THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Medical System Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Shares.

CHINA MEDICAL SYSTEM HOLDINGS LIMITED
康哲藥業控股有限公司 *
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 867)

MAJOR TRANSACTION AND ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE

Financial Adviser

CIMB Securities (HK) Limited

A letter from the Board is set out on pages 4 to 23 of this circular.

18 April 2011

** For identification purpose only*

CONTENTS

DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

"2011 Net Profits"	the audited consolidated net profit after tax of the Target Group for the year ending 31 December 2011 under IFRS
"Acquisition"	the proposed acquisition by the Purchaser of the Sale Shares pursuant to the Share Purchase Agreement
"AGM"	the annual general meeting of the Company held on 29 March 2011
"Announcement"	the announcement of the Company dated 4 April 2011 in relation to, amongst other things, the Acquisition
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"Company"	China Medical System Holdings Limited, shares of which are listed on the Main Board of the Stock Exchange (stock code: 867)
"Completion"	completion of the Acquisition pursuant to the Share Purchase Agreement
"Completion Date"	the date on which Completion takes place, which is scheduled to be on the second business day after the grant of the Listing Approval
"Consideration"	the aggregate consideration as detailed in the section headed "Consideration" of this circular for the transfer of the Sale Shares under the Share Purchase Agreement
"Consideration Shares"	130,000,000 new Shares to be allotted and issued on the Allotment Date in satisfaction of part of the Consideration
"Directors"	the directors of the Company
"Enlarged Group"	the Group, together with the Target Group
"General Mandate"	the general mandate granted to the Directors at the AGM to allot, issue and deal with additional Shares not exceeding 20% of the issued share capital of the Company as at the date of the AGM
"Generous Wealth"	Generous Wealth Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Great Move
"Great Move"	Great Move Enterprises Limited, a company incorporated in the BVI and a wholly-owned subsidiary of the Vendor as at the Latest Practicable Date
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"IFRS"	the International Financial Reporting Standards
"Last Trading Day"	1 April 2011, being the last full trading day for the Shares before the date of the Announcement
"Latest Practicable Date"	15 April 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Approval"	the listing of and permission to deal in the Consideration Shares on the main board of the Stock Exchange to be granted by the Listing Committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Mr. Chen"	Mr. Chen Hongbing, an executive Director and the Chief Operating Officer of the Company
"Ms. Chen"	Ms. Chen Yanling, an executive Director and the Chief Financial Officer of the Company
"Mr. Cheung"	Mr. Cheung Kam Shing, Terry, an independent non-executive Director of the Company
"Ms. Hou"	Ms. Hou Xiaoxuan, a non-executive Director of the Company
"Mr. Hui"	Mr. Hui Ki Fat, an executive Director of the Company
"PRC"	the People's Republic of China
"Purchaser"	CMS International Investment Limited, a company incorporated in the BVI and a wholly-owned subsidiary of the Company
"RMB"	Renminbi yuan, the lawful currency of the PRC
"Sale Shares"	10,000 shares of par value US$1.00 each, representing the entire issued share capital of Great Move
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Share Purchase Agreement"	the conditional share purchase agreement entered into between the Purchaser, the Company and the Vendor on 3 April 2011 in relation to the Acquisition
"Shareholders"	holder(s) of the Share(s)
"Shares"	shares of the Company of US$0.005 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Group"	Great Move and all its subsidiaries
"Tianjin Precede"	Tianjin Precede Medical Trade Development Co., Ltd. (天津普瑞森醫葯貿易有限公司), a company incorporated in the PRC, and a wholly-owned subsidiary of Great Move
"Treasure Sea"	Treasure Sea Limited, a company incorporated in the BVI and the controlling shareholder of the Company holding 648,116,800 Shares (representing approximately 55.98% of the issued share capital of the Company) as at the Latest Practicable Date
"Vendor"	Glitter Long Limited, a company incorporated in the BVI

Unless otherwise specified in this circular, amounts denominated in RMB have been converted, for the purpose of illustration only, into HK$ at RMB1 = HK$1.1912 and amounts denominated in US$ have been converted, for the purpose of illustration only, into HK$ as US$1 = HK$7.75.

No representation is made that any amount could be converted at the above rates or at any other rates or at all.

Certain English translation of Chinese names or words in this circular are included for information purpose only and should not be regarded as the official English translation of such Chinese names or words.

CHINA MEDICAL SYSTEM HOLDINGS LIMITED
康哲藥業控股有限公司 *
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 867)

Executive Directors:
Mr. LAM Kong
Mr. CHEN Hongbing
Ms. CHEN Yanling
Mr. HUI Ki Fat

Non-executive Director:
Ms. HOU Xiaoxuan

Independent Non-executive Directors:
Mr. CHEUNG Kam Shing, Terry
Dr. PENG Huaizheng
Mr. WU Chi Keung

Registered office:
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Hong Kong

18 April 2011

* *For identification purpose only*

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
AND
ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE

INTRODUCTION

On 3 April 2011, the Purchaser, the Company and the Vendor entered into the Share Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Shares, being the entire issued share capital of Great Move for a total consideration of HK$1,402.5 million, which will be satisfied as to (i) HK$341.7 million payable in cash; and (ii) HK$1,060.8 million by way of issuance of the Consideration Shares by the Company. The aggregated consideration was determined with reference to (i) the historical financial performance of Tianjin Precede; (ii) the profit guarantee of HK$150,000,000 provided by the Vendor to the Purchaser; (iii) the potential business synergies to be realised by combining the operations of the Group and the Target Group as detailed in the section headed "Strategic Rationales for the Acquisition" of this circular; and (iv) the future prospects of the Group after Completion.

Further, subject to Completion taking place, the Purchaser has undertaken to procure the settlement by 20 May 2011 of the sum RMB122,921,100 (approximately HK$146,423,614) which is payable by Generous Wealth in cash as its acquisition price for Tianjin Precede. Therefore, the aggregated consideration for the entire transaction pursuant to the Share Purchase Agreement is approximately HK$1,548.9 million.

Upon Completion, Great Move will become a wholly-owned subsidiary of the Company and its consolidated accounts will be consolidated into that of the Group.

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore, subject to Shareholders' approval pursuant to Rule 14.40 of the Listing Rules. The Company has obtained a written approval for the Acquisition from Treasure Sea , the controlling shareholder, which holds 648,116,800 Shares representing approximately 55.98% of the issued share capital of the Company as at the Latest Practicable Date. Since of (i) the written approval from the controlling shareholder has been obtained; and (ii) no Shareholder would be required to abstain from voting if a general meeting of the Company was to be convened to approve the Acquisition, an extraordinary general meeting of the Company to approve the Acquisition is not required pursuant to Rule 14.44 of the Listing Rules and will not be convened.

The purpose of this circular is to provide Shareholders with, among other things, further details of the Acquisition, the Target Group and the reasons for the Acquisition.

THE SHARE PURCHASE AGREEMENT

Date

3 April 2011

Parties

Purchaser	:	CMS International Investment Limited, an investment holding company and a wholly-owned subsidiary of the Company
Company	:	China Medical System Holdings Limited
Vendor	:	Glitter Long Limited, an investment holding company

To the best of the Directors' knowledge, information and belief after having made all reasonable enquires, the Vendor and its ultimate beneficial owners are third parties independent of the Company and not connected with the Company or any of its connected persons.

Assets to be acquired

Pursuant to the Share Purchase Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Shares (being the entire issued share capital of Great Move).

Consideration

The consideration for the Acquisition is HK$1,402.5 million, which will be satisfied, as to:

(i) HK$341.7 million in cash; and

(ii) HK$1,060.8 million by the issue of 130,000,000 Consideration Shares by the Company at an issue price of HK$8.16 per Consideration Share, being the closing price per Share as quoted on the Stock Exchange on the Last Trading Day.

Further, subject to Completion taking place, the Purchaser has undertaken to procure the settlement by 20 May 2011 of the sum of RMB122,921,100 (approximately HK$146,423,614) ("Generous Wealth Loan") which represents a loan payable by Generous Wealth as a result of the reorganisation undertaken by the Vendor. Therefore, the aggregated Consideration for the entire transaction pursuant to the Share Purchase Agreement is approximately HK$1,548.9 million.

As at the date of the Share Purchase Agreement, Generous Wealth has not yet repaid the Generous Wealth Loan. In negotiations of the Share Purchase Agreement, it was agreed by both parties that the Purchaser will be responsible for the payment of the Generous Wealth Loan. As upon completion of the Acquisition, Generous Wealth will become a subsidiary of the Company, the Directors considered that payment of Generous Wealth Loan by the Purchaser upon completion of the Acquisition is based on normal commercial terms and was arrived at after arm's length negotiations and is in the interests of the Company and its Shareholders as a whole.

The aggregated Consideration, which includes the payment of HK$341.7 million in cash, the issue of the Consideration Shares and the settlement of the Generous Wealth Loan, was arrived at after arm's length negotiations between the parties to the Share Purchase Agreement. The aggregated Consideration was determined with reference to (i) the historical financial performance of Tianjin Precede; (ii) the profit guarantee of HK$150,000,000 the financial year ending 31 December 2011 provided by the Vendor to the Purchaser; (iii) the potential business synergies to be realised by combining the operations of the Group and the Target Group as detailed in the section headed "Strategic Rationales for the Acquisition" of this circular; and (iv) the future prospects of the Group after Completion. The cash portion of the aggregated Consideration will be funded using the proceeds from the Company's share offering carried out in 2010.

Condition Precedent

Completion of the Acquisition is conditional upon the Listing Committee of the Stock Exchange granting the Listing Approval.

If the above condition has not been fulfilled on or before 22 May 2011, the Share Purchase Agreement shall terminate with effect from that date.

Upon Completion, Great Move will become a wholly-owned subsidiary of the Company and its accounts will be consolidated into that of the Group.

THE CONSIDERATION SHARES

The issue price of the Consideration Shares of HK$8.16 per Consideration Share represents:

i. the closing price of HK$8.16 per Share as quoted on the Stock Exchange on the Last Trading Day;

ii. a premium of approximately 9.4% over HK$7.46, being the average closing price per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

iii. a premium of approximately 11.3% over HK$7.33, being the average closing price per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

iv. a discount of approximately 3.4% over HK$8.45, being the closing price per Share as quoted on the Stock Exchange on the Latest Practicable Date;

v. a premium of approximately 509.0% over the latest audited consolidated net asset value attributable to the Shareholders per Share of approximately HK$1.34 as at 31 December 2010 (as calculated by dividing the equity attributable to Shareholders of approximately HK$1,549,914,750 as at 31 December 2010 by the number of outstanding Shares of 1,157,865,340 as at the Latest Practicable Date).

The Consideration Shares, which will be issued under the General Mandate, represent approximately 11.2% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 10.1% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. As at the Latest Practicable Date, the Company has not utilised any of the General Mandate.

The Consideration Shares, when allotted and issued, will rank pari passu in all respects with the Shares in issue on the Completion Date including the right to all dividends, distributions and other payments made or to be made, the record date for which falls on or after the Completion Date. The issue of the Consideration Shares will not result in a change of control of the Company.

An application had been made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and such approval was granted on 12 April 2011.

Lock up of Consideration Shares

The Vendor undertakes to the Purchaser and the Company that it will not, and shall procure that those persons to whom the Consideration Shares are allotted and issued will not, at any time during a period of six months from the Completion Date transfer, dispose of or encumber any of Consideration Shares without the prior written consent of the Company.

CAPITAL RAISING ACTIVITIES IN THE PAST 12 MONTHS

Apart from the capital raising activities mentioned below, the Company has not carried out other capital raising activities during the 12 months immediately preceding the Latest Practicable Date.

Date of announcements	Capital Raising Activity	Net Proceeds Raised (US$) (Approximately)	Intended Use of Proceeds	Actual Use of Proceeds
15 September 2010 and 21 October 2010	Global offering of 170,000,000 Shares at HK$5.06 per Share, which was completed on 27 September 2010, and 20,000,000 shares at HK$5.06 per Share upon exercise of the over–allotment option on 21 October 2010.	115.4 million	As disclosed in the prospectus of the Company dated 15 September 2010	As disclosed in the annual report of the Company for the year ended 31 December 2010

PROFIT GUARANTEE

The Vendor irrevocably and unconditionally guarantees to the Purchaser that the 2011 Net Profits of the Target Group shall not be less than HK$150,000,000. Pursuant to the Share Purchase Agreement, if the 2011 Net Profits is less than HK$150,000,000, the Vendor shall pay the Purchaser an amount in cash equal to the difference between HK$150,000,000 and the 2011 Net Profits, provided that such amount shall be subject to such adjustments as may be agreed between the parties for any results affected by an event in the nature of force majeure including but not limited to fire, explosion, flooding, earthquake, volcanic eruption, epidemic, pandemic, any declaration of a national or international emergency or war, civil commotion, riots, acts of war, acts of God or acts of terrorism occurring in the PRC during the financial year ending 31 December 2011. For the avoidance of doubt, if the 2011 Net Profits of the Target Group exceeds HK$150,000,000, the Purchaser has no obligation to pay any amount in whatever form to the Vendor. Any payment under the profit guarantee shall be paid by wire transfer to such bank account as notified by the Purchaser within seven business days from the date on which the Purchaser and the Vendor agree on the 2011 Net Profit of the Target Group in accordance with the Share Purchaser Agreement.

CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets forth the shareholding structures of the company as at the Latest Practicable Date and immediately after Completion:

Holder of Shares	As at the Latest Practicable Date		Immediately after Completion	
	Number of Shares	(%)	Number of Shares	(%)
Treasure Sea	648,116,800	55.98	648,116,800	50.32
Mr. Chen	69,886,520	6.04	69,886,520	5.43
Ms. Chen	4,930,000	0.43	4,930,000	0.38
Mr. Hui	5,983,860	0.52	5,983,860	0.47
Ms. Hou	43,706,000 [1]	3.76	43,706,000	3.40
Mr. Cheung	320,000	0.03	320,000	0.02
Fully Profit Management (PTC) Ltd.	3,539,820 [2]	0.31	3,539,820	0.27
The Vendor	-	-	130,000,000	10.09
Other public shareholders	381,382,340	32.93	381,382,340	29.62
Total	1,157,865,340	100.00	1,287,865,340	100.00

Notes:

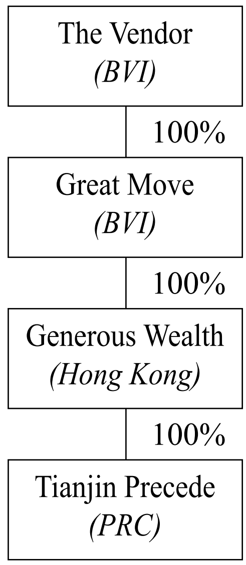
1. *Comprises of 41,600,000 Shares held by Ms. Hou and 2,106,000 Shares held by Mr. Jia Jinbin, the spouse of Ms. Hou, in respect of which Ms. Hou is deemed to be interested in*

2. *These Shares are held by Fully Profit Management (PTC) Limited acting as the trustee of the Company's Key Employee Benefit Trust. The discretionary objects of the discretionary trust include Mr. Chen, Ms. Chen and Ms. Hou and they are deemed to be interested in these 3,539,820 Shares.*

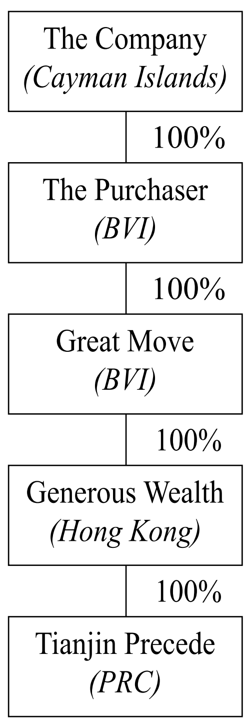
SHAREHOLDING STRUCTURE

For illustration purpose, the following tables set out the shareholding structure of Tianjin Precede before and immediately after Completion:

Before Completion



Immediately after Completion



INFORMATION ON THE TARGET GROUP

Great Move is a company incorporated in the BVI on 19 October 2010. Great Move and its wholly-owned subsidiary, Generous Wealth, a company incorporated in Hong Kong on 28 October 2010, are investment holding companies incorporated solely for the purposes of their shareholding in Tianjin Precede and have no substantive operations other than the holding in Tianjin Precede since their respective dates of incorporation. Tianjin Precede is an indirect wholly-owned subsidiary of Great Move and was established in the PRC with limited liability on 28 November 2007. As at the Latest Practicable Date, the principal assets of Great Move are the entire issued share capital of Generous Wealth and Tianjin Precede.

Based on the management accounts of Great Move for the year ended 31 December 2010, Great Move recorded no revenue and net losses of US$649 relating mainly to preliminary expenses and basic general expenses incurred. Based on the management accounts of Generous Wealth for the year ended 31 December 2010, Generous Wealth recorded revenue of HK$176 relating mainly to bank interest income and net losses of HK$10,716 relating mainly to preliminary expenses, legal and professional fees, and basic general expenses incurred. The total assets and net asset value of Great Move as at 31 December 2010 were US$1,547 and US$1,538 respectively, while the total assets and net asset value of Generous Wealth as at 31 December 2010 were HK$7,434 and HK$(10,715) respectively.

Set out below is the audited consolidated financial information of Tianjin Precede under IFRS for the two years ended 31 December 2009 and 2010. Please also refer to "Appendix II – Financial Information of Tianjin Precede" to this circular for the accountant's report of Tianjin Precede.

		31 December 2009 (Audited)	31 December 2010 (Audited)
		RMB '000	RMB '000
Turnover		222,399	300,275
Profit before taxation		56,991	82,050
Profit after taxation		48,364	69,656

		As at 31 December	
		2009 (Audited)	2010 (Audited)
		RMB '000	RMB '000
Total assets		134,108	202,065
Net asset value		76,395	96,051

1. Overview of Tianjin Precede

The principal activities of Tianjin Precede are marketing, promotion and sale of prescription pharmaceutical products manufactured by domestic pharmaceutical companies in the PRC. These pharmaceutical products are developed and manufactured by external third parties, and Tianjin Precede owns the in-licensing rights or product control rights for these products, which enable Tianjin Precede to promote and sell these products through its nationwide promotion and sales network (which consists of independent third party sales representatives and distributors). Tianjin Precede has entered into distribution agreements with these independent third party sales representatives and distributors located in various parts of the country pursuant to which they are authorised to promote and sell the products of Tianjin Precede to hospitals and physicians in their respective designated provinces or autonomous regions, therefore enabling Tianjin Precede to have a nationwide coverage for its product portfolio. These sales representatives and distributors have an in-depth understanding of their respective local markets and have established sales channels with local hospitals and physicians, and therefore can effectively promote Tianjin Precede's products. Tianjin Precede's network comprises more than 960 independent third party sales representatives or distributors, covering 30 provinces or autonomous regions in the PRC. As at the Latest Practicable Date, Tianjin Precede's products, through its nationwide promotion and sales network, have been sold to more than 6,600 hospitals in the PRC, more than half of which are not directly covered by the Group's own promotion network.

Tianjin Precede's promotion and sales network is managed and supported by its in-house team of 90 dedicated regional sales management and marketing staff who ensure the network's efficiency and stability. The marketing staff are responsible for formulating marketing and promotion strategies for Tianjin Precede's products. They are also in charge of establishing and maintaining a network of key opinion leaders, organising and sponsoring seminars and industry conferences. Regional sales management staff are responsible for establishing and managing the promotion and sales network, assisting third party sales representatives and distributors in executing their marketing plans, monitoring and evaluating their performances at regular intervals, and adjusting their designated targeted hospitals or sales targets accordingly. Further, they have the right to terminate the agreements should the performance of the sales representatives or distributors fail to meet Tianjin Precede's requirements. Tianjin Precede has established an effective pricing strategy which ensures that the profit margins of the products remain attractive to its sales representatives and distributors.

Tianjin Precede currently promotes and sells nine main prescription pharmaceutical products manufactured by domestic pharmaceutical companies in the PRC which target the respiratory, cardiology, pediatrics, gynaecology, urology, dermatology, gastroenterology, otorhinolaryngology, hematology, surgery, and anti-infection fields. Among these products, the two key products are Yinuoshu (Ambroxol Hydrochloride for Injection), which is used for respiratory system diseases, and Shaduolika (Potassium Sodium Dehydroandroan drographolide Succinate for Injection; or "Yanhuning Injection"), which is an antiviral drug. According to the 2010 Chinese Pharmaceutical Market Development Blue Book published by SFDA Southern Medical Economic Institute Guangzhou Biaodian Medical Information Co., Ltd., the size of the Ambroxol market ranked the first out of all respiratory drugs in the PRC hospitals in 2008 and 2009, with a market share of 28.0% and 27.1% respectively. The size of the Yanhuning Injection market ranked the first out of all Chinese medicines targeting respiratory system diseases in the PRC hospitals in 2008 and 2009, with a market share of 9.7% and 9.5% respectively. In late 2010, Tianjin Precede obtained the controlling rights of Yinuoshu, and at the same time successfully negotiated a reduced purchase price from the manufacturer. Tianjin Precede has signed a long term in-licensing agreement with the manufacturer of Shaduolika, and Tianjin Precede and the manufacturer are the joint holders of the patent in relation to the product. These have enabled Tianjin Precede to ensure the stability of their long-term promotion and selling rights of these two key products.

For the three years ended 31 December 2008, 2009 and 2010, Tianjin Precede recorded revenue of RMB169.8 million, RMB222.4 million and RMB300.3 million respectively, representing a Compound Annual Growth Rate ("CAGR") of 33.0% over the three-year period. Tianjin Precede's net profits over the same period were RMB35.0 million, RMB48.4 million and RMB 69.7 million respectively, representing a three-year CAGR of 41.0%.

2. Product Portfolio

Tianjin Precede has nine main products, which are all in-licensed or acquired from domestic pharmaceutical companies. Six of these products are chemical medicines, and three of them are traditional Chinese medicines. Out of these nine products, two contain exclusive formulations, four enjoy patent protection in the PRC, and nine have been included in the National or Provincial Medical Catalogue. Of these nine products, Tianjin Precede possesses the controlling rights to two products, Yinuoshu and Irbesartan and Hydrochlorothiazide Dispersible Tablets, and has obtained the exclusive promotion and sales rights for the rest of these products in the PRC through cooperation contracts or in-licensing contracts with the respective manufacturers or research enterprises. The holder of controlling rights to a particular product has ownership control for the product, which in addition to having right to the exclusively sell and promote a product implies a much broader control over the product as compared to holding only exclusive sales and promotion rights, including (i) possessing exclusivity to the promotion and sales rights for an indefinite period, which ensures the stability of promotion and sales of the product; and (ii) no requirement to pay any technical development costs that may be associated with the product.

A. Existing Key Products

Yinuoshu (Ambroxol Hydrochloride for Injection) (伊諾舒 (鹽酸氨溴索注射液))

Yinuoshu, Ambroxol Hydrochloride for Injection, is researched and developed by Tianjin Kanghong Pharmaceutical Science & Technology Development Co., Ltd. ("Tianjin Kanghong") and manufactured by TIPR Pharmaceutical Responsible Co., Ltd. ("TIPR Pharmaceutical"). It is the first generic version of an ambroxol hydrochloride for injection approved in the PRC, after the originator from Germany. Yinuoshu is used for the treatment of acute and chronic respiratory disease associated with abnormal secretion of sputum and expectoration dysfunction, prophylaxis of postoperative pulmonary complications and the treatment of expiratory distress syndrome (IRDS) in premature infant and newborns. Since 2003, expectorant drugs sales in the PRC have showed a relatively stable growth, with a CAGR of 26.6%. Ambroxol has the highest sales among all expectorant products in all hospitals in the PRC, and is the leading cough suppressant used in urban Chinese hospitals. According to the Chinese Pharmaceutical Market Development Blue Book published by SFDA Southern Medical Economic Institute Guangzhou Biaodian Medical information Co., Ltd., in 2008 and 2009, ambroxol products ranked the first in sales volume among respiratory system drugs in Chinese hospitals with a market share of 28.0% and 27.1% respectively. Yinuoshu has been included in the National Medical Catalogue and granted a national new drug certificate. Yinuoshu has obtained a pharmaceutical composition patent, which will expire in 2027.

In 2007, Tianjin Precede obtained the exclusive promotion and sales rights to Yinuoshu in the PRC for a period of 6 years from Tianjin Kanghong. Acccording to the agreement, Tianjin Precede will pay Tianjin Kanghong on an annual basis an amount of technical development cost calculated based on the number of products manufactured. For the year ended 31 December 2010, Tianjin Precede paid Tianjin Kanghong a total technical development costs of RMB25.8 million. On 30 December 2010, Tianjin Precede signed an agreement with Tianjin Kanghong and TIPR Pharmaceutical respectively for the transfer of the product controlling rights to Yinuoshu. Pursuant to the agreements, Tianjin Precede paid Tianjin Kanghong and TIPR Pharmaceutical a total of RMB92.5 million for the transfer of the product controlling rights, including, the proprietary technology, intellectual property rights (patents, trademarks) and the controlling rights of the product's new drug certificate, the manufacturing technique as well as the manufacturing permit. As of 2011, Tianjin Precede no longer pays Tianjin Kanghong any technical development costs relating to Yinuoshu.

Tianjin Precede acquired the product controlling rights to Yinuoshu because (i) it ensures the stability of promotion and sales rights of the product; (ii) Tianjin Precede would no longer be required to pay any technical development costs for the product after acquiring the product controlling rights; and (iii) Tianjin Precede was able to negotiate lower procurement costs for the product from its manufacturer, TIPR Pharmaceutical.

For the year ended 31 December 2010, revenues generated from sales of Yinuoshu amounted to RMB 114.2 million, which is approximately 38.0% of the total revenue of Tianjin Precede and a 20.5% increase as compared to the RMB 94.8 million in the previous year and represents a CAGR of 27.1% over the three year period from 2008 to 2010.

Shaduolika (Yanhuning Injection) (沙多力卡 (注射用炎琥寧))

Shaduolika is initially developed and manufactured by Chongqing Yaoyou Pharmaceutical Co., Ltd. ("Chongqing Yaoyou") and is a Potassium Sodium Dehydroandroandrographolide Succinate-based Yanhuning injection mainly used for the treatment of viral pneumonia and viral upper respiratory tract infection, acute and chronic colitis, acute dysentery, acute gastritis, otitis media, rhinitis and fever due to various causes. Shaduolika, is also a common anti-infective traditional Chinese medicine used in pediatrics, respiratory and emergency treatment. According to the Chinese pharmaceutical Market Development Blue Book published by SFDA Southern Medical Economic Institute Guangzhou Biaodian Medical information Co., Ltd., the sales of Yanhuning Injection ranked the first in PRC among all traditional Chinese medicines targeting respiratory diseases used in PRC hospitals in 2008 and 2009, with a market share of 9.7% and 9.48% respectively. Shaduolika has been included in the Provincial Medicine Catalogue in a number of provinces and has obtained pharmaceutical composition patent and formulation patent with Tianjin Precede and Chongqing Yaoyou as joint patentees.

In 2008, Tianjin Precede obtained the exclusive promotion and sales rights to Shaduolika from an independent third party and procured Shaduolika from this party. In November 2010, Tianjin Precede signed an exclusive in-licensing agreement directly with Chongqing Yaoyou for a period of five years, thereby obtaining the exclusive promotion and sales rights for the product in the PRC (except for Chongqing and Sichuan province). Tianjin Precede has the first right to renew the agreement provided that the minimum order quantity is met. Given that Tianjin Precede's total orders for Shaduolika for the three years ended 31 December 2008, 2009 and 2010 had exceeded the minimum order quantity stipulated in the agreement with Chongqing Yaoyou, the Company considers that the minimum order quantity can be met for obtaining renewal of the exclusive promotion and sales rights.

For the year ended on 31 December 2010, revenues generated from sales of Shaduolika amounted to RMB 111.9 million, which is approximately 37.3% of the total revenue of Tianjin Precede and a 18.4% increase as compared to sales recorded in the previous year of RMB 94.5 million and represents a 3 year CAGR of 16.2% from 2008 to 2010.

B. Main products with significant market potential

Quzhiquan (Tirofiban Hydrochloride for Injection) (曲之全 (注射用鹽酸替羅非班))

Quzhiquan, Tirofiban Hydrochloride for Injection, is manufactured by Nankai Share Pharmaceutical Co., Ltd. ("Nankai Share") and its main ingredient is Tirofiban hydrochloride, which is used to treat cardiovascular diseases. According to the statistics of SFDA Southern Medical Economic Institute Guangzhou Biaodian Medical information Co., Ltd., the PRC market for antithrombotic therapy drugs in 2008 amounted to RMB4.29 billion, with an average annual growth rate of 22.0% for the past five years. In 2009, the size of the antithrombotic therapy drug market increased to more than RMB5 billion. As driven by an increasing number of patients suffering from coronary artery ischemic syndrome, the market of antithrombotic therapy drugs in the PRC is expected to continue to maintain an average annual growth of 30% for the next five years. Quzhiquan is in the lyophilized powder for injection form, and there are currently only three Chinese companies with the same formulation. The product is currently included in the National Medicine Catalogue and is protected by an invention patent.

In September 2009, Tianjin Precede and Nankai Share signed an exclusive in-licensing agreement, through which Tianjin Precede obtained the exclusive promotion and sales rights to Quzhiquan for the next ten years in the PRC market. In 2010, Quzhiquan participated in the tendering processes across the country, and Tianjin Precede selected a network of the local independent sales representatives and distributors for this product in the relevant local markets, which serves as the foundation for the nationwide sales of this product. The management team of Tianjin Precede believes that Quzhiquan has an enormous market potential in the future.

Zengshengping ("ZSP") (增生平片)

Tianjin Kangchenruixin Pharmaceutical Group Co., Ltd ("Tianjin Kangchenruixin") owns the product rights to ZSP, which is exclusively produced by Tianjin Centre Pharmaceutical Co., Ltd. ("Tianjin Centre

Pharmaceutical"). ZSP is a traditional Chinese medicine, and is used for the treatment of gastrointestinal proliferation. Epidemiology studies in the PRC shows that the deaths caused by tumors have increased significantly as a result of an ageing population, industrialization and urbanization as well as an unhealthy lifestyle. In particular, the incidence rate of gastric cancer and esophageal cancer has been high for many years and the incidence rate of intestinal cancer, colon cancer and pancreatic cancer has been increasing, accounting for approximately 60-70% in all tumor cases. Clinical study showed that, ZSP is proven to be effective in treating severe upper gastrointestinal hyperplasia, mild hyperplasia and chronic gastritis, and preventing upper digestive tract cancers. A study in United States also showed that ZSP can prevent the development of squamous cell carcinoma of the lung. ZSP has demonstrated its strong potential in effectively treatment and reverse precancerous lesions of digestive and decline the incidence of the digestive tract cancer. ZSP obtained a national new drug certificate. It enjoys exclusivity in its formulation as a traditional Chinese drug. ZSP has been included in the Provincial Medicine Catalogue in a number of provinces and cities in the PRC.

In December 2010, Tianjin Precede and Tianjin Kangchenruixin signed an exclusive in-licensing agreement, to be implemented in April 2011, through which Tianjin Precede obtained the exclusive promotion and sales rights to ZSP in the PRC for a period of 10 years. As ZSP enjoys its exclusivity in the PRC with a substantial market potential, and therefore is consistent with the Group's product selection criteria. Following Completion, both parties will work together to promote and sell this product, and strive to achieve greater market penetration in the PRC.

Kunning Oral Solution (坤寧口服液)

Kunning Oral Solution is exclusively manufactured by Yantai Rongchang Pharmaceutical Co., Ltd ("Yantai Rongchang"). Kunning Oral Solution, which contains blood-activating and stasis-resolving herbs such as leonurus heterophyllus sweet and radix curcumae, which are proven to promote blood circulation to dissipate stasis, and promote involution of uterus and excretion of uterine content. Kunning Oral Solution holds a Chinese Medicine national new drug certificate as well as a pharmaceutical composition patent, and has been included in the National Medicine Catalogue.

In October 2009, Tianjin Precede and Yantai Rongchang signed an exclusive in-licensing agreement, pursuant to which Tianjin Precede obtained the exclusive rights to promote and sell Kunning Oral Solution in the PRC for nine years, including the first right to renew the agreement under the same conditions. Kunning Oral Solution enjoys exclusivity in terms of its formulation, and targets a large number of population with proven efficacy, which fits well with the Group's product selection criteria. Following Completion, the Group and Tianjin Precede will work together to promote and sell the product.

C. Other Products

Nuobaiyou (Cefixime Chewable Tablets) (諾百優 (頭孢克肟咀嚼片))

Nuobaiyou is developed by Jinan Bestcomm Pharmaceutical Co., Ltd ("Jinan Bestcomm") and manufactured by Shandong Haishan Pharmaceutical Co., Ltd. The main active ingredient of Nuobaiyou is

Cefixime, and is a third generation oral cephalosporin antibiotic. At present, there are only three companies in the PRC which manufactures Cefixime Chewable Tablets. Nuobaiyou has obvious advantages in its product formulation as it is suitable for treating a wide group of people. Nuobaiyou has the national new drug certificate and has been included in the Provincial Medicine Catalogue in a number of provinces in the PRC.

In late 2007, Tianjin Precede obtained exclusive promotion and sales rights to Nuobaiyou in the PRC from Jinan Bestcomm and has extended the agreement for another three years in late 2010.

Shenshuiqing (Compound Dextran 40 Injection) (紳水清 (複方右旋糖酐 40 注射液))

Shenshuiqing is developed by Jinan Kangping (Pharmaceutical) Science & Technology Development Co., Ltd. ("Jinan Kangping") and is manufactured by Shandong Jinyang Pharmaceutical Co., Ltd, which is subcontracted by Qindao Shouhejinhai Pharmaceutical Co., Ltd. Shenshuiqing, which contains the main active ingredient of dextran 40, is used to treat hypovolemic shocks induced by blood loss, empyrosis, etc.. At present, there are only three companies in the PRC that manufacture compound detran 40 injection is produced, and not many alternative drugs with the same indication available in the market, therefore, Shenshuiqing has a significant market potential. Shenshuiqing is a national new drug and is the first to obtain the national new drug certificate among the others with the same indication. It has also been included in the Provincial Medicine Catalogue in a number of provinces and cities in the PRC.

In 2009, Tianjin Precede and Jinan Kangping signed an exclusive in-licensing agreement pursuant to which Tianjin Precede obtained the exclusive promotion and sales rights to Shenshuiqing in the PRC for four years, with the right of first right to renew the agreement under the same conditions.

Supingshu(Policresulen Suppositories)(素平舒 (聚甲酚磺醛栓))

Supingshu is developed by Jinan Kangping and is manufactured by Shandong Yantai Rongchang Pharmaceutical Co., Ltd. The main active ingredient is Policresulenproducts, and the drug is used to treat gynaecological diseases, such as vaginitis, cervitis and its accompanying symptoms, genital warts, and pressure ulcers caused by the use of the pessary. Supingshu has already been included in the National Medical Catalogue.

In 2009, Tianjin Precede and Jinan Kangping signed an exclusive in-licensing agreement pursuant to which Tianjin Precede obtained exclusive promotion and sales rights to Supingshu in the PRC for four years with the first right to extend the agreement upon its expiration under the same conditions.

Irbesartan and Hydrochlorothiazide Dispersible Tablets (厄貝沙坦氫氯噻嗪分散片)

Irbesartan and Hydrochlorothiazide dispersible tablets are manufactured by Tianjin Huairen Pharmacy Co., Ltd. It is mainly used to treat patients with primary hypertension and hypertensive patients whose blood pressure can not be effectively controlled by using irbesartan or hydrochlorothiazide alone. The Irbesartan and Hydrochlorothiazide dispersible tablets are protected by a preparation technology patent and have been included in the National Medical Catalogue. Tianjin Precede owns product rights to Irbesartan and

Hydrochlorothiazide dispersible tablets in the PRC, under which Tianjin Precede has the exclusive promotion and sales rights to the product, which ensures the stability of promotion and sales rights of the product. Tianjin Precede acquired the product rights to Irbesartan and Hydrochlorothiazide dispersible tablets because (i) they can produce a synergetic antihypertensive effect of blood pressure, which is the development trend for anti-hypertensive drugs; and (ii) the dispersible tablet dosage form is more effective than the usual tablet dosage form, and there were only two Chinese companies with the same formulation at the time of Tianjin Precede's acquisition of the product rights.

STRATEGIC RATIONALES FOR THE ACQUISITION

The principal activities of the Group are marketing, promotion and sale of prescription drugs of overseas and domestic specialty pharmaceutical companies. The principal activities of the Target Group are marketing, promotion and sales of prescription drugs of domestic pharmaceutical companies in the PRC. The product portfolios of both the Group and the Target Group are mostly in-licensed products, and are promoted and sold under exclusive rights in the PRC. Given the complementary nature of the Group's business and that of the Target Group, and the fact that the Target Group has been profit generating, the Directors consider that the Acquisition will not only further expand the Group's product portfolio with the addition of the Target Group's products and broaden the income base of the Group with the inclusion of the Target Group's profits, but at the same time it would also enhance the Group's overall strengths and core competitiveness through the synergies created by the combination of the Group and the Target Group's businesses. Moreover, the Acquisition will not substantially alter the principal activities of the Group.

Two distinct marketing and promotion models of the Group and the Target Group

The Group and the Target Group are primarily engaged in the marketing, promotion and sale of prescription drugs in the PRC and each group employs a distinct marketing and promotion model: (i) The Group uses a direct, physician-oriented, academic promotion model, where marketing and promotion of prescription pharmaceutical products is directed at physicians and medical practitioners (the "Direct Marketing and Promotion Model"); and (ii) the Target Group uses a third-party agency promotion model, where marketing and promotion of pharmaceutical products is carried out by third-parties (the "Agency Marketing and Promotion Model"). Each of such marketing and promotion model has distinct features which target at different products and markets, and both are widely used in the pharmaceutical market in the PRC.

The Group's Direct Marketing and Promotion Model adopts an academic, physician-oriented promotion approach where sales representatives make one-on-one visits to physicians to educate them on clinical uses, benefits, side effects and other clinical aspects of the pharmaceutical products in order to generate demand for the products. In addition, the Group also organises medical symposia and sponsors industry conferences so as to enhance the product branding and corporate image of the Group. Under the Direct Marketing and Promotion Model, the Group is able to exert better control over its marketing and promotion activities through its internal sales team. This model works particularly effective for pharmaceutical products with differentiated clinical attributes that need to be delivered through one-on-one visits, such as, the originator and imported drugs. The Direct Marketing Model has certain advantages, including establishing a positive brand image, cultivating good prescription habits for physicians, and extending the life cycle of products. A professional academic, physician-oriented promotion team has become the Group's core competency.

The Target Group adopts the Agency Marketing and Promotion Model in establishing its nationwide promotion and sales network, in which suitable third-party sales representatives or distributors are appointed and authorised to promote and sell their products directly to physicians of the target hospitals in their respective designated regions. These third party sales representatives or distributors have already established their coverage in their local markets, have an in-depth understanding of their local markets and have established a good relationship with the physicians in target local hospitals. The Target Group is responsible for formulating the marketing and promotion plan, conducting training on the products for third-party sales representatives or sales person employed by the distributors, and providing support in the execution of the marketing and promotion plans. The Agency Marketing and Promotion Model is especially suitable for generic products with significant market demand. The advantage of the Model is that companies do not have to set up and develop their own internal promotion and sales team, which lowers the sales expenses. At the same time, companies are able to leverage on the good relationships between these third-party sales representatives and the local hospitals, and gain market share from the competitors. Therefore, companies using this marketing and promotion model can achieve nationwide penetration (including the rural and community hospitals or clinics) in a time efficient manner. The strong business development capability and a large sales and promotion network are the Target Group's core competencies.

The two different business models employed by the two groups, as described above, explain the similarities as well as the differences in the businesses operation of the two groups. The main objective of the Group following the Acquisition is to integrate the differences in the two business models, and at the same time leverage on the similarities so as to generate complementary advantages and strengths, thereby creating the synergetic effect of "the sum being greater than its parts".

Synergies between the Group and the Target Group

1. Enhance the Group's competitiveness with the increased penetration and reach of the combined marketing and promotion model

Under the Direct Marketing and Promotion Model, the Group currently adopts an academic physician-oriented approach, relying on its internal marketing and promotion personnel to educate physicians in order to generate the market demand for a particular product. However, given the vast size of the PRC market, a large number of staff are required to effectively cover all the hospitals, and the staff have to undergo extensive professional training and development in order to be able to effectively promote a prescription pharmaceutical product. Hence, an significant amount of resources are required to develop the market for a particular product, which can only be focused on the first-tier cities as well as the largest and most sophisticated hospitals initially and then gradually spreading out to surrounding areas and the more remote regions. In addition, it takes time for the market to have an in-depth knowledge of a particular product so that the demand can be generated, and only when market demand is created can sufficient depth of penetration be achieved. At present, there are distinct gaps in the Group's market coverage of the second and third tier cities, but development of coverage in these markets through the Direct Marketing Model will not be cost-effective. If the Group is able to utilise the Target Group's Agency Marketing and Promotion Model, the market coverage of the second and third tier cities can be achieved quickly through Target Group's complementary promotion and sales network, which will allow the Group to increase its market coverage of certain relatively matured in-licensed products under its portfolio and reduce market penetration time, and hence further increase the market share. Therefore, the Target Group's promotion and sales network can serve as an effective addition to the Group's current network. At the same time, given the increased investment in the second and third tier cities hospitals in the PRC under the recent Healthcare Reform, these hospitals will become an important focus in the further development of the Chinese pharmaceutical market, which will generate additional business opportunities. Under these circumstances, the Group, through the integration of the two marketing and promotion models, will be able to effectively expand its business to the markets in the second and third tier cities, which will not only allow the Group to capitalize on the new opportunities in the Chinese pharmaceutical market, but also align the Group with the development trends in the Chinese pharmaceutical market.

The Group's marketing and promotion expertise will enhance the marketing planning and academic promotion capabilities of the Target Group. More importantly, the Target Group can further increase its market penetrating leveraging the Group's established brand image. At the same time, given the Group's leading position in the marketing, promotion and sale of prescription drugs in the PRC, a greater degree of control and leverage can be exerted in negotiations for the procurement of exclusive promotion and selling rights to certain in-licensed products in the PRC.

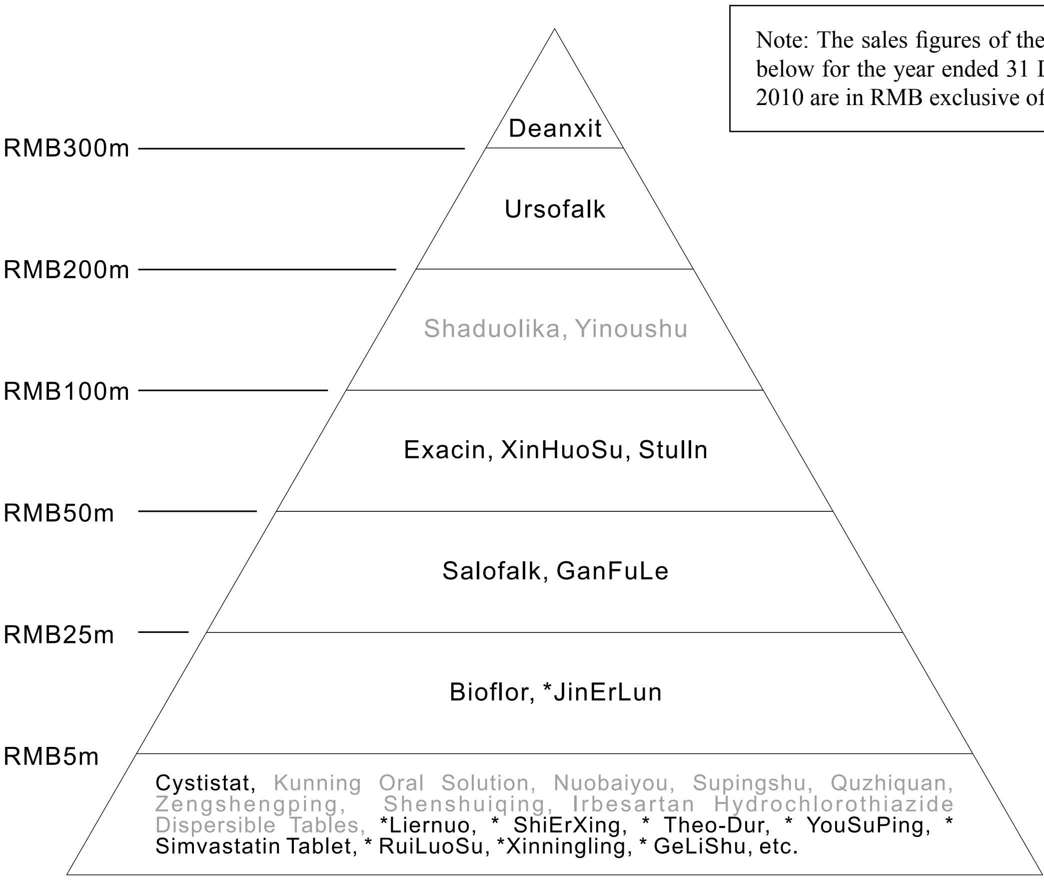
2. Increase the product sourcing capability

At present, the Group and the Target Group each has an independent product selection team internally, which identifies suitable pharmaceutical products based on the business model each adopts. Following Completion, the size of the product selection team as well as the product selection range will increase, which in turn is expected to increase the success rate of negotiating and obtaining exclusive rights to identified pharmaceutical products. As the Group has worked with foreign pharmaceutical companies for many years and are more familiar with European and American legal systems and the relevant requirements in these pharmaceutical markets, it has gained an in-depth understanding of the culture and business philosophy of these foreign pharmaceutical companies as well as the regulatory requirements for importing their drugs into the PRC market. As such, with the addition of the Target Group, the Group can expand its selection range to include other imported prescription drugs that are suitable for the Target Group. Additionally, given the Target Group's familiarity with Chinese pharmaceutical enterprises and domestically manufactured pharmaceutical products, as well as regulatory requirements relating to domestically manufactured pharmaceutical products in the PRC, the Group will also have the opportunity to in-license more suitable products from domestic pharmaceutical companies through the Target Group. Such integration of the production selection team and process will not only increase the selection range of products in the Group's portfolio, but also increase the Group's ability to procure exclusive rights to pharmaceutical products, which ensures the long term growth of the Group post Acquisition.

3. Enhance the product mix in the Group's portfolio of products

The following diagram reflects the historical sales of the products of both the Group and the Target Group for the financial year ended 31 December 2010:

Note: The sales figures of the products below for the year ended 31 December 2010 are in RMB exclusive of VAT.



*Note: These products are manufactured in- house by the Group. As these products do not fit the Group's product selection policy, only few of them are currently marketed by the Group. Following Completion, the promotion and sale of these generic drugs may be carried out by the Target Group.

The Group emphasizes the product exclusivity (for example, product exclusivity can be reflected in the absence of competing products under the same generic name) or the product distinction (for example, the differences in the therapeutic areas or efficacy from competing products), or difficult to imitate, and therefore give these products a stronger competitive advantage in the market. The products of the Target Group, on the other hand, are well-known to physicians given the existence of competing products in the market and possess a large market demand. Following Completion, the product mix of the Group's portfolio will be enhanced, and at the same time achieving a more even and balanced contribution to the Group's total sales across a wider range of products (as illustrated in the diagram above). At the same time, the Group will be able to select the appropriate marketing and promotion model based on the specific characteristics of each product. Through the integration of the two different marketing models, the resource allocation and promotion efficiency will be largely enhanced, and hence achieving better cost efficiency.

4. The Acquisition will expand the size of the Group and contribute to its long term growth

For the year ended 31 December 2010, Tianjin Precede recorded a net profit of RMB69.7 million, excluding the technical development costs of RMB25.8 million for Yinuoshu payable to Tianjin Kanghong by Tianjin Precede. Following the Target Group's acquisition of the products controlling rights from Tianjin Kanghong, Tianjin Precede is no longer obliged to pay further technical development costs in 2011 and beyond. Taking into consideration of the profit guarantee that the 2011 Net Profit will not be less than HK$150 million (the Vendor will compensate for the difference if the profit guarantee is not met), the Acquisition will increase the profitability of the Group. At the same time, given that the Target Group's cost of sales is lower than that of the Group owing to its Agency Marketing and Promotion Model, the Group's overall marketing and promotion activities will become more cost-effective following the Completion.

It is the aim of the Directors that the enlarged Group will be able to maintain the growth of its businesses and the successful integration of the resources and operations of both groups after Completion will create the synergistic effect of "the sum being greater than its parts". Further, leveraging the advantages of both marketing and promotion models, it is expected that the enhanced platform of the enlarged Group will lay down a stronger foundation for further merger and strategic cooperation opportunities.

The Directors are of the view that the Acquisition would likely to have a positive impact on the financial and trading prospects of the enlarged Group, broaden its income base and improve its overall financial performance.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, Great Move, Generous Wealth and Tianjin Precede will become wholly-owned subsidiaries of the Company and their accounts will be consolidated into that of the Group.

As extracted from the Unaudited Pro Forma Financial Information as contained in Appendix III to this circular, the unaudited consolidated total assets and total liabilities of the Group were approximately US$223.2 million and US$23.2 million respectively as at 31 December 2010. Upon completion of the Acquisition, the Enlarged Group's total assets and total liabilities would increase to approximately US$364.2 million and US$39.2 million respectively.

It should be noted that the aforementioned estimations are for illustrative purpose only and do not purport to represent how the financial position of the Enlarged Group will be upon completion of the Acquisition.

In light of the potential future prospects of the Target Group, which will expand the operational scale and competitive advantages of the Group and lay the foundation for future business development of the Enlarged Group in the PRC, the Directors are of the view that the Acquisition would likely have a positive impact on the future earnings of the Enlarged Group.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore, subject to Shareholders' approval pursuant to Rule 14.40 of the Listing Rules. The Company has obtained a written approval for the Acquisition from Treasure Sea, the controlling Shareholder, which holds 648,116,800 Shares representing approximately 55.98% of the issued share capital of the Company as at the Latest Practicable Date. By reasons of (i) the written approval from the controlling Shareholder having been obtained; and (ii) that no Shareholder would be required to abstain from voting at the general meeting of the Company to approve the Acquisition, an extraordinary general meeting of the Company to approve the Acquisition is not required pursuant to Rule 14.44 of the Listing Rules and will not be convened.

RECOMMENDATION

The Board considers that the transaction contemplated under the Acquisition is on normal commercial terms and the terms of the Share Purchase Agreement are fair and reasonable and are in the interests of the Company and its Shareholders taken as a whole. Accordingly, if a general meeting were convened for approving the Share Purchase Agreement, the Board would have recommended the Shareholders to vote in favour of the Share Purchase Agreement.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By order of the Board
Lam Kong
Chairman of the Board

I. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for (i) the two years ended 31 December 2008 and 2009 are disclosed in the prospectus of the Company dated 15 September 2010; (ii) the year ended 31 December 2010 is disclosed in the annual report of the Company published on 24 February 2011, all of which have been published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.cms.net.cn).

II. INDEBTEDNESS STATEMENT

Borrowings

As at 28 February 2011, being the latest practicable date for the purpose of the statement of indebtedness, prior to the printing of this circular, the Enlarged Group had total secured bank borrowings of approximately US$27.0 million which was secured by pledged bank deposits amounting to US$25.8 million, unsecured deferred consideration payables of US$19.5 million, which included outstanding deferred consideration for acquisition of intellectual properties, an exclusive agency right and an associate of approximately US$13.6 million, US$5.7 million and US$0.2 million respectively.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, at the close of business on 28 February 2011, the Enlarged Group did not have any outstanding indebtedness, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgagees, charges, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Enlarged Group since 28 February 2011.

III. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there had been no material adverse change in the financial or trading position of the Group since 31 December 2010, the date to which the latest published audited financial statements of the Group were made up.

IV. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that following the completion of the Acquisition, after taking into account the financial resources available to the Enlarged Group, including internally generated funds , the remaining proceeds from the global offering and the available banking facilities, the Enlarged Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

V. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The principal activities of the Group are marketing, promotion and sale of prescription drugs of overseas and domestic specialty pharmaceutical companies.

In the years to come, market competition is expected to remain keen in pharmaceutical products. Hence, the Group is actively seeking opportunities to expand its business. The Directors consider that the Acquisition will not only further expand the Group's product portfolio with the addition of the Target Group's products but also broaden the income base of the Group with the inclusion of the Target Group's profits.

The Acquisition also highlights the Group's intention to enhance its overall strengths and core competitiveness through the synergies created by integrating the differences in the two business models and at the same time leverage on the similarities. With the increased penetration and reach of the combined marketing and promotion model, an increased product sourcing capability, and an enhanced product mix in its product portfolio, the Directors are of the view that the Acquisition would likely to have a positive impact on the financial and trading prospects of the enlarged Group, broaden its income base and improve its overall financial performance.

(A) FINANCIAL INFORMATION

Great Move is a company incorporated in the BVI on 19 October 2010. Great Move and its wholly-owned subsidiary, Generous Wealth, a company incorporated in Hong Kong on 28 October 2010, are investment holding companies incorporated solely for the purposes of their shareholding in Tianjin Precede and have no substantive operations other than the holding in Tianjin Precede since their respective dates of incorporation.

Based on the management accounts of Great Move for the year ended 31 December 2010, Great Move recorded no revenue and net losses of US$649 relating mainly to preliminary expenses and basic general expenses incurred. Based on the management accounts of Generous Wealth for the year ended 31 December 2010, Generous Wealth recorded revenue of HK$176 relating mainly to bank interest income and net losses of HK$10,716 relating mainly to preliminary expenses, legal and professional fees, and basic general expenses incurred. The total assets and net asset value of Great Move as at 31 December 2010 were US$1,547 and US$1,538 respectively, while the total assets and net asset value of Generous Wealth as at 31 December 2010 were HK$7,434 and HK$(10,715) respectively.

Given that Great Move and Generous Wealth were newly incorporated for the purpose of their shareholding in Tianjin Precede and these two companies have no substantial operations as shown in the above financial information, the Company considers the inclusion of financial information of Great Move and Generous Wealth will not provide any substantive meaningful information to its Shareholders.

The Directors have confirmed that there are no material contingent liabilities relating to Great Move and Generous Wealth, nor are there any material litigation or claims pending or threatened by or against Great Move and Generous Wealth. Information in relation to material contingent liabilities and material litigation or claims have been disclosed on an Enlarged Group basis in sections under “Indebtedness Statement” in the Appendix I and “Litigation” in Appendix IV of this circular respectively.

Set out below is the financial information of Tianjin Precede, whose principal activities are marketing, promotion and sales of Chinese-manufactured prescription pharmaceutical products in the PRC and is the wholly-owned subsidiary of Great Move and Generous Wealth.

18 April 2011

The Directors
China Medical System Holdings Limited

Dear Sirs,

We set out below our report on the financial information (“Financial Information”) regarding 天津普瑞森醫藥貿易有限公司 (Tianjin Precede Medical Trade Co., Ltd.*) (“Tianjin Precede”) for each of the three years ended 31 December 2008, 2009 and 2010 (the “Relevant Periods”), for inclusion in the circular of China Medical System Holdings Limited dated 18 April 2011 (the “Circular”) in connection with the proposed acquisition of

100% of the equity interest in Tianjin Precede, details of which are set out in the Circular.

Tianjin Precede was established in the People's Republic of China (the "PRC") with limited liability on 28 November 2007 with a registered capital of RMB10,000,000. On 29 November 2007, the registered capital of Tianjin Precede was increased from RMB10,000,000 to RMB12,000,000. On 26 May 2009, the registered capital of Tianjin Precede was increased from RMB12,000,000 to RMB68,000,000. The principal activities of Tianjin Precede are marketing, promotion and sale of prescription pharmaceutical products manufactured by domestic pharmaceutical companies in the PRC.

The financial year end dates of Tianjin Precede are 31 December.

The statutory audited financial statements of Tianjin Precede were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC ("PRC GAAP"). For each of the three years ended 31 December 2008, 2009 and 2010, the statutory audited financial statements of Tianjin Precede were audited by Messrs. ShineWing Certified Public Accountants Tianjin Branch, a certified public accountant registered in the PRC.

For the purpose of this report, the directors of Tianjin Precede have prepared the financial statements of Tianjin Precede for the Relevant Periods in accordance with the International Financial Reporting Standards ("IFRSs") (the "Underlying Financial Statements").

We have carried out an independent audit on the Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information of Tianjin Precede for the Relevant Periods set out in this report has been prepared based on the Underlying Financial Statements for the purpose of preparing our report for inclusion in the Circular. No adjustment was deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

Respective responsibilities of directors and reporting accountants

The directors of Tianjin Precede are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements and the Financial Information in accordance with IFRSs issued by the International Accounting Standards Board. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors of the China Medical System Holdings Limited are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion on the Financial Information and to report our opinion to you.

** For identification purposes only*

BASIS OF OPINION

For the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditors’ judgment, including the assessment of the risk of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity’s preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have not audited any financial statements of Tianjin Precede in respect of any period subsequent to 31 December 2010.

Opinion

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Tianjin Precede as at 31 December 2008, 2009 and 2010 and of the results and cash flows of Tianjin Precede for the Relevant Periods.

A. STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2008	2009	2010
		RMB'000	RMB'000	RMB'000
Turnover	7	169,823	222,399	300,275
Cost of sales		(108,353)	(143,831)	(177,063)
Gross profit		61,470	78,568	123,212
Other gains	9	2,126	5,038	6,062
Selling expenses		(8,741)	(15,854)	(27,300)
Administrative expenses		(8,148)	(10,761)	(19,924)
Profit before tax		46,707	56,991	82,050
Income tax expense	12	(11,676)	(8,627)	(12,394)
Profit and total comprehensive income for the year	13	35,031	48,364	69,656

B. STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2008 RMB'000	2009 RMB'000	2010 RMB'000
Non-current assets				
Plant and equipment	**16**	451	555	525
Intangible asset	**17**	-	-	92,500
		451	555	93,025
Current assets				
Inventories	**18**	2,729	5,384	6,219
Trade and other receivables	**19**	10,968	21,459	12,995
Amount due from immediate holding company	**20**	-	-	490
Amounts due from fellow subsidiaries	**20**	1,000	4,831	12
Amount due from a related company	**20**	91	-	1,655
Fixed bank deposits	**21**	-	5,000	-
Bank balances and cash	**21**	23,003	96,879	87,669
		37,791	133,553	109,040
Current liabilities				
Other payables	**22**	6,318	14,307	9,605
Amounts due to fellow subsidiaries	**20**	2,247	4,895	75,649
Amount due to a related company	**20**	-	735	17,500
Dividend payable		-	35,000	-
Income tax payable		2,646	2,776	3,260
		11,211	57,713	106,014
Net current assets		26,580	75,840	3,026
Net assets		27,031	76,395	96,051
Capital and reserves				
Paid-in capital	**23**	12,000	68,000	68,000
Reserves		15,031	8,395	28,051
Total equity		27,031	76,395	96,051

C. STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital	Statutory reserve	Retained profits	Proposed final dividends	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note)			
As at 1 January 2008	12,000	-	-	-	12,000
Profit and total comprehensive income for the year	-	-	35,031	-	35,031
Interim dividends paid (note 14)	-	-	(20,000)	-	(20,000)
Transfer	-	3,430	(3,430)	-	-
As at 31 December 2008	12,000	3,430	11,601	-	27,031
Profit and total comprehensive income for the year	-	-	48,364	-	48,364
Contribution from shareholder during the year	56,000	-	-	-	56,000
Interim dividends paid (note 14)	-	-	(55,000)	-	(55,000)
Transfer	-	4,910	(4,910)	-	-
As at 31 December 2009	68,000	8,340	55	-	76,395
Profit and total comprehensive income for the year	-	-	69,656	-	69,656
Interim dividends paid (note 14)	-	-	(50,000)	-	(50,000)
Proposed final dividends (note 14)	-	-	(12,673)	12,673	-
Transfer	-	6,831	(6,831)	-	-
As at 31 December 2010	68,000	15,171	207	12,673	96,051

Note:

Statutory reserve represents the appropriation of 10% of profit after taxation calculated in accordance with the PRC accounting standards and regulations as stipulated by the relevant laws and regulations in the PRC. The appropriation may cease to apply if the balance of the statutory reserve has reached 50% of Tianjin Precede's registered capital.

D. STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
OPERATING ACTIVITIES			
Profit before tax	46,707	56,991	82,050
Adjustments for:			
Bank interest income	(261)	(813)	(1,174)
Depreciation of plant and equipment	148	258	792
Operating cash flows before movements in working capital	46,594	56,436	81,668
Increase in inventories	(2,729)	(2,655)	(835)
(Increase) decrease in trade and other receivables	(10,968)	(10,491)	8,464
Increase in amount due from immediate holding company	-	-	(490)
(Increase) decrease in amounts due from fellow subsidiaries	(1,000)	(3,831)	4,819
(Increase) decrease in amount due from a related company	(91)	91	(1,655)
Increase (decrease) in other payables	6,318	7,989	(4,702)
Increase (decrease) in amounts due to fellow subsidiaries	2,247	2,648	(4,246)
Increase (decrease) in amount due to a related company	-	735	(735)
Cash generated from operations	40,371	50,922	82,288
PRC income tax paid	(9,030)	(8,497)	(11,910)
NET CASH FROM OPERATING ACTIVITIES	31,341	42,425	70,378
INVESTING ACTIVITIES			
(Increase) decrease in fixed bank deposits	-	(5,000)	5,000
Interest received	261	813	1,174
Purchase of plant and equipment	(599)	(362)	(762)
Loan advance to a fellow subsidiary	-	-	(2,000)
Loan repayment from a fellow subsidiary	-	-	2,000
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(338)	(4,549)	5,412
FINANCING ACTIVITIES			
Contribution from shareholder	-	56,000	-
Dividend paid	(20,000)	(20,000)	(85,000)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(20,000)	36,000	(85,000)

D. STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,003	73,876	(9,210)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	12,000	23,003	96,879
CASH AND CASH EQUIVALENTS AT THE END OF YEAR, REPRESENTED BY BANK BALANCES AND CASH	23,003	96,879	87,669

E. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

天津普瑞森醫藥貿易有限公司 (Tianjin Precede Medical Trade Co., Ltd.*) ("Tianjin Precede") was established in the People's Republic of China (the "PRC") with limited liability on 28 November 2007. The ultimate holding company of Tianjin Precede is 天津貝斯投資發展有限公司 which is incorporated in the PRC. The immediate holding company of Tianjin Precede is 天津康晨瑞信醫藥集團有限公司 which is incorporated in the PRC.

The address of its registered office and principal place of business is situated at Room 406, Block 3, No. 66 Dongting Road, Tianjin Development District, Tianjin, the PRC.

The principal activities of Tianjin Precede are marketing, promotion and sale of prescription pharmaceutical products manufactured by domestic pharmaceutical companies in the PRC.

The Financial Information for the Relevant Periods is presented in Renminbi ("RMB"), which is the same as the functional currency of Tianjin Precede.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, Tianjin Precede has consistently adopted IFRSs, International Accounting Standards ("IASs"), amendments and interpretations issued by the International Accounting Standards Board ("IASB") which are effective for annual accounting periods throughout the Relevant Periods.

Tianjin Precede has not early applied the following new and revised IFRSs, amendments and interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Improvements to IFRSs issued in 2010 except for the amendments to IFRS 3 (as revised in 2008), IAS 1 and IAS 28[1]
IFRS 1 (Amendments)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[3]
IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
IFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[5]
IFRS 9	Financial Instruments[7]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
IAS 24 (Revised)	Related Party Disclosures[4]
IAS 32 (Amendments)	Classification of Rights Issues[2]

IFRIC - Int 14 (Amendments)	Prepayment of a Minimum Funding Requirement[4]
IFRIC - Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

2 Effective for annual periods beginning on or after 1 February 2010.

3 Effective for annual periods beginning on or after 1 July 2010.

4 Effective for annual periods beginning on or after 1 January 2011.

5 Effective for annual periods beginning on or after 1 July 2011.

6 Effective for annual periods beginning on or after 1 January 2012.

7 Effective for annual periods beginning on or after 1 January 2013.

E. NOTES TO THE FINANCIAL INFORMATION

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of Tianjin Precede anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the Financial Information of Tianjin Precede.

E. NOTES TO THE FINANCIAL INFORMATION

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with the IFRSs issued by the IASB. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has been passed. Deposits received from customers prior to meeting the above criteria on revenue recognition are included in the statements of financial position under current liabilities.

Service income is recognised when services are rendered.

Interest income from a financial asset is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

Tianjin Precede as lessee

Operating lease payment are recognised as an expense on a straight-line basis over the term of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which Tianjin Precede recognised as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Tianjin Precede with no future related costs are recognised in profit or loss in the period in which they become receivable.

E. NOTES TO THE FINANCIAL INFORMATION

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to the PRC local government defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the Relevant Periods. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods, and it further excludes items that are never taxable and deductible. Tianjin Precede's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statements of financial position and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which Tianjin Precede expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Defered tax is recognsied into profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognsied in other comprehensive income or directly in equity respectively.

E. NOTES TO THE FINANCIAL INFORMATION

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the statements of financial position when Tianjin Precede becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Tianjin Precede's financial assets are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from fellow subsidiaries, amount due from immediate holding company/a related company, fixed bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

E. NOTES TO THE FINANCIAL INFORMATION

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter into bankruptcy or financial re-organisation; or
- the disappearance of an active market for this financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Tianjin Precede's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, amounts due from fellow subsidiaries and loans to fellow subsidiaries, where the carrying amount is reduced through the use of an allowance account. When a trade and other receivable, amount due from fellow subsidiary or loan to fellow subsidiary is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

E. NOTES TO THE FINANCIAL INFORMATION

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Debt and equity instruments issued by Tianjin Precede are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of Tianjin Precede after deducting all of its liabilities. Tianjin Precede's financial liabilities are generally classified as other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expenses over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities, including other payables, amounts due to fellow subsidiaries, amount due to a related company and dividend payable, are subsequently measured at the amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Tianjin Precede are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Tianjin Precede has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

E. NOTES TO THE FINANCIAL INFORMATION

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on tangible assets and intangible assets

At the end of each reporting period, Tianjin Precede reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Tianjin Precede's accounting policies which are described in note 3, the directors of Tianjin Precede are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of trade and other receivables

The policy for making impairment loss on trade and other receivables of Tianjin Precede is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of Tianjin Precede were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required.

E. NOTES TO THE FINANCIAL INFORMATION

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Allowances for inventories

The management of Tianjin Precede reviews an aging analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. Tianjin Precede carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items.

Carrying value of non-current assets and impairment of assets

Non-current assets, including plant and equipment and intangible asset, are carried at cost less accumulated depreciation and amortisation and impairment losses, where appropriate. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on Tianjin Precede's results of operations or financial position.

5. CAPITAL RISK MANAGEMENT

Tianjin Precede manages its capital to ensure that Tianjin Precede will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of Tianjin Precede consists of cash and cash equivalents and equity attributable to owners of Tianjin Precede, comprising paid-in capital and reserve.

The management of Tianjin Precede reviews the capital structure regularly. Tianjin Precede considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends and increase in registered and paid-in capital. Tianjin Precede's overall strategy remains unchanged during the Relevant Periods.

E. NOTES TO THE FINANCIAL INFORMATION

6. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	As at 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Financial assets			
Loan and receivables (including cash and cash equivalent)	28,308	117,319	91,839
Financial liabilities			
Other financial liabilities at amortised cost	2,331	43,750	94,824

b) Financial risk management objectives and policies

Tianjin Precede's major financial instruments include trade and other receivables, amounts due from (to) fellow subsidiaries, loans to fellow subsidiaries, fixed bank deposits, bank balances and cash, other payables and dividend payable. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Currency risk refers to the risk associated with movements in foreign currency rates which will affect Tianjin Precede's financial results and its cash flow. The management considers Tianjin Precede is not exposed to any foreign currency risk as all of its operations and transactions are in the PRC with their functional currency of RMB.

E. NOTES TO THE FINANCIAL INFORMATION

6. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

Interest rate risk

Tianjin Precede is exposed to interest rate risk mainly from its loans to fellow subsidiaries, fixed bank deposits and bank balances. Loans to fellow subsidiaries, fixed bank deposits and bank balances at fixed and variable interest rates expose Tianjin Precede to fair value interest rate risk and cash flow interest rate risk respectively. Tianjin Precede currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

Tianjin Precede's sensitivity to interest rate risk has been determined based on the exposure to interest rates for fixed bank deposits and bank balances at the end of each of the reporting period and assuming they are outstanding for the year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rate had been 50 basis points higher/lower for fixed bank deposits and bank balances during the Relevant Periods, and all other variables were held constant, Tianjin Precede's profit after tax would have been increased/decreased by approximately RMB115,000, RMB509,000 and RMB438,000 for the years ended 31 December 2008, 2009 and 2010 respectively.

Credit risk

Tianjin Precede's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those financial assets as stated in the statements of financial position.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current liability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customers operate. Except for some selected trade customers with average credit period of 90 days from the date of billing, Tianjin Precede requests for advance payment from other customers. Tianjin Precede does not obtain collateral from customers. In addition, Tianjin Precede reviews the recoverable amount of each individual trade and other receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of Tianjin Precede consider that Tianjin Precede's credit risk is significantly reduced.

E. NOTES TO THE FINANCIAL INFORMATION

6. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Tianjin Precede's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% of the total trade receivables as at 31 December 2008, 2009 and 2010.

Tianjin Precede has concentration of credit risk as nil and 100% of all the trade receivables for the year ended 31 December 2008 was due from Tianjin Precede's largest customer and the five largest customers respectively. Other than the concentration of credit risk as mentioned above, Tianjin Precede has no concentration of credit risk related to Tianjin Precede's largest customer and Tianjin Precede's five largest customers for other reporting period ends.

Tianjin Precede's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or city in which the customers operate. With respect to credit risk arising from amounts due from fellow subsidiaries/immediate holding company/a related company, Tianjin Precede's exposure to credit risk arising from default of the counterparties are limited as the counterparties have sufficient net assets to repay its debts and a good history of repayment. Tianjin Precede does not expect to incur a significant loss for uncollected amounts due from fellow subsidiaries/immediate holding company/a related company.

The credit risk for fixed bank deposits and bank balances is considered minimal as such amounts are placed in banks with high credit ratings.

Liquidity risk

In the management of the liquidity risk, Tianjin Precede monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance Tianjin Precede's operations and mitigate the effects of fluctuations in cash flows.

All of Tianjin Precede's contractual financial liabilities will mature within one year as at the end of each reporting period.

c) Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of Tianjin Precede consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values due to their immediate or short-term maturities.

E. NOTES TO THE FINANCIAL INFORMATION

7. TURNOVER

Turnover represents the amount received or receivable from marketing, promotion and sale of prescription pharmaceutical products manufactured by domestic pharmaceutical companies in the PRC during each of the Relevant Periods.

8. SEGMENT INFORMATION

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial data and information provided regularly to Tianjin Precede's most senior executive management for the purposes of allocating resources to, and assessing the performance of, Tianjin Precede's various lines of business and geographical locations. No segment information is presented in respect of Tianjin Precede's operating segment as Tianjin Precede is principally engaged in one segment in the marketing, promotion and sale of prescription pharmaceutical products manufactured by domestic pharmaceutical companies in the PRC. Tianjin Precede does not operate in any other geographical or business segment during the Relevant Periods.

Revenue from major products

The Company's revenue from operations was generated from marketing, promotion and sale of prescription pharmaceutical products manufactured by domestic pharmaceutical companies in the PRC during the Relevant Periods.

Information about major customers

For the year ended 31 December 2008, revenue from a single customer of the Company amounting to approximately RMB20,683,000 had individually accounted for over 10% of the Company's total sales.

For the years ended 31 December 2009 and 2010, there was no individual customer contributed more than 10% of the total sales of the Company.

9. OTHER GAINS

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Government grant (note)	920	3,564	4,631
Bank interest income	261	813	1,174
Promotion service fees, net of sales tax	945	661	-
Foreign exchange gains	-	-	245
Others	-	-	12
	2,126	5,038	6,062

Note: Pursuant to 《天津開發區關於鼓勵大型貿易類企業和營運中心發展的九條意見》, government grant was granted to large trading businesses in Tianjin Development District with tax contribution to the location for encouraging their business development. Government grant were determined at the sole discretion of the relevant PRC government authorities.

E. NOTES TO THE FINANCIAL INFORMATION

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the directors of Tianjin Precede during the Relevant Periods are as follows:

	Fee	Salaries and other allowances	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2008:				
Zhu Jiang （朱江）	-	16	2	18
Zhou Zhimin （周志民）	-	16	2	18
Zhou Ling（周玲）	-	16	2	18
Yang Bing （楊兵）	-	16	2	18
Hu Yuexin （胡月新）	-	16	2	18
	-	80	10	90

	Fee	Salaries and other allowances	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2009:				
Zhu Jiang （朱江）	-	234	36	270
Zhou Zhimin （周志民）	-	78	12	90
Zhou Ling（周玲）	-	78	12	90
Yang Bing （楊兵）	-	78	12	90
Hu Yuexin（胡月新）	-	78	12	90
	-	546	84	630

	Fee	Salaries and other allowances	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2010:				
Zhu Jiang（朱江）	-	249	36	285
Zhou Zhimin （周志民）	-	83	12	95
Zhou Ling（周玲）	-	81	12	93
Yang Bing （楊兵）	-	83	12	95
Hu Yuexin （胡月新）	-	83	12	95
	-	579	84	663

E. NOTES TO THE FINANCIAL INFORMATION

10. DIRECTORS' EMOLUMENTS (Continued)

During the Relevant Periods, no emoluments were paid by Tianjin Precede to the directors as an inducement to join or upon joining Tianjin Precede, or as compensation for loss of office. The directors have not waived or agreed to waive any emoluments during the Relevant Periods.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals for each of the years ended 31 December 2008, 2009 and 2010 included five, three and three directors respectively, details of their emoluments are included in note 10. The emoluments of the remaining nil, two and two individuals, which are individually below HK$1,000,000 (equivalent to approximately RMB884,000, RMB882,000 and RMB845,000 for the years ended 31 December 2008, 2009 and 2010 respectively), are as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Employees			
- basic salaries and allowance	-	156	164
- retirement benefit scheme contributions	-	24	24
	-	180	188

During the Relevant Periods, no emoluments were paid by Tianjin Precede to the five highest paid individuals (including director and employees) as an inducement to join or upon joining Tianjin Precede or as compensation for loss of office.

12. INCOME TAX EXPENSE

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current tax:			
PRC Enterprise Income Tax	11,676	8,548	12,307
Under-provision in prior years:			
PRC Enterprise Income Tax	-	79	87
Deferred tax			
Current year	-	-	-
	11,676	8,627	12,394

No provision for taxation has been made as Tianjin Precede's income neither arises in, nor is derived from, Hong Kong for the years ended 31 December 2008, 2009 and 2010.

E. NOTES TO THE FINANCIAL INFORMATION

12. INCOME TAX EXPENSE (Continued)

On 16 March 2007, the Enterprise Income Tax (the "New Tax Law") was passed at the Fifth session of the Tenth National People's Congress of the PRC, the income tax rate for both domestic and foreign-investment enterprise will be unified at 25% effective from 1 January 2008. Under the New Tax Law, Tianjin Precede is subjected to 25% income tax rate from 1 January 2008 onwards.

During the years ended 31 December 2009 and 2010, Tianjin Precede has been granted a preferential rate and reduced the tax rate from 25% to 15% as it has been assessed as "High-New Technology Enterprises" under the Enterprise Income Tax Law.

The income tax expense for the Relevant Periods can be reconciled to the profit before tax per the statements of comprehensive income as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit before tax	46,707	56,991	82,050
Tax at applicable tax rates of 25% for 2008 and 15% for 2009 and 2010	11,676	8,548	12,307
Under-provision in respect of prior years	-	79	87
Income tax expense for the year	11,676	8,627	12,394

13. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Staff cost (including director's emoluments):			
Salaries and other allowances	1,457	2,096	4,957
Retirement benefit scheme contributions	390	738	1,177
	1,847	2,834	6,134
Auditor's remuneration	20	94	50
Depreciation of plant and equipment	148	258	792
Cost of inventories recognised as an expense	87,677	114,337	149,675
Lease payments under operating leases	122	328	1,224
Licenses royalties (included in cost of sales)	20,676	29,494	27,388

E. NOTES TO THE FINANCIAL INFORMATION

14. DIVIDENDS

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Interim dividends declared and paid	20,000	55,000	50,000
Proposed final dividends	-	-	12,673
	20,000	55,000	62,673

The final dividend of RMB12,673,000 in respect of the year ended 31 December 2010 (2009: final dividend of nil in respect of the year ended 31 December 2009, 2008: final dividend of nil in respect of the year ended 31 December 2008) and approved by Tianjin Precede's shareholders on 5 January 2011.

15. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion for the purpose of this report is not considered meaningful.

E. NOTES TO THE FINANCIAL INFORMATION

16. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost			
As at 1 January 2008	-	-	-
Additions	499	100	599
As at 31 December 2008	499	100	599
Additions	362	-	362
As at 31 December 2009	861	100	961
Additions	682	80	762
As at 31 December 2010	1,543	180	1,723
Accumulated depreciation			
As at 1 January 2008	-	-	-
Provided for the year	136	12	148
As at 31 December 2008	136	12	148
Provided for the year	234	24	258
As at 31 December 2009	370	36	406
Provided for the year	752	40	792
As at 31 December 2010	1,122	76	1,198
Carrying amount			
As at 31 December 2008	363	88	451
As at 31 December 2009	491	64	555
As at 31 December 2010	421	104	525

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Motor vehicles	25%
Furniture, fixtures and equipment	10% - 50%

E. NOTES TO THE FINANCIAL INFORMATION

17. INTANGIBLE ASSET

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Addition during the year	-	-	92,500
As at 31 December 2010	-	-	92,500

On 30 December 2010, Tianjin Precede entered into agreements to acquire the intellectual properties, mainly including technology, production know-how, marketing-related properties such as trademark and patent, for a medication product for the expectorant treatment with a total consideration of RMB75,000,000 and RMB17,500,000 from a fellow subsidiary and a related party respectively. The consideration was satisfied by cash. As at 31 December 2010, the whole amount of RMB92,500,000 was not yet settled and included in amounts due to fellow subsidiaries and amount due to a related company at RMB75,000,000 and RMB17,500,000 respectively.

The above intangible asset has definite useful life and is amortised over 20 years using the straight line method.

18. INVENTORIES

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Finished goods	2,729	5,384	6,219

E. NOTES TO THE FINANCIAL INFORMATION

19. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade receivables	559	-	155
Other receivables and prepayments	10,409	21,459	12,840
Total	10,968	21,459	12,995

Except for some selected trade customers with average credit period of 90 days, Tianjin Precede requests for advance payment from other customers. The following is an aged analysis of trade receivables net of allowances for doubtful debts presented based on the invoice date at the end of each reporting year.

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 90 days	559	-	29
Over 90 days	-	-	126
	559	-	155

Included in the trade receivables are debtors with aggregate carrying amount of approximately RMB126,000 which were past due at the reporting date as at 31 December 2010 for which Tianjin Precede has not provided for impairment losses. The directors of Tianjin Precede determined that these receivables are due from customers of good credit quality with no history of default. Tianjin Precede does not hold any collateral over these balances.

<u>Ageing of trade receivables which are past due but not impaired</u>

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Over 90 days	-	-	126

Tianjin Precede's neither past due nor impaired trade receivables at the end of each of the reporting period related to a wide range of customers for whom there was no recent history of default. Tianjin Precede does not hold any collateral over these balances.

E. NOTES TO THE FINANCIAL INFORMATION

20. AMOUNTS DUE FROM (TO) FELLOW SUBSIDIARIES/A RELATED COMPANY/IMMEDIATE HOLDING COMPANY

Included in amounts due from fellow subsidiaries, there are approximately RMB997,000, RMB4,527,000 and nil balance as at 31 December 2008, 2009 and 2010 respectively which are trade nature and repayable with an average credit period of 30 days. During the year ended 31 December 2010, RMB2,000,000 which is unsecured, interest-bearing at 4.86% per annum and repayable as at 31 December 2010 was advanced to a fellow subsidiary. The loan was fully repaid as at 31 December 2010. Other balances are unsecured, non-interest bearing and repayable on demand.

All amount due from a related company at the end of each of the reporting period are trade nature and repayable with an average credit period of 30 days.

Included in amounts due to fellow subsidiaries, there are approximately RMB706,000, RMB2,953,000 and RMB1,379,000 as at 31 December 2008, 2009 and 2010 respectively which are trade nature and repayable with an average credit period of 30 - 180 days. Other balances are unsecured, non-interest bearing and repayable on demand.

Except as disclosed above, other balances are unsecured, non-interest bearing and repayable on demand.

21. FIXED BANK DEPOSITS / BANK BALANCES AND CASH

Bank balances carried interest at 0.36% per annum during each of the reporting period. Bank balances and cash comprise cash and short-term bank deposits with an original maturity of three months or less. The fixed bank deposits at 31 December 2009 carried fixed interest rate at 1.98%.

22. OTHER PAYABLES

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Receipt in advance	3,682	8,704	3,002
Other payable and accruals	2,636	5,603	6,603
	6,318	14,307	9,605

E. NOTES TO THE FINANCIAL INFORMATION

23. PAID-UP CAPITAL

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At the beginning of the year	12,000	12,000	68,000
Contribution from shareholder during the year	-	56,000	-
At the end of the year	12,000	68,000	68,000

Tianjin Precede was incorporated with initial registered and paid-up capital of RMB10,000,000. The proceeds were used to provide general working capital for Tianjin Precede.

Pursuant to a shareholder's resolution passed on 29 November 2007, Tianjin Precede increased its registered and paid-in capital by RMB2,000,000 for cash. The proceeds were used as general working capital for Tianjin Precede.

Pursuant to a shareholder's resolution passed on 26 April 2009, Tianjin Precede increased its registered and paid-in capital by RMB56,000,000 for cash. The proceeds were used as general working capital for Tianjin Precede.

24. MAJOR NON-CASH TRANSACTIONS

On 30 December 2010, Tianjin Precede entered into agreements to acquire the intellectual properties, mainly including technology, production know-how, marketing-related properties such as trademark and patent, for a medication product for the expectorant treatment with a total consideration of RMB75,000,000 and RMB17,500,000 from a fellow subsidiary and a related party respectively. The whole amount of RMB92,500,000 has not yet been settled as at 31 December 2010. Further details of the acquisitions are set out in note 17 above.

E. NOTES TO THE FINANCIAL INFORMATION

25. RELATED PARTY TRANSACTIONS

During each of the Relevant Periods, Tianjin Precede entered into the following material related parties transactions:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Revenue:			
Sales of goods to fellow subsidiaries (note (i))	-	9,106	7,264
Promotion service fees from a fellow subsidiary (note (i))	945	661	-
Interest income from a fellow subsidiary (note (iii))	-	-	11
Expense:			
Purchases of goods from fellow subsidiaries (note (i))	2,221	16,247	4,101
Purchases of goods from a related company (note (i))	17,251	22,061	26,990
Licenses royalties to a fellow subsidiary (note (ii))	16,611	21,169	25,839
Consultancy fee to a fellow subsidiary (note (i))	-	-	1,000

Note:

(i) Transactions were conducted with terms mutually agreed with the contracting parties with reference to market prices.

(ii) Pursuant to a signed agreement, licenses royalties were required to be paid at a predetermined price per unit sold for certain products to a fellow subsidiary of Tianjin Precede, the legal owner of the intellectual properties of those products.

(iii) Interest was charged on a loan advanced as disclosed in note 20.

On 30 December 2010, Tianjin Precede entered into agreements to acquire the intellectual properties, mainly including technology, production know-how, marketing-related properties such as trademark and patent, for a medication product for the expectorant treatment with a total consideration of RMB75,000,000 and RMB17,500,000 from a fellow subsidiary and a related party respectively. The whole amount of RMB92,500,000 has not yet been settled as at 31 December 2010. Further details of the acquisitions are set out in note 17 above.

Amounts due from (to) fellow subsidiaries/a related company/immediate holding company are disclosed in note 20.

Remuneration for key management personnel which comprises only the directors is disclosed in note 10.

E. NOTES TO THE FINANCIAL INFORMATION

26. OPERATING LEASE COMMITMENTS

As at 31 December 2008, 2009 and 2010, Tianjin Precede had commitments for future minimum lease payments under non-cancellable operating leases in respect of offices which fall due as follows:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within one year	242	39	32
In the second to fifth year Inclusive	-	32	-
	242	71	32

Operating lease payments represent rentals payable by Tianjin Precede for certain of its office properties. Leases are negotiated for an average term of 1 to 2 years and rentals are fixed for an average of 1 to 2 years.

27. RETIREMENT BENEFIT SCHEMES

The employees of Tianjin Precede are members of the state-managed retirement benefit scheme operated by the PRC government. Tianjin Precede is required to contribute a certain percentage of its payroll to the retirement benefit scheme to fund the benefits. The only obligation of Tianjin Precede with respect to the retirement benefit scheme is to make the required contributions under the scheme. The total cost charged to income of approximately RMB390,000, RMB738,000 and RMB1,177,000 represents contributions payable to these schemes by Tianjin Precede for the years ended 31 December 2008, 2009 and 2010 respectively.

F. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Tianjin Precede in respect of any period subsequent to 31 December 2010.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong

(B) MANAGEMENT DISCUSSION AND ANALYSIS ON TIANJIN PRECEDE

Great Move is a company incorporated in the BVI on 19 October 2010. Great Move and its wholly-owned subsidiary, Generous Wealth, a company incorporated in Hong Kong on 28 October 2010, are investment holding companies and have no substantive operations other than the holding in Tianjin Precede. Given that Great Move and Generous Wealth were newly incorporated for the purpose of their shareholding in Tianjin Precede and these two companies have no substantial operations, the Company considers the management discussion and analysis on Great Move and Generous Wealth will not provide any substantive meaningful information to its Shareholders.

Set out below is the management discussion and analysis of Tianjin Precede for the financial years ended 31 December 2008, 2009 and 2010. The following should be read in conjunction with the historical consolidated financial information of Tianjin Precede together with the accompanying notes set out in the accountants' report contained in Appendix II to this circular.

Business Overview

Tianjin Precede was established in the People's Republic of China (the "PRC") with limited liability on 28 November 2007 with a registered capital of RMB10.0 million. On 29 November 2007, the registered capital of Tianjin Precede was increased from RMB10.0 million to RMB12.0 million. On 26 May 2009, the registered capital of Tianjin Precede was increased from RMB12.0 million to RMB68.0 million. Tianjin Precede's principal activities are marketing, promotion and sales of Chinese-manufactured prescription pharmaceutical products in the PRC.

Tianjin Precede derives its sales from nine main drug products, including Yinuoshu (Ambroxol Hydrochloride Injection)（伊諾舒 （鹽酸氨溴索注射液）) and Shaduolika (Yanhuning Injection)（沙多力卡（注射用炎琥寧））, and has a successful and cost-effective sales and marketing model which has allowed it to effectively penetrate in its target markets. Tianjin Precede's sales and marketing network consist of over 960 independent third party sales representatives or distributors covering nearly 6,600 hospitals in 30 provinces in the PRC.

Major factors affecting the results of Tianjin Precede

The growth of China's pharmaceutical market

China's GDP growth and the increase in medical expenses has created a favorable macro economic environment, which has contributed to the rapid growth of China's pharmaceutical market in recent years. With increasing urbanization rates, disposable income, an ageing population and the increased focus on health, China's pharmaceutical market is expected to continue growing substantially in the future.

Product portfolio and new product introduction

The introduction of new products in Tianjin Precede's portfolio has positively impacted its operating results. Tianjin Precede has a team dedicated to identifying pharmaceutical products which have good commercial potential and are able to complement its existing portfolio of products. Since 2007, Tianjin Precede has successfully obtained the sales rights to its existing nine main drug products.

Business and financial review

Revenue

For the year ended 31 December 2010, Tianjin Precede's revenue was RMB300.3 million, increased by approximately 35.0% compared with that of the year ended 31 December 2009. This was due to continued growth in the sales volume of its existing products as well as the increase of sales of new products .

For the year ended 31 December 2009, Tianjin Precede's revenue was RMB222.4 million, increased by approximately 31.0% compared with that of the year ended 31 December 2008. This was due to continued growth in the sales volume of its existing products as well as the increase of sales of new products.

For the year ended 31 December 2008, Tianjin Precede's revenue was RMB169.8 million.

Costs and gross profit margin

Cost of sales includes the cost to suppliers and royalties paid for product licensing rights for ambroxol （氨溴索）. For the three years ended 31 December 2008, 2009 and 2010, royalties paid for product licensing rights for ambroxol that contributed towards the cost of sales were RMB16.6 million, RMB21.2 million and RMB25.8 million respectively.

Gross profit margin of Tianjin Precede for the three years ended 31 December 2008, 2009 and 2010 were 36.2%, 35.3% and 41.0% respectively. The fluctuations in gross profit margins were mainly due to changes in the mix of drug products sold and the growth of sales of products for which our cost of goods sold includes a fixed amortisation component that decreases as sales volume increase.

Profit before taxation

For the year ended 31 December 2010,Tianjin Precede's profit before income tax was RMB82.1 million, increased by approximately 44.0% compared with that of the year ended 31 December 2009. This was mainly due to the increase in gross profits as a result of the increase of sales of drug products of RMB44.6 million and the increase in other gains of RMB1.0 million, which offset increased selling, general and administrative expenses. The increase in selling expenses was mainly due to increased sales and marketing activities in the year.

For the year ended 31 December 2009, Tianjin Precede's profit before income tax was RMB57.0 million, increased by approximately 22.0% compared with that of the year ended 31 December 2008. This was mainly due to the increase in gross profits as a result of the increase of sales of drug products of RMB17.1 million and the increase in other gains of RMB2.9 million, which had offset increased selling, general and administrative expenses. The increase in selling expenses was mainly due to increased sales and marketing activities in the year as a result of the introduction of new products to the market.

For the year ended 31 December 2008, Tianjin Precede's profit before income tax was RMB46.7 million.

Income Taxes

Since 1 January 2008, Tianjin Precede has been subject to the uniform domestic and foreign enterprise income tax rate of 25% implemented under the new PRC Enterprise Income Tax Law. Tianjin Precede was recognized in 2009 as a national high-tech enterprise, and as a result enjoys a preferential tax rates of 15%. For the three years ended 31 December 2008, 2009 and 2010, Tianjin Precede's income tax expenses were RMB11.7 million, RMB8.6 million and RMB12.4 million respectively.

Net profit and net profit margin

Tianjin Precede's net profits for the year ended 31 December 2010 was RMB69.7 million, a 44.0% increase as compared to 2009. Net profit margin was 23.2% in 2010 as compared to 21.7% in 2009, an increase of 1.5%.

For the year ended 31 December 2009, Tianjin Precede's net profit was RMB48.4 million, an increase of 38.1% as compared to 2008. Net profit margin was 21.7% in 2009 compared to 20.6% in 2008, an increase of 1.1%.

For the year ended 31 December 2008, Tianjin Precede's net profit was RMB35.0 million.

Financial resources and liquidity

During the three years ended 31 December 2010 (the "Relevant Period"), Tianjin Precede generally financed its operations with its internally generated cash flows, and contributions from shareholders.

For the year ended 31 December 2010, Tianjin Precede generated net cash from operating activities of RMB70.4 million, reflecting the cash generated from operations during the period of RM82.3 million less the RMB11.9 million paid in income tax.

For the year ended 31 December 2009, Tianjin Precede generated net cash from operating activities of RMB42.4 million, reflecting the cash generated from operations during the period of RM50.9 million less the RMB8.5 million paid in income tax.

For the year ended 31 December 2008, Tianjin Precede generated net cash from operating activities of RMB31.4 million, reflecting the cash generated from operations during the period of RM40.4 million less the RMB9.0 million paid in income tax.

Capital structure

As at 31 December 2010, Tianjin Precede's cash and cash equivalents were RMB87.7million. There were no outstanding bank and other loans. Tianjin Precede recorded current liabilities amounting to RMB106.0 million as at 31 December 2010.

As at 31 December 2009, Tianjin Precede's cash and cash equivalents were RMB96.9million. There were no outstanding bank and other loans. Tianjin Precede recorded current liabilities amounting to RMB57.7 million as at 31 December 2009.

As at 31 December 2008, Tianjin Precede's cash and cash equivalents were RMB23.0million. There were no outstanding bank and other loans. Tianjin Precede recorded current liabilities amounting to RMB11.2 million as at 31 December 2008.

Material acquisitions and Significant investments

On 30 December 2010, Tianjin Precede entered into agreements to acquire the intellectual properties, mainly including technology, production know-how, marketing-related properties such as trademark and patent, for Yinuoshu (Ambroxol Hydrochloride for Injection) for the expectorant treatment with a total consideration of RMB75.0 million and RMB17.5 million from a fellow subsidiary and a related party respectively. Upon completion of the agreements, Tianjin Precede is no longer required to pay royalties on the medication product. Prior to entering into these agreements, Tianjin Precede paid royalties which amounted to RMB16.6 million, RMB21.2 million and RMB25.8 million for the three years ended 31 December 2010 for Yinuoshu (Ambroxol Hydrochloride for Injection). The consideration of RMB92.5 million has not yet been settled as at 31 December 2010.

Analysis of segmental information

No segment information is presented in respect of Tianjin Precede's operating segment as Tianjin Precede's principal activities are marketing, promotion and sales of Chinese-manufactured prescription pharmaceutical products in the PRC and Tianjin Precede does not operate in any other geographical or business segments during the three years ended 31 December 2010.

Employees and Staff Policy

As at 31 December 2010, the number of employees of Tianjin Precede was approximately 108 and the total staff costs for the financial year ended 31 December 2010 were approximately RMB6.1 million. As at 31 December 2009, the number of employees of Tianjin Precede was approximately 81 and the total staff costs for the financial year ended 31 December 2009 were approximately RMB2.8 million. As at 31 December 2008, the number of employees of Tianjin Precede was approximately 65 and the total staff costs for the financial year ended 31 December 2008 were approximately RMB1.8 million.

The five highest paid individuals for each of the years ended 31 December 2008, 2009 and 2010 included five, three and three directors respectively. The emoluments of the remaining nil, two and two individuals, which are individually below HK$1 million (equivalent to approximately RMB884,000, RMB882,000 and RMB845,000 for the years ended 31 December 2008, 2009 and 2010 respectively).

The employees of Tianjin Precede are members of the state-managed retirement benefit scheme operated by the PRC government. Tianjin Precede is required to contribute a certain percentage of its payroll to the retirement benefit scheme to fund the benefits. The only obligation of Tianjin Precede with respect to the retirement benefit scheme is to make the required contributions under the scheme. For the three years ended 31 December 2010, the total costs charged to income representing contributions payable to these schemes by Tianjin Precede were approximately RMB0.4 million, RMB0.7 million and RMB1.2 million respectively.

Charges on Tianjin Precede's Assets

As at 31 December 2008, 2009 and 2010, the aggregate carrying value of the property, plant and equipment and land use rights are RMB451,000, RMB555,000 and RMB525,000 respectively.

There are no charges on Tianjin Precede's assets at at the Latest Practicable Date.

Gearing ratio

As at 31 December 2010, the current ratio (current assets divided by current liabilities) and gearing ratio (total interest-bearing debts divided by total assets) of Tianjin Precede was 102.9% and 0% respectively. As at 31 December 2009, the current ratio and gearing ratio of Tianjin Precede was 231.4% and 0% respectively. As at 31 December 2008, the current ratio and gearing ratio of Tianjin Precede was 337.1% and 0%, respectively.

Foreign Exchange Exposure

Tianjin Precede is not exposed to any foreign currency risk as all of its operations and transactions are in the PRC with their functional currency of RMB.

Use of financial instruments for hedging purposes

As at 31 December 2008, 2009 and 2010, Tianjin Precede did not use any financial instruments for hedging purposes.

Contingent Liabilities

As at 31 December 2008, 2009 and 2010, Tianjin Precede had no material contingent liabilities.

Future plans for material investments

As at the Latest Practicable Date, Tianjin Precede had no future plans for material investments.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION

(i) Basis of preparation of the unaudited pro forma statement of assets and liabilities of the Enlarged Group

The unaudited pro forma statement of assets and liabilities (the "Unaudited Pro Forma Financial Information") of the Enlarged Group is prepared to illustrate the effect of the acquisition of the entire issued share capital of Great Move Enterprises Limited (the "Great Move") on the assets and liabilities of the Enlarged Group as at 31 December 2010.

The Unaudited Pro Forma Financial Information is prepared based on:

(a) the audited statement of financial position of the Group as at 31 December 2010 as extracted from the annual report of the Company issued on 24 February 2011;

(b) the audited statement of financial position of Tianjin Precede Medical Trade Development Co., Ltd ("Tianjin Precede") as at 31 December 2010 as extracted from the accountants' reports set out in Appendix II to this circular; and

(c) after taking into account the unaudited pro forma adjustments as described in the notes thereto to demonstrate how the proposed acquisition might have affected the historical financial information in respect of the Group as if the proposed acquisition had been completed on 31 December 2010.

In preparing the Unaudited Pro Forma Financial Information, the financial positions of Great Move and Generous Wealth, the intermediate and immediate holding companies of Tianjin Precede respectively, are not included, as Great Move and Generous Wealth that were incorporated on 19 October 2010 and 28 October 2010 respectively, in the opinion of the directors of the Company, have no significant impact on the results and financial position of the Enlarged Group. Great Move and Generous Wealth are investment holding companies and have no substantive operations.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group should be read in conjunction with the financial information contained in this circular and the Accountants' Report on Tianjin Precede as set out in Appendix II to this circular.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 December 2010 or at any future date.

(ii) Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group

	The Group as at 31 December 2010	Statement of financial position of Tianjin Precede as at 31 December 2010	Statement of financial position of Tianjin Precede as at 31 December 2010	Pro forma adjustments	The Enlarged Group as at 31 December 2010
	US$'000	RMB$'000	US$'000	US$'000	US$'000
	(Note 1)	(Note 2)	(Note 3)	(Note 4)	
Non-current assets					
Property, plant and equipment	3,282	525	79	-	3,361
Prepaid lease payments	3,142	-	-	-	3,142
Interest in a jointly controlled entity	99	-	-	-	99
Interest in an associate	1,431	-	-	-	1,431
Intangible assets	5,368	92,500	13,967	-	19,335
Goodwill	379	-	-	172,957	173,336
Deferred tax assets	4,431	-	-	-	4,431
Deposit paid for acquisition of property, plant and equipment	478	-	-	-	478
	18,610	93,025	14,046	172,957	205,613
Current assets					
Inventories	15,978	6,219	939	-	16,917
Trade and other receivables	49,314	15,152	2,288	-	51,602
Amount due from a jointly controlled entity	673	-	-	-	673
Held for trading investments	38	-	-	-	38
Tax recoverable	77	-	-	-	77
Pledged bank deposit	4,530	-	-	-	4,530
Bank balances and cash	133,987	87,669	13,238	(62,475)	84,750
	204,597	109,040	16,465	(62,475)	158,587
Current liabilities					
Trade and other payables	8,252	13,254	2,001	-	10,253
Bank borrowings -secured	4,261	-	-	-	4,261
Deferred considerations payables	1,198	89,500	13,514	-	14,712
Derivative financial instruments	48	-	-	-	48
Tax payable	2,709	3,260	492	-	3,201
	16,468	106,014	16,007	-	32,475
Net current assets	188,129	3,026	458	(62,475)	126,112
Total asset less current liabilities	206,739	96,051	14,504	110,482	331,725
Capital and reserves					
Share capital	5,718	68,000	10,268	(9,618)	6,368
Reserves	194,271	28,051	4,236	120,100	318,607
Net assets	199,989	96,051	14,504	110,482	324,975
Non-current liabilities					
Deferred tax liabilities	2,123	-	-	-	2,123
Deferred consideration payables	4,627	-	-	-	4,627
	6,750	-	-	-	6,750
	206,739	96,051	14,504	110,482	331,725

Notes to unaudited pro forma consolidated statement of financial position of the Enlarged Group.

Notes:

1. Figures extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2010 published on 24 February 2011.

2. Figures extracted from the Accountants' Report of Tianjin Precede as set out in Appendix II to the Circular, after reclassification of certain accounts to align with the presentation of the Group. Details of the reclassification are set out below:

(i) amount due from immediate holding company, amounts due from fellow subsidiaries and amount due from a related company of RMB490,000, RMB12,000 and RMB1,655,000 respectively have been reclassified to trade and other receivables;

(ii) amounts due to fellow subsidiaries and amount due to a related company that represent outstanding consideration for the acquisition of intellectual properties of RMB75,000,000 and RMB14,500,000 respectively have been reclassified to deferred considerations payables; and

(iii) amounts due to fellow subsidiaries and amount due to a related company of RMB649,000 and RMB3,000,000 respectively have been reclassified to trade and other payables.

3. The statement of financial position of Tianjin Precede is translated from Renminbi to US dollars at an exchange rate of RMB6.6227 to US$1 (the exchange rate as at 31 December 2010).

4. The adjustments in connection with the acquisition of the entire share capital of the Great Move, represent:

(i) Total cash consideration of US$62,475,000 , the breakdown of which is as follows:

(a) cash consideration of US$43,914,000(equivalent to HK$341,650,000);

(b) the sum of US$18,561,000 (equivalent to RMB122,921,000) which is payable by Generous Wealth as a result of reorganization undertaken by the Vendor. Pursuant to the relevant sales and purchase agreement, if the acquisition is completed, the purchaser, CMS International Investment Limited, has undertaken to procure the settlement by 20 May 2011.

Based on the relevant sales and purchase agreement, the Vendor irrevocably and unconditionally guarantees to the purchaser (i.e. the Group) that the audited consolidated net profit after tax of the Target Group for the year ending 31 December 2011 under IFRS (the “2011 Net Profits”) shall not be less than HK$150 million. If the 2011 Net Profits is less than HK$150 million, the Vendor shall pay the Purchaser an amount in cash equal to the difference between HK$150 million and the 2011 Net Profits, provided that such amount shall be subject to such adjustments as may be agreed between the parties for any results affected by an event in the nature of force majeure including but not limited to fire, explosion, flooding, earthquake, volcanic eruption, epidemic, pandemic, any declaration of a national or international emergency or war, civil commotion, riots, acts of war, acts of God or acts of terrorism occurring in the PRC during the financial year ending 31 December 2011.

The fair value of such contingent consideration has not been reflected in this unaudited pro forma financial information. In case that the 2011 Net Profit is not met, the consideration would need to be adjusted;

(ii) Issue of 130,000,000 ordinary shares with par value of US$0.005 of the Company in connection with the acquisition of the entire share capital of the Great Move.

For the purpose of this unaudited pro forma financial information, the fair value of share consideration is determined based on the closing price of the shares of the Company as quoted on The Stock Exchange of Hong Kong Limited on 31 December 2010 (i.e. HK$ 7.48 per share (equivalent to approximately US$0.9614 per share)).

As the fair value of the ordinary shares of the Company at the date of completion may be substantially different from the closing price as at 31 December 2010, the actual fair value of the consideration and in turn, the amount of goodwill may be different from those presented in this unaudited pro forma financial information.

(iii) Elimination of share capital and pre-acquisition reserve of Tianjin Precede amounting to US$ 14,504,000 as at 31 December 2010.

(iv) The adjustment to the share capital amounting to US$ 9,618,000 represents the combined effects from the recognition of share capital amounting to US$650,000 on issue of 130,000,000 ordinary shares of the Company with par value of US$0.005 as well as the elimination of share capital of Tianjin Precede as at 31 December 2010 amounting to US$10,268,000.

The adjustment to the reserve amounting to US$120,100,000 represents the combined effects from the recognition of share premium amounting to US$124,336,000 on issue of 130,000,000 ordinary shares of the Company as well as the elimination of reserve of Tianjin Precede as at 31 December 2010 amounting to US$4,236,000. The amount of share premium is determined based on the difference between the closing price of shares of the Company as at 31 December 2010 (i.e. US$0.9614 per share) and par value of the shares (i.e. US$0.005 per share).

(v) The excess of the aggregate consideration amounting to US$187,461,000 comprising of the total cash consideration of US$62,475,000 and shares consideration of US$ 124,986,000 over the carrying amounts of the assets and liabilities of Tianjin Precede as at 31 December 2010 amounting to US$14,504,000 is recognised as goodwill with an assumed carrying value of US$172,957,000.

For the purpose of this unaudited pro forma financial information, the fair values of the identifiable assets and liabilities of Tianjin Precede are assumed to be equal to their carrying amounts as at 31 December 2010. Specifically, in the absence of a formal valuation, the directors of the Company have not made any fair value adjustment on the intangible assets of which the fair value may be significantly different from their carrying amount as at 31 December 2010. The Company is in the process of identifying and determining the fair values of the identifiable assets and liabilities of Tianjin Precede. Accordingly, the actual goodwill may be significantly different from that presented in this unaudited pro forma financial information.

The directors of the Company have assessed whether the goodwill may be impaired as at 31 December 2010 on a pro forma basis, in accordance with Hong Kong Accounting Standard 36 “Impairment of Assets”. According to the result of the assessment, there is no impairment indication identified as the recoverable amount of the cash generating unit which contain the goodwill, estimated based on value in use, using discounted cash flow method is higher than the carrying amount as at 31 December 2010. As a result, there is no impairment in respect of the goodwill.

(B) LETTER ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the report, prepared for the purpose of incorporation in this circular, from Deloitte Touche Tohmatsu in respect of the pro forma financial information of the Enlarged Group as set out in this appendix:

TO THE DIRECTORS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of China Medical System Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), and Great Move Enterprises Limited and its subsidiaries (the "Target") (together with the Group hereinafter collectively referred to as the "Enlarged Group") set out in Appendix III to the circular dated 18 April 2011 (the "Circular"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of entire share capital of the Target might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 67 to 71 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Enlarged Group as at 31 December 2010 or any future date.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 April 2011

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date was, and the issue of Consideration Shares immediately following completion of the Acquisition will be, as follows:

As at the Latest Practicable Date

Authorised:	USD
20,000,000,000 Shares of USD0.005 each	100,000,000
Issued and fully paid:	
1,157,865,340 Shares of USD0.005 each	5,789,327

Upon completion of the Acquisition and the issue of Consideration Shares

Authorised:	USD
20,000,000,000 Shares of USD0.005 each	100,000,000
Issued and fully paid:	
1,157,865,340 Shares of USD0.005 each	5,789,327
130,000,000 Consideration Shares of USD0.005 each	650,000
1,287,865,340 Shares	6,439,327

3. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors in shares and underlying shares of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have as at the Latest Practicable Date under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in shares and underlying shares of the Company

Name of Director	Name of corporation	Nature of interest	Total number of shares held (Note 1)	Approximate percentage of interest in corporation
Mr. Lam Kong	The Company	Interest in controlled corporation	648,116,800(L) (Note 2)	55.98%
		Interest in controlled corporation	3,539,820(L) (Note 3)	0.31%
Mr. Chen	The Company	Beneficial owner	29,886,520(L)	2.58%
		Interest in controlled corporation	40,000,000(L) (Note 4)	3.45%
		Beneficiary of a trust	3,539,820(L) (Note 5)	0.31%
Ms. Chen	The Company	Beneficial owner	2,930,000(L)	0.25%
		Interest in controlled corporation	2,000,000(L) (Note 6)	0.17%
		Beneficiary of a trust	3,539,820(L) (Note 5)	0.31%
Ms. Hou	The Company	Beneficial owner	1,600,000(L)	0.14%
		Interest in controlled corporation	40,000,000(L) (Note 7)	3.45%
		Family interest	2,106,000(L) (Note 8)	0.18%
		Beneficiary of a trust	3,539,820(L) (Note 5)	0.31%
Mr. Hui	The Company	Interest in controlled corporation	5,276,660(L) (Note 9)	0.46%
		Beneficial owner	707,200(L)	0.06%
Mr. Cheung	The Company	Beneficial owner	320,000(L)	0.03%

Notes:

1. The letter "L" denotes long positions in the Shares.

2. These Shares are held by Mr. Lam Kong through Treasure Sea Limited, a company wholly owned by him.

3. These Shares are held by Fully Profit Management (PTC) Limited, a company wholly owned by Mr. Lam Kong. Fully Profit Management (PTC) Limited is the trustee of the Key Employee Benefit Trust (a discretionary trust established by our Company on 31 July 2009 for the Key Employee Benefits Scheme). Please refer to note 5 below for further details.

4. These Shares are held by Mr. Chen through Viewell Limited, a company wholly owned by him.

5. These Shares are held by Fully Profit Management (PTC) Limited acting as the trustee of the Key Employee Benefit Trust. The discretionary objects of the discretionary trust include Mr. Chen, Ms. Chen and Ms. Hou and they are deemed to be interested in these 3,539,820 Shares. The references to these 3,539,820 Shares in respect of which Mr. Lam Kong is deemed to be interested in (as disclosed above) relate to the same block of Shares.

6. These Shares are held by Ms. Chen through Great Creation Holdings Limited, a company wholly owned by her.

7. These Shares are held by Ms. Hou through Wide Harvest Limited, a company wholly owned by her.

8. These Shares are held by Mr. Jia Jinbin, the spouse of Ms. Hou, in respect of which Ms. Hou is deemed to be interested in.

9. These Shares are held by Mr. Hui through Archiever Development Limited, a company wholly owned by him.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders' interest

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as was known to the Directors or chief executive of the Company, no persons or entities, other than a Director or chief executive of the Company, had an interest or a short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other company which is a subsidiary of the Company or in any options in respect of such share capital:

(i) Long positions in shares and underlying shares of the Company

Name of shareholder	Nature of interest	Total number of shares held (Note 1)	Approximate percentage of interest in corporation
Martin Currie (Holdings) Limited (Note 2)	Interest in controlled corporation	79,724,960(L)	6.89%
Martin Currie Limited (Note 2)	Interest in controlled corporation	79,724,960(L)	6.89%
Martin Currie Inc. (Note 2)	Interest in controlled corporation	74,493,760(L)	6.43%
China Fund, Inc. (Note 2)	Interest in controlled corporation	72,353,760(L)	6.25%
Martin Currie Investment Management (Note 2)	Interest in controlled corporation	5,231,200 (L)	0.45%

Notes:

1. The letter “L” denotes long positions in the Shares.

2. The China Fund, Inc. is a closed ended, non-diversified management investment company registered under the US Investment Company Act of 1940 and incorporated in Maryland, the United States. Martin Currie Limited, a company incorporated in New York, the United States, is the investment manager to the China Fund, Inc.Martin Currie Inc. is wholly owned by Martin Currie Limited, a company incorporated in Scotland, the United Kingdom. Martin Currie Investment Management is also wholly owned by Martin Currie Limited, a company incorporated in Scotland, the United Kingdom. Martin Currie Limited is a wholly-owned subsidiary of Martin Currie (Holdings) Limited, which is a company incorporated in Bermuda.

Save as disclosed herein so far as is known to the Directors, as at the Latest Practicable Date, no person (not being a Director or chief executive of the Company) had an interest or a short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other company which is a subsidiary of the Company, or in any options in respect of such share capital.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors and their respective associates were considered to have interests in businesses apart from the Group's businesses which compete, or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules.

5. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Enlarged Group. As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2010 (being the date up to which the latest published audited accounts of the Group were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Enlarged Group.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had or intended to enter into any service contract with any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation (other than statutory compensation).

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any material litigation or claims and, so far as the Directors were aware, no material litigation or claims are pending or threatened by or against any companies of the Enlarged Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) had been entered into by the Enlarged Group within the two years preceding the date of this circular and up to the Latest Practicable Date which are or may be material:

(i) An agreement dated 15 June 2009 entered into between CMS Pharmaceutical Agency Company Limited and Synda Limited in relation to the sale and purchase of shares representing 24.49% of the issued share capital of Ophol Limited for a cash consideration of RMB6,000,000.

(ii) A memorandum dated 15 March 2009 entered into between CMS Pharmaceutical Agency Company Limited and Karl Luschmann under which CMS Pharmaceutical Agency Company Limited agreed to the transfer of such number of shares representing 24.49% of the issued share capital of Ophol Limited to Karl Luschmann for a cash consideration of RMB6,000,000. Under the memorandum, Karl Luschmann also agreed to bear a portion of the deferred payment of RMB4,500,000 payable by CMS Pharmaceutical Agency Company Limited to Winpro Development Limited for the acquisition of 73.47%

of the issued share capital of Ophol Limited proportional to its shareholding in Ophol Limited.

(iii) An agreement dated 15 June 2009 entered into between CMS Pharmaceutical Agency Company Limited and Karl Luschmann in relation to the sale and purchase of shares representing 24.49% of the issued share capital of Ophol Limited for a cash consideration of RMB6,000,000.

(iv) An agreement dated 15 December 2009 entered into between Shenzhen Kangzhe Pharmaceutical Technology Development Company Limited and Shenzhen Kangzhe Enterprise Investment Co. Ltd. in relation to the sale and purchase of 30% equity interest in Shenzhen Shenke Medical Instrument Technological Development Limited for a cash consideration of RMB1,764,705.

(v) An agreement dated 15 December 2009 entered into between Shenzhen Kangzhe Pharmaceutical Technology Development Company Limited and Mr. Gu Qun in relation to the sale and purchase of 7% equity interest in Shenzhen Shenke Medical Instrument Technological Development Limited for a cash consideration of RMB411,765.

(vi) An agreement dated 15 December 2009 entered into between Shenzhen Kangzhe Pharmaceutical Technology Development Company Limited and Mr. Hu Jifan in relation to the sale and purchase of 7% equity interest in Shenzhen Shenke Medical Instrument Technological Development Limited for a cash consideration of RMB411,765.

(vii) An agreement dated 15 December 2009 entered into between Shenzhen Kangzhe Pharmaceutical Technology Development Company Limited and Mr. Tan Yonghong in relation to the sale and purchase of 7% equity interest in Shenzhen Shenke Medical Instrument Technological Development Limited for a cash consideration of RMB411,765.

(viii) An agreement dated 17 December 2009 entered into between Shenzhen Kangzhe Pharmaceutical Technology Development Company Limited, Mr. Ma Qin and Ms. Pang Lirong in relation to the sale and purchase of the entire equity interest in Boundless Horizon(ShangDong) Appliances Company Limited for nil consideration.

(ix) An agreement dated 19 April 2010 entered into between Sino Talent Limited, the Company and Mr. Hui Ki Fat in relation to the sale and purchase of four issued shares in the share capital of Sky United Trading Limited for a consideration of HK$15,407,828 which was satisfied by the Company issuing and allotting 263,833 Shares of nominal value US$0.1 each credited as fully paid up to Archiever Development Limited, a company wholly-owned by Mr. Hui.

(x) An underwriting agreement dated 14 September 2010 entered into between UBS AG, Hong Kong Branch, China Everbright Securities (HK) Limited, Guotai Junan Securities (Hong Kong) Limited, Kingsway Financial Services Group Limited, Treasure Sea, Mr. Lam Kong and the Company in relation to the public offering of initially 20,000,000 Shares (subject to adjustments).

(xi) A purchase agreement dated 21 September 2010 entered into between UBS AG, Hong Kong Branch, DBS Asia Capital Limited, Treasure Sea, Mr. Lam Kong and the Company in relation to the international placing of initially 180,000,000 Shares (subject to adjustments and the over-allotment option).

(xii) An agreement dated 6 January 2011 and entered into between Generous Wealth Limited and Tianjin kangchenruixin Pharmaceutical Group Co., Ltd. (天津康晨瑞信医药集团有限公司) in relation to the transfer of 100% equity interest in Tianjin Precede from Tianjin kangchenruixin Pharmaceutical Group Co., Ltd. to Generous Wealth Limited for a cash consideration of RMB122,921,100.

(xiii) The Share Purchase Agreement.

9. EXPERTS AND CONSENTS

Name	Qualification
Shinewing (HK) CPA Limited	Certified Public Accountants
Deloitte Touche Tohmatsu	Certified Public Accountants

Each of Shinewing (HK) CPA Limited and Deloitte Touche Tohmatsu has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, none of Shinewing (HK) CPA Limited and Deloitte Touche Tohmatsu was interested in any Share or share in any member of the Group nor did it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Share or share in any member of the Group.

As at the Latest Practicable Date, Shinewing (HK) CPA Limited and Deloitte Touche Tohmatsu did not have any direct or indirect interest in any asset which had been, since 31 December 2010, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

10. MISCELLANEOUS

a) The registered office of the Company is at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands and the principal place of business of the Company in Hong Kong is at Unit 2106, 21/F Island Place Tower 510 King's Road, North Point, Hong Kong.

b) The Company's Hong Kong branch share registrars and transfer office is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

c) The company secretary of the Company is Mr. Hui Vincent Wing Sin, who is a member of the Hong

Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants.

d) The English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company’s principal place of business in Hong Kong at Unit 2106, 21/F Island Place Tower 510 King’s Road, North Point, Hong Kong during normal business hours from the date of this circular up to and including 13 May 2011:

(a) the memorandum and articles of association of the Company;

(b) the material contracts referred to in the section headed “Material Contracts” in this appendix;

(c) the Company’s prospectus containing financial information for three financial years ended 31 December 2007, 2008 and 2009 and the Company’s annual report for the financial year ended 31 December 2010;

(d) the accountant’s report from Shinewing (HK) CPA Limited on the audited financial information on the Target Group as set out in Appendix II to this circular;

(e) the accountant’s report from Deloitte Touche Tohmatsu on the unaudited pro-forma financial information on the Enlarged Group as set out in Appendix III to this circular; and

(f) this circular.