latest Practicable Date, 12 of the pharmaceutical products that we distribute are products that are developed and/or manufactured by third-party manufacturers. Under such distribution agreements, we are required to distribute the relevant pharmaceutical products within a certain pre-agreed region and to meet certain sales targets per year.

For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, revenue from our distribution business for third-party manufacturers accounted for 0.7%, 2.1%, 6.1% and 8.3% of our total revenue, respectively.

BUSINESS

QUALITY CONTROL

We believe that an effective quality management system is critical to ensuring the quality of our products and maintaining our reputation and success. We seek to ensure that our products consistently meet the highest industry standards and requirements. For certain key products, such as Chuanqing and Qu'Ao, we maintain higher quality standards than industry standards. We have invested extensively in researching and developing new production procedures and know-how to improve the quality standards and safety profile of our products. We have received patent protections for certain such production procedures, which have been implemented by the SFDA as part of the quality standards for other manufacturers with the same type of products. We believe that the patent protections create significant advantages for us over potential competitors, especially those who do not have the expertise in implementing those quality standards. In addition, in recent years the PRC government has been raising the quality standards for pharmaceutical products to ensure product safety. We expect to benefit from these more stringent regulations because of our high quality standards, which we believe give us an additional competitive advantage over potential competitors.

Our quality assurance department, or QA Department, has 26 employees, most of whom have pharmaceutical or medical related educational backgrounds. Our QA Department is comprised of a QA Division and a QC Division. Our QA Division is responsible for formulating and implementing our quality management system in accordance with the GSP and GMP requirements and ensuring that our product supply chain and production processes are in strict compliance with stipulated standards and procedures. Our QC Division is responsible for the inspection of incoming raw materials and ingredients, semi-finished products and final products, as well as reviewing the consistency of samples.

We undertake quality inspections at different stages of our production process from the procurement of raw materials to delivery of our products to our customers. In addition, since 2008, we also from time to time invited external industry experts to conduct random onsite inspections of our production process without prior notice to our production staff to make sure that our production process is strictly in compliance with the current GMP standards. Any non-compliance discovered during such random inspections is corrected immediately. Our quality control procedures at the production stage are briefly described as follows: For our quality control procedures at the raw material procurement stage, see the section headed "Business — Suppliers — Raw Materials" in this document.

Production quality control

Each stage of our production process is monitored by personnel from our QA Division to ensure that the production process conforms to our quality standards. Our production operators are required to strictly adhere to standard operating procedures and equipment operation procedures. Our production operators monitor the entire production process and our QA Division personnel inspect the production equipment and process. Any abnormalities discovered are rectified immediately and recorded.

Final product quality control

Every batch of our finished products is subject to a sample inspection by our QC Division personnel prior to dispatch to our distributors. After the inspection, our QC Division personnel issue

a report on the finished products and only products that pass the inspection are sent to the warehouse. Our policy is to destroy any batches of finished products that do not meet our quality standards. Our QC Division personnel review the use of materials, production process, production control and batch records. If no defects are detected, a product approval certificate is issued. Our warehouse only releases products upon receipt of both the finished product reports and the product approval certificates.

After sales service

Our QA Department receives feedback from our distributors, hospitals, medical institutions and end customers and handles any complaints with regard to the quality of our products. We treat such feedback and complaints seriously. Upon receipt of a complaint, we conduct investigations and where necessary, interview the party concerned. As of the Latest Practicable Date, we have not received any request for product return due to quality problems by our distributors. During the Track Record Period, we have only received requests for product returns due to damages caused to the products during transport, which amounted to RMB nil, RMB nil, RMB28,000 and RMB20,000 for the three years ended 31 December 2007, 2008 and 2009 and six months ended 30 June 2010, respectively.

INVENTORY MANAGEMENT

Our inventories comprise mainly raw materials, work-in-progress and finished goods.

We have two warehousing facilities with a total storage space of approximately 6,000 sq.m., one of which is located in Beijing and the other one in Hainan. Our warehouse in Beijing mainly stores the raw materials required for our production as well as the finished goods from such production. Our warehouse in Hainan stores mainly finished goods produced by Beijing Sihuan or by other third party pharmaceutical companies, which are ready for dispatch to our distributors. Our inventories are warehoused in accordance with the stringent requirements prescribed by GSP and GMP.

We conduct monthly assessments of our inventory requirements. In general, we manufacture our products and purchase our raw materials and packaging materials according to confirmed purchase orders as well as projected sales, which are determined by our management after taking into account the previous month's sales orders, current inventory level and the sales department sales forecast for the next one to two months. We have an advanced enterprise resource planning software system to collect, on a daily basis, accumulative product sales information from all sales offices, which is communicated to our production and inventory departments, which adjust our production and inventory level accordingly. We also closely monitor the inventory level of our distributors on a monthly basis through inspecting their distribution performance, sales records and collecting end-user feedbacks, which is the term of our distribution agreement. Based on their performance and inventory level, we can adjust their sales target and limit the amount of products to be delivered to them to avoid accumulation of inventory at our distributors level.

We have established inventory control procedures to track in-coming and out-going inventory. We adopt a first-in, first-out method of physical inventory management. We conduct physical counting of our inventory at least once a month. Results of each stock-take are verified against and reconciled with inventory records in our accounts and warehouse. Any discrepancies are clinically proven and thoroughly investigated by our finance and inventory personnel and corrective measures are implemented by our inventory personnel. For the three years ended 31 December 2007, 2008 and 2009,

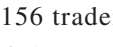
our average inventory turnover days were 90, 84 and 77 days, respectively. The typical life span of our products is one and a half to three years. Raw materials or finished goods that are obsolete or expired are generally written off and disposed of according to relevant regulations. During the Track Record Period, we have written off obsolete raw materials and stock, but the amount of write-offs is insignificant.

INTELLECTUAL PROPERTY RIGHTS

We recognise the importance of intellectual property rights to our business and are committed to their development and protection. We rely on a combination of patents, trademarks and trade secrets, as well as employee and third party confidentiality agreements to safeguard our intellectual property. We have a product registration and management team located in Beijing, which is responsible for our product registration, patent application, intellectual property rights protection and other related matters.

We own and have applied for patents to protect the technologies, inventions and improvements that we believe are significant to our business. As of the Latest Practicable Date, we held 99 patents in the PRC. In addition, we had 233 pending patent applications in the PRC and four overseas.

The validity period for our utility patents and packaging design patents is 10 years and the validity period for our invention patents is 20 years, starting from the date the relevant application is filed. All of these patents were issued in the PRC. As with patent rights in most other jurisdictions, a patent holder in the PRC enjoys the exclusive right to exclude others from using, licensing and otherwise exploiting the patent in the PRC. However, there is no assurance that our patents will not be challenged in the PRC, which could be costly to defend and could divert our management from their normal responsibilities. See the section headed "Risk Factors — Risks Relating to Our Business — We may be exposed to infringement claims if we infringe third-party proprietary or intellectual property rights" in this document.

We also rely on trademarks to protect our non-patented products. As of the Latest Practicable Date, we maintained 156 trademark registrations in the PRC, including Sihuan (), Kelinao, Anjieli and Chuanqing. As of the Latest Practicable Date, we also had 85 trademark applications filed and pending the approval of the PRC Trademark Office of the SAIC. Under PRC law, we have the exclusive right to use a trademark for products and services for which such trademark has been registered with the PRC Trademark Office of the SAIC. Trademark registration in the PRC is valid for 10 years, starting from the day the registration is approved. If we believe that a third party has infringed upon the exclusive right of our registered trademark, we may, through appropriate administrative and civil procedures, institute proceedings to request an injunction from the relevant authority or resolution of the infringement through consultation. The relevant authority can also impose fines, confiscate or destroy the infringing products or equipment used to manufacture the infringing products.

We believe that certain of our trademarks are well recognised in the PRC among medical professionals, pharmacists and patients. In particular, our "Sihuan" brand was awarded "Hainan

Province Well-Known Brand" by the Industrial and Commercial Administration Bureau of Hainan Province in 2006. As our brand names are becoming more recognised in the pharmaceutical market in the PRC, we are devoting additional resources to increasing and enforcing our trademark rights, which is critical to our overall branding strategy and reputation.

Some elements of our pharmaceutical composition, formulation and delivery, as well as manufacturing methods or processes, involve unpatented, proprietary technology, processes, know-how or data. With respect to such proprietary know-how that is not patentable and processes for which patents are difficult to enforce, we rely on trade secret protection and confidentiality agreements in order to safeguard our interests. All of our research and development personnel have entered into confidentiality, non-competition and proprietary information agreements with us. These agreements require such employees to assign to us all of their inventions, designs and technologies that they may develop during their periods of employment with us. In addition, there is a strict segregation of duties among personnel involved in different stages of our production process. This, we believe, serves to reduce the risk of any single staff member obtaining the technical know-how relating to the entire production process.

If our trademarks are challenged, our brand name is damaged or our trade secrets become known by our competitors, there could be a material adverse effect on our business. See the section headed "Risk Factors — Risks Relating to Our Business — We may not be able to adequately protect our intellectual property rights" in this document. Our Directors confirm that we have not violated any intellectual property rights or faced intellectual property claims by third parties during the Track Record Period. For details of our patents, trademarks or intellectual property, see Appendix VIII to this document.

In addition to protecting our own intellectual property, our success also depends on our ability to minimise the risk that any of our products or operations infringes the intellectual property rights of others. We follow a procedure under which our internal research and development staff and external patent agent or legal advisers conduct a patent clearance search for each product at the beginning of the product development process, and product development is only approved if the conclusion is that the proposed product would not infringe any third-party intellectual property rights discovered in our searches. We believe that the risk of infringing third-party intellectual property rights can be effectively reduced by our rigorous adherence to these procedures. To date, we have not been sued based on, and have not undergone arbitration in respect of, nor have we received any notification from third parties that claim any infringement of intellectual property of third parties. Further, to date, we have not been the subject of any adverse finding in an investigation or audit by any governmental authorities in respect of any infringement of intellectual property of third parties. However, despite our internal control procedures, the risk of infringing third party intellectual property cannot be eliminated entirely. See the section headed "Risk Factors — Risks Relating to Our Business — We may be exposed to infringement claims if we infringe third-party proprietary or intellectual property rights" in this document.

COMPETITION

The pharmaceutical market in the PRC is intensely competitive, rapidly evolving and highly fragmented. According to IMS, there were approximately 3,600 pharmaceutical manufacturers in the PRC as of 31 December 2009. In 2009, the top 20 manufacturers accounted for approximately 24.7% of the total sales of the pharmaceutical market in the PRC, with the top manufacturer accounting for 2.2% of the market.

We face direct competition from pharmaceutical manufacturers producing the same type of pharmaceutical products and indirect competition from pharmaceutical manufacturers producing products that are for the similar indication or in the similar therapeutic area, which can be used as substitutes to our products. We also face potential competition from pharmaceutical manufacturers who may enter into our markets or those already present in the markets that we plan to enter. Our competitors vary by product:

For Kelinao and Anjieli, since they are the only SFDA-approved drugs containing the active ingredient of cinepazide maleate in the PRC and hence enjoy a 100% market share of the cinepazide maleate market in the PRC, the main competitive products are other peripheral vasodilation drugs with similar indication, such as nimodipine manufactured by Bayer, edaravone manufactured by Simcere Pharmaceutical Group and GM1 manufactured by Qilu Pharmaceutical Co., Ltd.

For Chuanqing, whose market share was 58.1% in 2009, the main competitive products are ligustrazine hydrochloride products manufactured by Hefei Pingguang Pharmaceutical Co., Ltd., which had a market share of 16.4% of all ligustrazine Hydrochloride products sold in the PRC in 2009. Chuanqing also faces competition from Xueshuantong Injection manufactured by Guangxi Wuzhou Pharmaceutical (Group) Co., Ltd., which has similar indication.

For Qu'Ao, whose market share was 22.4% in 2009, the main competitive products are cerebroprotein hydrolysate products manufactured by Yunnan Mengsheng Pharmaceutical Co., Ltd. and cerebrolysin manufactured by Ebewe Pharma Ges.m.b.H. Nfg. KG, which had market shares of 41.7% and 5.0%, respectively, of all cerebroprotein hydrolysate products sold in the PRC in 2009.

For Aogan, whose market share was 3.2% in 2009, the main competitive products are GM1 products manufactured by Shandong Qilu Pharmaceutical Co., Ltd., Heilongjiang Harbin Medical University Pharmaceutical Co., Ltd. and Changchun Xiangtong Pharmaceutical Co., Ltd., which had market shares of 59.8%, 23.0% and 7.9%, respectively, of all GM1 products sold in the PRC in 2009.

For Kanglixin, whose market share was 14.3% in 2009, the main competitive products are injectable cefpiramide products manufactured by Guangdong Bozhou Pharmaceutical Co., Ltd. and Shandong Luoxin Pharmaceutical Co., Ltd., which had market shares of 12.8% and 8.8%, respectively, of all injectable cefpiramide products sold in the PRC in 2009.

For Anjiejian, whose market share was 13.6% in 2009, the main competitive products are cefmenoxime hemihydrochloride products manufactured by Zhejiang Jianfeng Pharmaceutical Co., Ltd. and Guilin Aolin Pharmaceutical Co., Ltd., which had market shares of 46.8% and 28.1%, respectively, of all injectable cefmenoxime products sold in the PRC in 2009.

For our naloxone hydrochloride products, whose total market share was 4.3% in 2009, the main competitive products are naloxone hydrochloride products manufactured by Beijing Kaiyin Pharmaceutical Co., Ltd. and Beijing Huasu Pharmaceutical Co., Ltd., which had market shares of 17.1% and 9.9%, respectively, of all naloxone hydrochloride products sold in the PRC in 2009.

For ambroxol hydrochloride, whose market share was 5.4% in 2009, the main competitive products are ambroxol hydrochloride products manufactured by Boehringer Ingelheim International Trading Co., Ltd. and Shenyang New Horse Pharmaceutical Co., Ltd., which had market shares of 33.4% and 15.4%, respectively, of all ambroxol hydrochloride products sold in the PRC in 2009.

Some of our pharmaceutical products are not protected by patents and are therefore subject to competition from other generic pharmaceutical products. However, the SFDA may, at its discretion subject to certain limitations, grant first-to-market generic drugs a multiple-year protection period, during which other pharmaceutical companies cannot apply for the registration of pharmaceutical products with the same chemical structure, formulation and indication. Once the protection period elapses, other manufacturers would be able to produce pharmaceutical products with the same chemical structure, formulation and indication, and may be able to sell such products at a lower price. As a result, hospitals, clinics, pharmacies and other retail outlets may choose such lower priced products over our pharmaceutical products. See the section headed "Industry — First-to-Market Generic Drugs" in this document. Furthermore, with respect to our patented pharmaceutical products, the existence of a patent may not necessarily protect us from competition as our patent may be challenged, invalidated or held to be unenforceable. This is because patent applications can take many years to be approved and issued and currently pending applications may later result in issued patents that our product candidates or technologies may infringe.

The pharmaceutical industry is characterised by rapid product development and technological change. Our pharmaceutical products could be rendered obsolete or made uneconomical by the development of new pharmaceutical products to treat the conditions addressed by our pharmaceutical products, technological advances affecting the cost of production, or marketing or pricing actions by one or more of our competitors. Our competitors may also be able to obtain regulatory approval for new products more quickly than we are and, therefore, may begin to market their products in advance of our products. We believe that competition among pharmaceutical products in the PRC will continue to be based on, among other things, brand name recognition, product efficacy, safety, reliability, availability, promotional activities and price.

Many of our existing and potential competitors have greater financial, technical, manufacturing or other resources than we do. We will also face strong competition when we expand into other markets, where the existing competitors may have already established their positions. Many of our competitors may also have greater brand name recognition, more established distribution networks, larger customer bases or more extensive knowledge of our customer groups. In addition, certain of our competitors may adopt low-margin sales strategies and compete against us based on lower prices. Furthermore, as a result of the PRC's admission to the World Trade Organization in 2001 and subsequent changes in PRC government laws and regulations, we may also face increasing competition from foreign manufacturers in addition to domestic manufacturers. Subsequent to the reduction of import tariffs pursuant to the PRC's World Trade Organization obligations, the selling prices in the PRC of imported pharmaceutical products have become more competitive. Also, some foreign pharmaceutical manufacturers have set up domestic production bases in the PRC leading to increasing direct competition, such as Sanofi Aventis, Pfizer and GlaxoSmithKline.

PROPERTIES

As of the Latest Practicable Date, we held the land use rights to three parcels of land with an aggregate site area of approximately 72,009.6 sq.m. and building ownership certificates to various buildings and units in the PRC with a total gross floor area of approximately 20,138.0 sq.m., which were used for production, ancillary facilities, administrative offices, residential purpose and some ancillary buildings. We have obtained land use right certificates and building ownership certificates for substantially all of our properties. As of the Latest Practicable Date, we leased three parcels of land

having an aggregate site area of approximately 23,374.1 sq.m. and 15 buildings and units, comprising a total gross floor area of approximately 3,970.52 sq.m. for administrative offices, storage facilities and residential purpose. The details of the properties are set forth in Appendix IV to this document.

During the Track Record Period, Beijing Sihuan constructed two steel-frame interim buildings on its own land, i.e. a packaging plant and an employee cafeteria. As they were meant to be a temporary solution, Beijing Sihuan did not undertake the planning procedure for these interim buildings. As a result, Beijing Sihuan may be required to remove these buildings prior to a deadline that may be set by relevant authorities. The costs of removing and scrapping the packaging plant and the employee cafeteria are expected to be approximately RMB500,000. Beijing Sihuan may also be fined by relevant authorities with a maximum amount of approximately RMB2.85 million in relation to these interim buildings.

Beijing Sihuan also constructed a Kelinao API manufacturing plant, a boiler room and a reception office built on Beijing Sihuan's own land with a total area of 2,931.50 sq.m., and a scale-up facility and an oral solid medicine packaging factory with a total area of 781.5 sq.m., partially on Beijing Sihuan's own land and partially on its leased state-owned allocated land. The Kelinao API manufacturing plant has a designed production capacity of 5 tons per year. The scale-up facility is used for product research and development purpose. Beijing Sihuan has not acquired the relevant construction planning permits for these buildings and may be ordered by relevant authorities to remove these buildings. If Beijing Sihuan is ordered to remove these buildings, we plan to demolish these buildings. We have already planned to construct new Kelinao API manufacturing facilities as part of the production facilities that are currently under construction in Langfang. We have also included scale-up and packaging facilities as part of the production facilities that are currently under construction in Beijing. The boiler room will be reconstructed with proper construction planning permits and other building permits with an estimated construction cost of RMB150,000. These new facilities will be built on alternative premises previously identified with perfected land use rights. The cost of demolishing the Kelinao API manufacturing plant, the boiler room, the reception office, the scale-up facility and the oral solid medicine packaging factory is expected to be approximately RMB100,000, RMB50,000, RMB10,000, RMB100,000 and RMB100,000, respectively. Beijing Sihuan may also be fined by relevant authorities with a maximum amount of approximately RMB274,557.2 in relation to these buildings.

The parcel of leased state-owned allocated land mentioned above was acquired as part of the acquisition of Beijing Sihuan in December 2003, and has a total area of 2,178 sq.m. Beijing Sihuan entered into a lease agreement with Beijing Air Force No. 2 Food Production Base (北空第二副食品生產基地) for a consideration of RMB150,000 in total to lease this parcel of land for a term expiring on 18 June 2028. In reliance on the long-term lease, we constructed the above-mentioned scale-up facility and oral solid medicine packaging factory in the building that already existed at the time of the acquisition. However, our PRC legal advisers have advised us that pursuant to the applicable PRC laws and regulations, state-owned allocated land cannot be used or leased for private industrial use. Accordingly, the lease agreement that we entered into with regard to the state-owned allocated land occupied by Beijing Sihuan is not in compliance with PRC laws and regulations and is not enforceable against the lessor. In addition, we have not obtained any land use or construction planning permits for constructing the facilities on this parcel of leased land, and as a result of defective land use right, we cannot obtain relevant building ownership certificates for these facilities. Our PRC legal advisers have

advised us that these facilities may be ordered to be demolished and we may be ordered to pay administrative fines by relevant authorities. Due to such non-compliant use of the state-owned allocated land occupied by the abovementioned buildings, Beijing Sihuan may also be fined by the relevant authorities with a maximum amount of approximately RMB65,340.

During the Track Record Period, Langfang Sihuan acquired a parcel of land with a total area of 80 mu located in Langfang, Hebei. As of the Latest Practicable Date, we have obtained proper land use right to 50 out of 80 mu of this parcel of land. As a result, we entered into a land leasing agreement with Houyi Town Lifengxian Village Committee for a consideration of RMB30,000 per year to lease the remaining parcel of land of 30 mu until we obtain the proper land use right. This parcel of 30 mu is designated as farmer collectively owned land. In reliance on the lease, we constructed certain ancillary facilities, including a warehouse, a boiler room and a laundry room for a total gross floor area of approximately 3,350.4 sq.m. on the leased land. Before the construction of the relevant facilities, we had consulted with different levels of local governments, and had obtained Hebei Province Youqing County Houyi Town government's support in terms of obtaining land use right to the total relevant land area in due course. However, our PRC legal advisers have advised us that pursuant to the applicable PRC laws and regulations, farmer collectively owned land cannot be used or leased for private industrial use. Accordingly, the lease agreement that we entered into with regard to the farmer collectively owned land occupied by Langfang Sihuan is not in compliance with PRC laws and regulations and is not enforceable against the lessor. In addition, we have not obtained any land use or construction planning permits for constructing the facilities on this parcel of leased land, and as a result of defective land use right, we cannot obtain relevant building ownership certificates for these facilities. According to the relevant PRC laws, due to its non-compliant use of the foregoing land, Langfang Sihuan may be required to return and restore the land and remove buildings on it. The cost of removing and scrapping the warehouses, boiler rooms, laundries and other buildings in Langfang is expected to be RMB480,000. The cost of rebuilding these facilities on alternative premises is expected to be RMB2.8 million. Langfang Sihuan may also be fined by the relevant authorities with a maximum amount of approximately RMB886,003.

During the Track Record Period, Shandong Xuanzhu built a dormitory and a warehouse with a total area of 144.64 sq.m. on its own land. Shandong Xuanzhu has not acquired the relevant construction planning permits as it was meant to be a temporary solution. However, our PRC legal advisers have advised us that Shandong Xuanzhu may be ordered by the relevant authorities to remove such buildings and be subject to penalty with the maximum amount of RMB11,000. The removal cost of such buildings is expected to be insignificant.

We are exposed to risks relating to the above-mentioned improper land usage and defective titles owing to inadequacies in certain project executions by the above three subsidiaries. Such unfortunate consequences were due to inadvertent oversight in project management rather than any willful behavior on the part of our Company. None of the above-mentioned buildings and facilities are crucial to our operation, as currently, most of the abovementioned buildings and facilities are not in operation, except for the boiler room and occasionally the scale-up facility and the Kelinao API manufacturing plant, and do not form a crucial part of our operation. Therefore, we do not expect our operations and financial position to be materially affected as a result of any demolition, relocation and/or payment of fine. We are closely liaising with the relevant local government and authorities with regard to obtaining the outstanding land use rights and building permits to the extent feasible. We are in the

process of obtaining relevant building ownership certificates to the extent feasible. We believe that there is no safety concerns with regard to the continued use of these units with defective titles, because the construction companies engaged by us have proper qualification and experience and the construction work was conducted based on industry standards.

Furthermore, according to PRC laws, Hainan Sihuan CVD Research's research laboratory is an interim building which can only be used for up to two years, unless otherwise permitted to be extended for one additional year. The service period for this laboratory expires on 30 December 2010.

We plan to seek a one-year extension to use the interim building for an additional year before moving Hainan Sihuan CVD Research's research laboratory to a rented building or to a building built by ourselves. In the event we are unable to attain the one-year extension, we may be required to demolish the interim building. In such a scenario, we plan to move the research operations of this laboratory to the Beijing Research Institute. Currently, the research operations mainly involve stability testing of certain products, which are not crucial to our operation. The majority of our research and development activities are carried out in subsidiaries located in Shandong and Beijing. Therefore, in either event, our research operations and capability would not be materially affected. We believe that there is no safety concerns with regard to the continued use of the interim building.

In the future, we will have our internal legal department to prevent mitigate or resolve any non-compliance issues of our Group by conducting legal knowledge training to raise people's awareness of legal compliance, increasing communication with authorities to reveal potential legal issues and adopting a systematic approach to monitor legal risks that are related to our business and operations. We will also seek outside counsel advice to prevent any recurrence of any similar events. We will avoid purchasing or leasing land or properties with defective titles by conducting proper land search and refrain from entering related agreements. Our Controlling Shareholders have provided an indemnity in favour of us for all potential losses, penalties, fines and damages arising from outstanding land and property titles, permits, approvals and unenforceable leases.

ENVIRONMENT AND SAFETY MATTERS

Our operations and facilities are subject to environmental laws and regulations stipulated by the national and the local environmental protection bureaus in the PRC. The main pollutants generated during our production process include waste water, waste gas, dust, noise and solid waste. We have established a pollution control system with dedicated personnel with on an average 10 years of experience working in related areas and are well-versed with the regulatory requirements applicable to our operation to inspect the production facilities and maintain environment protection equipment and facilities. We installed various types of pollution control equipment in our facilities to reduce, treat and recycle the waste generated in our production process. We also improve our production technique and select zero or low pollution raw materials to reduce the pollutants we discharge to the environment. When we plan for new products or new projects, we take into consideration the potential impact on the environment. For example, for the new production facilities we are constructing in Langfang, we have adopted the advanced purification tower of acid-mist to reduce the amount of waste gas discharge.

Our PRC legal advisers have opined that we are in compliance with relevant national or local environmental laws and regulations in the PRC in all material aspects and have obtained all material

permits, approvals and certifications required under PRC law in relation to our manufacturing facilities, including the discharge of waste water. Our facilities in the PRC are subject to regular inspection by environmental regulatory authorities. If these facilities are found not to be in compliance with the applicable environmental standards, we may be subject to penalties, which may range from fines to suspension of production. We have not been subject to any penalty or claim by any governmental or regulatory authorities in the PRC for any material breach of or non-compliance with any environmental laws or regulations. As the PRC legal system continues to evolve, we may be required to undertake significant expenditures in order to comply with environmental laws and regulations that may be adopted or imposed in the future.

The PRC government imposes a number of regulatory requirements on pharmaceutical companies with regard to employee health and safety. We regard occupational health and safety as one of our important social responsibilities and have implemented safety guidelines at our production facilities, to which all employees are required to strictly adhere. We also conduct regular work place safety training and exams for our employees and have dedicated personnel with an average 10 years of experience working in related areas and are well-versed with the regulatory requirements applicable to our operation to monitor different stages of the production process to ensure work place safety. Our production process is in compliance with GMP standards. During the Track Record Period, we have complied with all relevant national or local occupational health and safety laws and regulations and there were no major accidents that resulted in the death or serious injury of our employees.

We have complied with the relevant production safety and environmental protection laws or regulations in the past and our production facilities comply with laws and regulations applicable to pharmaceutical manufacturers in the PRC, including GMP certification requirements and requirements governing the construction and expansion of our manufacturing plants and facilities. There is no assurance, however, that we will not be subject to environmental liabilities in the event of an accident or other unexpected event, in which case we may be responsible for substantial cleanup costs. If we do not have adequate insurance coverage to cover such loss, our financial condition and results of operations may be materially adversely affected. See the section headed "Risk Factors — Risks Relating to Our Business — Our insurance coverage may not completely cover the risks related to our business and operations" in this document.

LEGAL AND COMPLIANCE

Licence and permit

As a developer, manufacturer and distributor of pharmaceutical products, we are subject to regulation and oversight by different levels of the food and drug administration in the PRC, in particular, the SFDA. We are also subject to other PRC laws and regulations that are applicable to manufacturers and distributors in general.

A summary of the relevant PRC laws and regulations which our business operations are subject to in the PRC is set out in Appendix VII to this document. We have obtained all material licenses, permits, approvals and consents for our business operations in the PRC, except for those that are currently under re-registration, and have complied with all relevant laws and regulations.

BUSINESS

As of the Latest Practicable Date, we have obtained 51 manufacturing permits from the SFDA for the manufacture of the following pharmaceutical products, some are currently manufactured and sold by us, and the others are currently not manufactured or sold in the market. Particulars of these manufacturing permits are set out below:

	Product Name	New Drug Certification No.	Manufacturing Permit No.	Manufacturing Permit Expiry Date[3]	Currently Manufactured and Sold by us
1.	Kelinao (Cinepazide Maleate Injection)[1] 克林澳 (馬來酸桂哌齊特注射液)	H20020088	H20020125 (80mg)	8 April 2008[4] Date of Re-registration application: 16 May 2007	√
2.	Anjieli (Cinepazide Maleate Injection)[1] 安捷利 (馬來酸桂哌齊特注射液)	N/A	H20061204 (320mg)	8 April 2008[4] Date of Re-registration application: 16 May 2007	√
3.	Xingmai (Ginkgo Dispersible Tablets) 杏脉 (銀杏葉分散片)[2]	Z20050247	Z20055421 (0.525mg)	10 August 2015	√
4.	Kangsiao (Adenosine Cyclophosphate Injection(2ml:20mg))[1] 康斯澳 (環磷腺苷注射液)	H20051134	H20051685 (20mg)	21 August 2010[4]	√
5.	Naloxone Hydrocholoride for Injection[1] (注射用鹽酸納洛酮)	N/A	H20060556 (0.4mg)	27 April 2011	√
6.	Xinpuao (Naloxone Hydrocholoride for Injection)[1] 欣浦澳 (注射用鹽酸納洛酮)	H20060351	H20060555 (1mg)	27 April 2011	√
7.	Naloxone Hydrocholoride for Injection[1] (注射用鹽酸納洛酮)		H20060554 (2mg)	27 April 2011	√
8.	Propylgallate for Injection (注射用棓丙酯)	N/A	H20055217 (60mg)	25 May 2010[4]	√
9.	Citicoline Sodium for Injection (注射用胞磷膽鹼鈉)	N/A	H20064521 (0.25g)	12 April 2011	
10.	Naloxone Hydrochloride Injection (鹽酸納洛酮注射液)	N/A	H20055760 (2ml:2mg)	16 June 2010[4]	√
11.	Naloxone Hydrochloride Injection (鹽酸納洛酮注射液)		H20055759 (1ml:1mg)	16 June 2010[4]	√
12.	Naloxone Hydrochloride Injection (鹽酸納洛酮注射液)		H20055758 (1ml:0.4mg)	16 June 2010[4]	√
13.	Metformin Hydrochloride Tablets (鹽酸二甲雙胍片)	N/A	H11020127 (0.25g)	10 August 2015	
14.	Ren' Ao (Oxcarbazepine Tablets)[1] 仁澳(奧卡西平片)	H20051024	H20051518 (0.3g)	10 August 2015	√
15.	Oxcarbazepine[1] (奧卡西平)	H20051023	H20051517	10 August 2015	
16.	Azithromycin Capsules (阿奇霉素膠囊)	N/A	H20058155 (0.25g)	10 August 2015	√
17.	Pudaao (Carbazochrome Sodium Sulfonate for Injection) 普達澳 (注射用卡絡磺鈉)	N/A	H20063944 (60mg)	4 March 2011	
18.	Pudaao (Carbazochrome Sodium Sulfonate for Injection) 普達澳 (注射用卡絡磺鈉)		H20066943 (40mg)	4 March 2011	

	Product Name	New Drug Certification No.	Manufacturing Permit No.	Manufacturing Permit Expiry Date[3]	Currently Manufactured and Sold by us
19.	Pudaao (Carbazochrome Sodium Sulfonate for Injection) 普達澳 (注射用卡絡磺鈉)		H20063941 (20mg)	4 March 2011	
20.	Pudaao (Carbazochrome Sodium Sulfonate for Injection) 普達澳 (注射用卡絡磺鈉)		H20063942 (80mg)	4 March 2011	
21.	Bismuth Potassium Citrate Granules (枸櫞酸鉍鉀顆粒劑)	N/A	H20044990 (1.2g:110mg)	14 September 2009[4]	
22.	Luomailing (Simvastatin Tablets) 羅邁靈 (辛伐他汀片)	N/A	H20093221 (10mg)	17 February 2014	√
23.	Aolaxin (Sodium Ozagrel for injection) 澳拉欣 (注射用奧扎格雷鈉)	N/A	H20073958 (20mg)	8 November 2012	
24.	Aolaxin (Sodium Ozagrel for injection) 澳拉欣 (注射用奧扎格雷鈉)		H20073971 (40mg)	8 November 2012	
25.	Aolaxin (Sodium Ozagrel for injection) 澳拉欣 (注射用奧扎格雷鈉)		H20074007 (80mg)	8 November 2012	
26.	Aogan (Monosialotetrahexosylgang- lioside Sodium for injection) 澳苷(單唾液酸四己糖神經節苷脂鈉注射液)	N/A	H20083224 (2ml:20mg)	23 March 2013	√
27.	Metformin Hydrochloride and Glibenclamide Tablets (二甲雙胍格列本脲片)	N/A	H20080100 (0.25g and 1.25mg)	17 March 2013	
28.	Pantoprazole Sodium Injection (注射用泮托拉唑鈉)	N/A	H20084309 (40mg)	21 September 2013	
29.	Pantoprazole Sodium Injection (注射用泮托拉唑鈉)		H20084310 (80mg)	21 September 2013	
30.	Mecobalamia Capsules [1] (甲鈷胺膠囊)	H20080046	H20080102 (0.5mg)	17 March 2013	
31.	Cilostarol Capsules (西洛他唑膠囊)	N/A	H20080401 (50mg)	15 June 2013	
32.	Tremella Polysaccharide Enteric-coated Capsules (銀耳孢糖腸溶膠囊)	N/A	H20056285 (0.25g)	10 August 2015	
33.	Bisoprolol Fumarate (富馬酸比索洛爾)	N/A	H20059159	27 November 2010	
34.	Nicergoline (尼麥角林)	N/A	H20067160	17 July 2011	
35.	Carbazochrome Sodium Sulfonate (卡絡磺鈉)	N/A	H20064033	1 March 2011	
36.	Nicergoline for Injection (注射用尼麥角林)	N/A	H20084282 (2mg)	21 September 2013	
37.	Nicergoline for Injection (注射用尼麥角林)		H20084283 (4mg)	21 September 2013	

	Product Name	New Drug Certification No.	Manufacturing Permit No.	Manufacturing Permit Expiry Date[3]	Currently Manufactured and Sold by us
38.	Nicergoline for Injection (注射用尼麥角林)		H20084284 (8mg)	21 September 2013	
39.	Buluofen Tablets (布洛芬片)	N/A	H11020128 (0.1g)	9 July 2007[4]	
40.	Xiaobendiping Tablets (硝苯地平片)	N/A	H11020125 (10mg)	9 July 2007[4]	
41.	Yansuan Tablets (烟酸片)	N/A	H11020126 (0.1g)	9 July 2007[4]	
42.	Gliclazide Tablets (格列齊特片)	N/A	H11020121 (80mg)	10 August 2015	
43.	Nilestriol Tablets (尼爾雌醇片)	N/A	H11020123 (1mg)	10 August 2015	
44.	Nilestriol Tablets (尼爾雌醇片)	N/A	H11020124 (2mg)	9 July 2007[4]	
45.	Thymopeptides Enteric-coated Tablets (胸腺肽腸溶片)	N/A	H20000671 (3mg)	10 August 2015	
46.	Bifonazole Vaginal Tablets[1] (聯苯苄唑陰道片)	(1999)X-28	H19991046 (0.1g)	10 August 2015	
47.	Omeprazole Sodium for Injection (注射用奧美拉唑鈉)	N/A	H20055755 (40mg)	16 June 2010[5]	
48.	Naloxone Hydrochloride (鹽酸納洛酮)	N/A	H20055757	10 August 2015	
49.	Nilestriol (尼爾雌醇)	N/A	H11020122	10 August 2015	
50.	Cinepazide Maleate (馬來酸桂哌齊特)	N/A	H20020124	10 August 2015	
51.	Felodipine Pian (非洛地平片)	N/A	H20103399	18 March 2015	

Notes:

(1) The new medicine certificates for these products are issued to us solely for products 1, 4 and 6 and jointly with third parties for products 14 (with Chongqing Renben Drug Research Institute (重慶人本藥物研究院)), 15 (with Chongqing Renben Drug Research Institute (重慶人本藥物研究院)), 30 (with Harbin Xinghuo Drug Research Institute (哈爾濱星火藥物研究院)) and 46 (with the Military Medical Science Academy (軍事醫學科學院)).

(2) The new medicine certificates for these products are issued to third parties.

(3) Pharmaceutical manufacturing license is valid for five years. The pharmaceutical manufacturing enterprise must apply for an extension six months prior to the permit expiration. As of the Latest Practicable Date, we have applied for an extension for all permits that are to expire in six months.

(4) The manufacturing permits for these products have expired as at the Latest Practicable Date. Our PRC counsel has confirmed that we have submitted the applications to re-register the manufacturing permits in accordance with the applicable PRC laws and regulations and that they are not aware of any legal impediment to re-registering the manufacturing permits. Since the re-registration applications have been submitted and accepted, our PRC counsel has confirmed that manufacturing permits for such products may, pending the re-registration procedures, continue to be used during such period notwithstanding their expiry and the risk of us not being able to obtain the re-registration is remote.

As of the Latest Practicable Date, the manufacturing permits for the following products have been issued by the SFDA to third-party pharmaceutical companies, with whom we have entered into subcontracting manufacturing agreements or nationwide exclusive distribution agreements. Under these agreements, the pharmaceutical manufacturing companies have undertaken to manufacture the products exclusively for us.

	Product Name	New Drug Certification No.	Manufacturing Permit No.	Manufacturing Permit Expiry Date[3]	Currently in Production by third parties and Sold by us
1.	Saimeiao (Buflomedil Hydrochloride for Injection)[2] 賽美澳 (注射用鹽酸丁咯地爾)	H20020268	H20020386 (50mg)	6 August 2007[4]	√
			H20051062 (0.1g)	6 August 2007[4]	
			H20051063 (0.2g)	6 August 2007[4]	
2.	Chuanqing (Lingustrazine Hydrochloride for Injection)[1] 川青 (注射用鹽酸川芎嗪)	H20030414	H20030553 (0.12g)	1 June 2008[4]	√
			H20041175 (80mg)	1 June 2008[4]	
			H20041171 (40mg)	1 June 2008[4]	
3.	Ganfuxin (Vinpocetine for Injection)[2] 甘複欣 (注射用長春西汀)	H20051206	H20051750 (10mg)	11 September 2010[4]	√
			H20051751 (20mg)	11 September 2010[4]	
4.	Weiaiao (Matrine for Injection (0.15g)[2] 唯愛澳 (注射用苦參碱)	H20030570	H20030735	4 August 2008[4]	√
5.	Weiboxin 維博欣 (1g) Paiqixin 哌奇欣 (2g) Cefoxitin sodium for injection 注射用頭孢西丁鈉	N/A	H20055557 (1g)	7 June 2010[4]	√
			H20055558 (2g)	7 June 2010[4]	
6.	Puqiao (Cefpirome Sulfate for Injection) 普奇澳 (注射用硫酸頭孢匹羅)	N/A	H20065159 (0.5g)	15 May 2011	√
			H20065160 (1g)	15 May 2011	
7.	Huanpingshu 緩平舒 (化風丹)	N/A	Z20026460	30 November 2007[4]	√
8.	Liying[2] 立贏 (柏子養心膠囊)	Z20050167	Z20050158	31 March 2010[4]	√
9.	Aisenao (Aceglutamide for Injection)[2] 艾森澳 (注射用乙醯谷醯胺)	H20050661	H20050987 (0.3g)	26 May 2010[4]	√
			H20050988 (0.6g)	26 May 2010[4]	
10.	Qu'Ao (Cerebroprotein Hydrolysate for Injection)[2] 曲奧 (注射用腦蛋白水解物)	H20050935	H20051202	24 June 2010[4]	√

	Product Name	New Drug Certification No.	Manufacturing Permit No.	Manufacturing Permit Expiry Date[3]	Currently in Production by third parties and Sold by us
11.	Aodaxing 澳達興 (1.5g and 3g) Aobijian 澳必健 (0.75g) Aogexing 澳格星 (2.25g) (Cefoperazone Sodium and Sulbactam Sodium for Injection) (2:1) 注射用頭孢哌酮鈉舒巴坦鈉 (2:1)	N/A	H20040716 (1.5g)	1 June 2009[4]	√
			H20044347 (3g)	1 June 2009[4]	
			H20044346 (0.75)	1 June 2009[4]	
			H20045273 (2.25g)	1 June 2009[4]	
12.	Kanglixin 抗力欣 (0.5g and 1g) Xiboao 希柏澳 (2g) (Cefpiramide sodium for Injection) 注射用頭孢匹胺鈉	N/A	H20043923 (1g)	3 June 2009[4]	√
			H20045271 (0.5g)	3 June 2009[4]	
			H20045272 (2g)	3 June 2009[4]	
13.	Yijianxin (Cefepime Dihydrochloride for Injection)[2] 益健欣 (注射用鹽酸頭孢吡肟)	H20080049	H20080106	17 March 2013	√
14.	Anjiejian (Cefmenoxime Hydrochloride for lnjection) 安捷健 (注射用鹽酸頭孢甲肟)	N/A	H20070005 (1g)	3 January 2012	√
15.	Ceftezole Sodium for Injection 注射用頭孢替唑鈉	N/A	H20084170 (0.75g)	21 September 2013	√
			H20084172 (1.5g)	21 September 2013	
16.	Aipukang (Boanmycin Hydrochloride for Injection)[2] 艾普康 (注射用鹽酸博安霉素)	H20040620	H20060214	23 June 2009[4]	√
17.	Bosheng (Calcium Folinate for Injection) 博生 (注射用亞葉酸鈣)	N/A	H20034162 (100mg)	30 December 2008[4]	√
			H20034161 (200mg)	30 December 2008[4]	
18.	Bodaping (Paclitaxel Injection) 博達平 (紫杉醇注射液)	N/A	H20057878 (5ml:30mg)	12 October 2010	√
			H20057879 (10mg:60mg)	12 October 2010	
19.	Xinpusen 辛普森 (10ml:80mg) Laipusen 萊普森 (10ml:70mg) Thymopolypeptides Injection 胸腺肽注射液	N/A	H20054513 (10ml:80mg)	9 July 2007[4]	√
			H20054512 (10ml:70mg)	9 July 2007[4]	
20.	Yidu (Phenazopyridine Hydrochloride Capsules)[2] 怡度 (鹽酸非那吡啶膠囊)	H20051764	H20052581	14 December 2010	√

	Product Name	New Drug Certification No.	Manufacturing Permit No.	Manufacturing Permit Expiry Date[3]	Currently in Production by third parties and Sold by us
21.	Weiboqi (Water-soluble Vitamin for Injection) 維博奇 (注射用水溶性維生素)	N/A	H20056325	13 July 2010[4]	√
22.	Luoanming (Amino Acid Injection) 洛安命 (氨基酸注射液)	N/A	H20068014	21 July 2010[4]	√
23.	Pudaao (Carbazochrome Sodium Sulfonate for Injection) 普達澳 (注射用卡絡磺鈉)	N/A	H20067414 (80mg)	9 July 2011	√
			H20067415 (60mg)	9 July 2011	
			H20066943 (20mg)	9 July 2011	
24.	Qingtong (Edaravone Injection) 清通 (依達拉奉注射液)	N/A	H20080592 20ml:30mg	11 September 2013	√
25.	Cefminox Sodium for Injection (注射用頭孢米諾鈉)	N/A	H20070034 0.25g	14 July 2010[4]	√
			H20056297 0.5g	14 July 2010[4]	
			H20056298 1g	14 July 2010[4]	
			H20056295 1.5g	14 July 2010[4]	
			H20056296 2g	14 July 2010[4]	
26.	Cefonicid Sodium for Injection (注射用頭孢尼西鈉)	N/A	H20044468 0.5g	22 July 2009[4]	√
			H20058717 1g	22 July 2009[4]	
			H20058718 2g	22 July 2009[4]	
27.	Pojia (Sulbenicillin Sodium for Injection) 頗佳 (注射用磺苄西林鈉)	N/A	H20063806 2g	4 March 2011	√
28.	Ondansetron Hydrochloride Injection (鹽酸昂丹司瓊注射液)	N/A	H20054704 2ml:4mg	18 April 2010[4]	√
29.	Thymopentin for Injection (注射用胸腺五肽)	N/A	H20045991 1mg	18 November 2009[4]	√
30.	Zhuo' Ao, Bi'Ao (Ambroxol Hydrochloride for Injection) 卓澳; 必澳 (注射用鹽酸氨溴索)	N/A	H20060154 15mg	27 February 2011	√
			H20060155 30mg	27 February 2011	
31.	Omeprazole Sodium for Injection (注射用奧美拉唑鈉)	N/A	H20056134 40mg (按奧美拉唑計)	30 June 2010[4]	√
32.	Fufang Weitong Capsules 複方胃痛胶囊	N/A	Z20025400 0.28g	30 November 2007[4]	√

	Product Name	New Drug Certification No.	Manufacturing Permit No.	Manufacturing Permit Expiry Date[3]	Currently in Production by third parties and Sold by us
33.	Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺)	N/A	H20052588 10mg	21 December 2010	√
34.	Meclofenoxate Hydrochloride for Injection (注射用鹽酸甲氯芬酯)	N/A	H20084087 0.25g	11 September 2013	
35.	Meclofenoxate Hydrochloride for Injection (注射用鹽酸甲氯芬酯)	N/A	H20084086 0.1g	11 September 2013	
36.	Ifosfamide for Injection (注射用異環磷醯胺)	N/A	H20084383 0.5g	12 October 2013	
37.	Ifosfamide for Injection (注射用異環磷醯胺)	N/A	H20084384 1g	12 October 2013	
38.	Paclitaxel Injection (紫杉醇注射液)	N/A	H20084032 5ml:30mg	1 September 2013	
39.	Paclitaxel Injection (紫杉醇注射液)	N/A	H20084033 16.7ml:100mg	1 September 2013	
40.	Tiopronin for Injection (注射用硫普羅寧)	N/A	H20093094 0.2g	8 January 2014	

Notes:-

(1) The new medicine certificates for this product have been issued jointly to us and a prominent state-sponsored research institute.

(2) The new medicine certificates for these products are issued to third parties.

(3) Pharmaceutical manufacturing license is valid for five years. The pharmaceutical manufacturing enterprise must apply for an extension six months prior to the permit's expiration. As of the Latest Practicable Date, our subcontracting manufacturers and third-party drug suppliers have applied for an extension for all permits that are to expire in six months.

(4) The manufacturing permits for these products have expired as at the Latest Practicable Date. Our PRC counsel has confirmed that the applicable third-party pharmaceutical companies has submitted the applications to re-register the manufacturing permits in accordance with the applicable PRC laws and regulations and that they are not aware of any legal impediment to the applicable third party pharmaceutical companies in re-registering the manufacturing permits. Since the re-registration applications have been submitted and accepted, our PRC counsel has confirmed that manufacturing permits for such products may, pending the re-registration procedures, continue to be used during such period notwithstanding their expiry and that the risk of not being able to obtain the re-registration is remote.

According to the Measures on the Administration of Pharmaceutical Products Registration (藥品注冊管理辦法), pharmaceutical manufacturers are required to register their products with the SFDA to obtain manufacturing permits prior to commencement of manufacture of the pharmaceutical products. The registration is valid for a term of five years, which must be re-registered within six months prior to expiration by submitting required application materials to the relevant drug administration authorities.

For those of our products for which manufacturing permits have expired, applications have been submitted to re-register the manufacturing permits in accordance with the applicable PRC laws and regulations. We have obtained re-registered manufacturing permits for APIs and products in tablet and capsule formulations. However, we have not obtained re-registered manufacturing permits for

products in small volume liquid for injection and lyophilised powder for injection formulations such as Kelinao and Anjieli because the re-registration procedures are currently undergoing. According to a notice issued by the SFDA on 9 March 2007 (《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), the manufacturing permits that are currently pending re-registration can be used during the re-registration period. Furthermore, according to a notice issued by the SFDA on 31 July 2009 (《關於做好藥品再註冊審查審批工作的通知》國食藥監註[2009]387號) and a notice issued by SFDA on 29 September 2010 (《關於做好藥品再註冊審查審批工作的補充通知》國食藥監註[2010]394號), the SFDA required the provincial level drug administration authorities to complete the re-registration process by 30 September 2010 and the applicants shall submit required application documents and research materials to relevant drug administration authorities.

However, as of the Latest Practicable Date, the re-registration procedures of small volume liquid for injection and lyophilised powder for injection formulations have not been completed by the relevant drug administration authorities and as a result, the manufacturing permits of these products are still expired. To our Directors' best knowledge, such re-registration process should be completed before October 2011. We have not received any rejection of re-registration notice from the relevant authorities. Our PRC counsel has confirmed that all applications to re-register the expired manufacturing permits have been submitted and accepted in accordance with the applicable PRC laws and regulations and that they are not aware of any legal impediment to re-registering the manufacturing permits. Since the re-registration applications have been submitted and accepted, our PRC counsel has also confirmed that manufacturing permits for such products will, pending the re-registration process, continue to be used during such period notwithstanding their expiry and that the risk of rejection of the re-registration is remote. In addition, our PRC counsel has confirmed that due to the provincial level drug administration authorities not being able to complete the re-registration process by 30 September 2010, the risk of us being required to suspend production of these products or subject to any penalties or fines is remote. We, together with our PRC counsel, have made informal oral inquiry with an official of the Beijing Drug Administration Drug Registration Division, who confirmed the above understanding.

The following major permits have been obtained by us for the purposes of our business and operations (apart from those pertaining to general business requirements):

Type of Permit/License	Purpose	Issuing Authority/Licensing Body	Validity Period
Drug Production License (藥品生產許可證)	Production of drugs	Beijing Drug Administration (北京市藥品監督管理局)	3 November 2009 to 31 December 2013
Drug Trading License (藥品經營許可證)	Trading of pharmaceutical drugs	Hainan Food and Drug Administration (海南省食品藥品監督管理局)	8 December 2009 to 7 December 2014
Certificate of Good Supply Practices for Pharmaceutical Products (藥品經營質量管理規範認證證書)	Quality management of the supply of pharmaceutical products	Hainan Food and Drug Administration (海南省食品藥品監督管理局)	29 September 2009 to 28 September 2014
Drug Trading License (藥品經營許可證)	Trading of Pharmaceutical drugs	Hainan Food and Drug Administration (海南省食品藥品監督管理局)	20 November 2006 to 19 November 2011

Type of Permit/License	Purpose	Issuing Authority/Licensing Body	Validity Period
Certificate of Good Supply Practices for Pharmaceutical Products (藥品經營質量管理規範認證證書)	Quality management of the supply of pharmaceutical products	Hainan Food and Drug Administration (海南省食品藥品監督管理局)	23 January 2007 to 22 January 2012
Drug Trading License (藥品經營許可證)	Trading of Pharmaceutical drugs	Guangdong Food and Drug Administration (廣東省食品藥品監督管理局)	2 November 2009 to 1 November 2014
Practices for Pharmaceutical Products (藥品經營質量管理規範認證證書)	Quality management of the supply of pharmaceutical products	Guangdong Food and Drug Administration (廣東省食品藥品監督管理局)	29 July 2009 to 28 July 2014

The following are the GMP certifications obtained by us:

Certificate No.	Scope of Certification	Validity Period
Jing G0153	Raw medicine (Naloxone Hydrochloride)	25 July 2005 to 24 July 2010
L5157	Lyophilised powder for injection	20 January 2010 to 19 January 2015
Jing G0181	Capsules Bulk Drug (Oxcarbazepine)	11 January 2006 to 10 January 2011
Jing I0275	Tablets	18 December 2007 to 17 December 2012
I4396	Small Volume Liquid for Injection	20 December 2007 to 19 December 2012
Jing J0356	Tablets, capsules, granules	18 February 2009 to 17 February 2014

Renewal procedures for the above permits are to be carried out six months prior to the expiry of the validity periods. Our Directors are not aware of any reason that would cause or lead to the non-renewal of the permits. We have not encountered any problems in renewing our GMP certificates in the past.

Compliance issues

During the Track Record Period, one of our subsidiaries, Sun Moral, inadvertently failed to comply with the regulatory requirements in Hong Kong to prepare annual audited accounts for the period starting from its incorporation on 5 October 2007 until 31 December 2009. Sun Moral is an investment holding company and during the Track Record Period had no other business activities in Hong Kong. Given that Sun Moral's sole director resides outside Hong Kong, Sun Moral since its incorporation has delegated its secretarial work to a small local company secretarial firm and subsequently to an individual employed under such small local company secretarial firm. Sun Moral had been relying on the small local firm and the individual in ensuring compliance with Hong Kong laws and regulations. Owing to the lack of familiarity with the Hong Kong legal requirements in light of Sun Moral's very limited operations in Hong Kong, Dr. Che, the then and existing sole director of Sun Moral, was under the mistaken belief that Sun Moral was considered a dormant company (and therefore exempted from accounts preparation) and was not aware of, and neither was he informed of, directors' statutory obligations under the Companies Ordinance to present audited accounts at the company's general meeting.

Upon becoming aware of the above requirement in June 2010, Sun Moral immediately engaged PricewaterhouseCoopers to conduct an audit of Sun Moral's financial statements for each financial year since its incorporation up to the financial year ended 31 December 2009 (the "**Relevant Accounts Period**"). Sun Moral has also written to the Companies Registry on 2 July 2010 to inform them of this non-compliance. The Companies Registry replied on 19 July 2010 reminding Sun Moral that failure of a company to comply with the relevant requirements of preparing audited accounts shall subject the company and each of its officers to a fine and for continued default, to a daily default fine. The Companies Registry requested that Sun Moral ensure compliance in the future, failing which prosecution action would be taken. Pursuant to the Companies Ordinance, the maximum penalty which may be imposed on the director of a Hong Kong company for failure to comply with the relevant requirements of preparing audited accounts is imprisonment of 12 months and a fine of HK$300,000. After consultation with our legal advisers, upon the audited financial statements becoming available, on 2 September 2010, Sun Moral made an application to the High Court of Hong Kong to apply for an order that, inter alia, (i) the requirement in section 122(1) of the Companies Ordinance to lay a income and expenditure account for the Relevant Accounts Period before Sun Moral at its annual general meeting be substituted by a requirement to lay such accounts before Sun Moral by way of a resolution in writing signed by the sole shareholder of Sun Moral in lieu of a general meeting; and (ii) the period of months in section 122(1A) of the Companies Ordinance to lay Sun Moral's accounts for the Relevant Accounts Period before Sun Moral at its annual general meeting be extended, to such period up to and including 1 September 2010. A court order in accordance with those sought terms was granted on 8 October 2010. Such court order could thereafter support the rectification of the delay in filing of Sun Moral's accounts at the Companies Registry. As at the Latest Practicable Date, there has not been any prosecution initiated against Dr. Che as the sole director of Sun Moral, nor has he been subject to any fine relating to the above disclosed non-compliance.

Separately, in January 2010, our Group, while considering certain fund-raising plans, undertook an internal reorganization whereby shares in Sun Moral, then held by our Company, were transferred to China Pharma (the "**January Transaction**"). Due to the lack of familiarity with the requirements under the Stamp Duty Ordinance Sun Moral was under the impression that it was a dormant company as it was not engaged in any business activities in Hong Kong, and so it was thought to be appropriate for stamp duty on its share transfer to be adjudicated on a nominal consideration basis. Due to our failure to inform the Hong Kong Stamp Office of the fact that Sun Moral was in fact not a dormant company and to present all relevant facts and circumstances to the Hong Kong Stamp Office for the adjudication of the ad valorem stamp duty, stamp duty was paid on the nominal amount of the share transfer instead of the underlying value of the share transfer as required under the Stamp Duty Ordinance.

Upon becoming aware of this issue in June 2010, we immediately instructed our tax advisers PricewaterhouseCoopers to make a submission to the Hong Kong Stamp Office notifying the Hong Kong Stamp Office of the improper stamping in January 2010. Upon the presentation of our case, the unpaid stamp duty for this transfer was adjudicated to be HK$2,019,922 and a penalty of HK$131,600 for the late payment of the stamp duty, was acknowledged by the Hong Kong Stamp Office to be payable. PricewaterhouseCoopers has made an application on behalf of China Pharma and our Company for intra-group stamp duty exemption in relation to the January Transaction and a refund of the amount of stamp duty paid in January 2010 calculated based on the nominal consideration amount of the transfer. As at the Latest Practicable Date, the final adjudication from the Hong Kong Stamp Office is yet to be obtained. As agreed between China Pharma and the Company, China Pharma will

bear all stamp duty payable on the January Transaction, and therefore the payment of stamp duty should the exemption not be granted by the Hong Kong Stamp Office will not result in any financial impact on the Group. The contemplated fund-raising plans did not proceed in the end and Sun Moral was re-transferred from China Pharma to our Company in July 2010.

In relation to the payment of enterprise income tax in the PRC, all the enterprises are required to pay enterprise income tax and the local tax authorities have the right to approve certain preferential tax rate to be enjoyed by an enterprise according to the relevant tax laws and regulations. According to the Approval regarding Hainan Sihuan's Entitlement to Enterprise Income Tax Preferential Treatment for High and New Technology Enterprise (Pu Di Shui Han [2006] No. 27) (《關於海南四環享受高新技術企業有關企業所得稅稅收優惠政策問題的批復》) (浦地稅函[2006]27號) (the "**Approval**") issued by the local tax bureau of Hainan Yangpu on 27 September 2006, Hainan Sihuan was confirmed to be a high-tech enterprise in 2005. According to Article 18 of the People's Government of Hainan Province's Opinion regarding the implementation of CPC Central Committee and State Council's Decision to Strengthen Technological Innovation, Develop High-technology and Realise Industrialisation (Qiong Fa [1999] No. 30) (中共海南省委海南省人民政府貫徹《中共中央、國務院關於加強技術創新，發展高科技，實現產業化的決定》的實施意見) (瓊發[1999]30號文) issued by the PRC Hainan Provincial Government (the "**Opinion**"), a productive and developing enterprise which is treated as a high-tech enterprise with an operation period of over 10 years will be exempted from enterprise income tax for the first and second years commencing from its first profit-making year, and entitled to a 50% reduced tax rate for the third to eighth years. As Hainan Sihuan first made profit in 2003, Hainan Sihuan was exempted from enterprise income tax for 2003 and 2004, and entitled to a 50% reduction in enterprise income tax from 2005 to 2010. According to the Approval, the full tax rates on which the reduced tax of Hainan Sihuan was calculated were 18%, 20% and 22% in 2008, 2009 and 2010, respectively, which was a result of interpretation of (2007) No. 39 Notice as defined below and an application of the transitional preferential tax treatment. Hainan Sihuan is now entitled to its last year of tax reduction and the reduced tax rate is 11%, half of 22% for the year 2010. According to the confirmation letter issued by Hainan tax authority, Hainan Sihuan has been in strict compliance with the corporate income tax rate as ratified by the Hainan tax authority since commencement of its operations, and Hainan Sihuan has been applying and approved for payment of corporate income tax every year by the Hainan tax authority.

According to the PRC EIT Law with effect from 1 January 2008 and the Notice issued by the State Council on the Implementation of Transitional Preferential Treatments for Enterprise Income Tax (Guo Fa (2007) No. 39) (the "**(2007) No. 39 Notice**") (國務院關於實施企業所得稅過渡優惠政策的通知) (國發(2007)年39號), only enterprises which fall within the allowed categories of enterprises as set out in the laws, the administrative regulations or the documents of the same effects prior to the implementation of the PRC EIT Law are entitled to the transitional preferential tax treatment. In addition, more categories of enterprises that could enjoy transitional tax preferential policies were further allowed according to the Notice of the Ministry of Finance and the State Administration of Taxation on Several Issues Relating to the Implementation of the Preferential Treatment on Enterprise Income Tax (Cai Shui (2009) No. 69) (the "**No. 69 (2009) Notice**") (財政部、國家稅務總局關於執行企業所得稅優惠政策若干問題的通知) (財稅(2009)69號文). Other than the circumstances specified in the (2007) No. 39 Notice, all reduced enterprise income tax can be calculated with reference to the full income tax rate of 25%. Hence, the Opinion and the No. 69 (2009) Notice, which cover wider ranges of enterprises than the (2007) No. 39 Notice, form the basis on which Hainan Sihuan enjoys the transitional preferential tax treatment. Our PRC legal advisers are of the opinion that, if Hainan

Sihuan remains entitled to the preferential tax treatment for 2008 to 2010, a reduced rate of 12.5% shall be applied in calculating its enterprise income tax under the transitional preferential treatment. Furthermore, according to the Notice on Further Clarification of Implementation of Transitional Preferential Treatments for Enterprise Income Tax (Guo Shui Han [2010] No. 157) (關於進一步明確企業所得稅過渡期優惠政策執行口徑問題的通知) (國稅函[2010]157號), a high-tech enterprise may apply either the tax rate under the transitional preferential treatment or the 15% enterprise income tax rate. Our PRC legal advisers are of the view that Hainan Sihuan, as a high-tech enterprise, is allowed to select either the reduced rate of 12.5% under the transitional preferential treatment or the 15% tax rate applicable for high-tech enterprise. Hainan Sihuan had paid its enterprise income tax calculated by reference to the rates of 9%, 10% and 11% in 2008, 2009 and 2010, respectively, and our PRC legal advisers are of the view that the preferential treatment that Hainan Sihuan has received since 2008 may not be in full compliance with the PRC law and as such, it is possible that the relevant tax authorities may recover the tax shortfall from Hainan Sihuan. This is due to the fact that the State Administration of Taxation supervises and monitors the local tax bureau in accordance with relevant PRC law and has the right to revoke any administrative actions of the local tax bureau it deems inappropriate, or order the local tax bureau to correct or rectify the same.

The following table illustrates the applicable and actual enterprise income tax rates for Hainan Sihuan during the Track Record Period:

	2007	2008	2009	30 June 2010
Applicable tax rate without preferential tax treatment	33%	25%	25%	25%
Tax rate under preferential tax treatment[(1)]	7.5%	15%	15%	15%
Tax rate under transitional preferential tax treatment[(2)]	N/A	12.5%	12.5%	12.5%
Tax rate under transitional preferential tax treatment[(3)]	7.5%	18%	20%	22%
Actual tax paid at rate[(4)]	7.5%	9%	10%	11%

Notes:

(1) According to Guo Shui Han (2010) No. 157, a 15% enterprise income tax rate may apply to a high-tech enterprise.

(2) Calculated based on No. 69 (2009) Notice and the Opinion.

(3) According to (2007) No. 39 Notice, a transitional preferential tax treatment shall only apply to enterprises which fall within the allowed categories of enterprises.

(4) Calculated based on the Approval and the Opinion.

Our PRC legal advisers advise that in the actual implementation process of the PRC EIT Law, however, there are discrepancies between the national policy and actual practices adopted by various local tax authorities. Although, the practice of the local tax authority may result in a possible supplementary payment by Hainan Sihuan in the future, the transitional period for implementation of the PRC EIT Law will end on 31 December 2010 and the preferential tax rate currently enjoyed by Hainan Sihuan will not apply thereafter. From 2011, Hainan Sihuan will pay corporate income tax according to the PRC EIT Law. While Hainan Sihuan has been paying tax according to the tax rate approved by the Hainan tax authority, when the PRC EIT Law came into effect, the Company had consulted the local tax authority which provided a written confirmation of the transitional period tax

rate, to which Hainan Sihuan has complied with. Therefore the Company does not intend to settle the underpayment voluntarily. A tax provision has been made for enterprise income tax based on the relevant tax laws at state level to cater for any historical underpayment which Hainan Sihuan might be requested to make up for in the future, at the rates of 15% for 2008, 2009 and the six months ended 30 June 2010. The total tax provision we made as at 30 June 2010 for such underpayment amounted to RMB23.8 million.

In the future, we will have our internal legal department to prevent, mitigate or resolve any non-compliance issues of our Group by conducting legal knowledge training to raise people's awareness of legal compliance, increasing communication with authorities to reveal potential legal issues and adopting a systematic approach to monitor legal risks that are related to our business and operations. We will also seek outside counsel advice to prevent any recurrence of any similar events. Our Controlling Shareholders have provided an indemnity in favour of us against any expenses and/or losses incurred by us as a result of any historical breach or non-compliance with any regulatory requirements relevant to the business of our Group.

We are not currently involved in any litigation or legal proceedings that could be expected to have a material adverse effect on our business or operations.

We are not aware of incidents concerning any corrupt or inappropriate conduct engaged by our employees, distributors or third-party sales representatives during the Track Record Period. Our employees are prohibited from conducting any corrupt or inappropriate conduct in their labor contracts and employee manuals. We have also established related penalty system for violation of employee manuals. Our employees are required to attend training to study the employee manuals and penalty system and acknowledge their familiarity with them before commencing employment with us. Our distributors and third-party sales representatives are required under their agreements with us, to comply with laws and regulations and restrain from inappropriate conduct and shall compensate us for any damages to our image or reputation as the result of their illegal or inappropriate conduct. Our sales managers are also responsible for emphasising to our distributors and third-party sales representatives our anti-corruption policy and overseeing their activities through routine follow-ups.

Anti-corruption laws in China

The PRC government has issued since the early 1990s various laws and regulations with respect to commercial bribery. In 1993, NPC adopted the Anti-Unfair Competition Law, which became effective on 1 December 1993 and provided that a business operator would commit a crime if it offered money or any other bribes in the course of selling or purchasing products. On 15 November 1996, the SAIC issued the Interim Rules on Prohibition of Commercial Bribery ("**Order 60**"), which provided that the act of commercial bribery includes offering money, goods, free tours, and unrecorded rebate sales commission in secret to any person when selling or buying products. In accordance with the Anti-Unfair Competition Law and Order 60, SAIC (or its local counterparts), being the principal government authority that supervises matters relating to unfair competition and commercial bribery in China, has the power to impose fines in an amount ranging from RMB10,000 to RMB200,000 and to confiscate the illegal gains of a business operator when convicted of commercial bribery. In addition, if any entity or individual offers any property to any government officials for the purpose of seeking illegitimate gain or interests, such act would be considered a crime under the PRC Criminal Law and become punishable by the relevant PRC governmental authorities.

BUSINESS

EMPLOYEES

We had 395, 598 and 841 employees as of 31 December 2007, 2008 and 2009, respectively. The following table sets forth the number of our employees for each of our areas of operations and as a percentage of our total workforce as of 31 December 2009:

	Number of Employees	Percentage of Total
Manufacturing and Quality Control	181	21.5%
Sales and Marketing	266	31.6%
Research and Development	189	22.5%
General Administration	131	15.6%
Management	74	8.8%
Total	**841**	**100%**

As required by applicable PRC laws and regulations, we participate in various employee benefit plans, such as pension contribution plans, medical insurance plans, work-related injury insurance plans, unemployment insurance plans and housing funds for our employees. We are required under the PRC laws to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. Members of the retirement plan are entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. During the Track Record Period, due to the relatively high mobility of our employees, certain of our PRC subsidiaries have underpaid their contributions to the employee housing provident funds. According to the relevant PRC laws, such PRC subsidiaries may be required to make up the underpaid portion of the housing provident funds before a deadline set by relevant authorities. The aggregate amount of the underpaid housing provident funds will not exceed RMB1.1 million, for which a provision has been made accordingly. As advised by our PRC legal advisers, we will not be subject to fine for the underpayment of the housing provident funds. As advised by our PRC legal advisers, as of Latest Practicable Date, we have substantially complied with all statutory social insurance and other related obligations applicable to us under PRC laws and have made full payment of the employee social insurance premium. See the section headed "Risk Factors — Certain of our PRC Subsidiaries have underpaid their contributions to employee housing provident funds" in this document. Our employees are not covered by any collective bargaining agreement. We believe that we maintain good working relationships with our employees. As of the Latest Practicable Date, we have not experienced any strikes or any labor disputes with our employees that have had a material adverse effect on our business.

INSURANCE

We currently maintain the following insurance policies:

(i) personal accident insurances for certain of our employees;

(ii) social welfare insurances in accordance with the relevant laws and regulations in the PRC;

(iii) insurance policies pertaining to transportation of products during distribution; and

(iv) insurance policies that cover our major fixed assets against damage caused by accidents and natural disasters such as fire.

We do not maintain any product liability insurance arising from the manufacture and sale of our pharmaceutical products in the PRC, as we have previously made enquiries with a number of leading national insurance companies for product liability insurance and have not been able to identify any such insurance coverage owing to the lack of such insurance product offering in the PRC. However, we will follow up with the insurance providers to seek a similar type of insurance available to insure against liabilities arising from the manufacture and sale of pharmaceutical products by us. To minimise our product liability risk, we have instituted stringent quality assurance measures in order to avoid or reduce the incidence of production defects. See the section headed "Business — Quality Control" in this document.

We strive to monitor and minimise the adverse drug reactions related to our products mainly through strict quality control during production, follow-up with our distributors and regular visits by our product managers to hospitals to monitor the clinical usage of our products. We also regularly monitor the Adverse Drug Reactions Information Circular issued by the National Center for ADR Monitoring and other periodicals and databases. There have been no product liability claims against us during the Track Record Period.

Our Directors believe that our existing insurance policies are sufficient to cover the risks that we may be exposed to with regard to the loss or damage to our equipment and inventory, goods-in-transit and claims from our employees, and are comparable to other pharmaceutical manufacturers in the PRC whose business operations and size are similar to us. During the Track Record Period, we did not submit any material insurance claims.