



China Medical System Holdings Limited

Placing and Admission to AIM

Nominated Adviser

Evolution 
SECURITIES

Financial Adviser & Broker

evolution 
SECURITIES CHINA



THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, or the action you should take, you should consult with a person authorised for the purposes of the Financial Services and Markets Act 2000 ("FSMA") (or if you are a person outside the UK, otherwise duly qualified in your jurisdiction) who specialises in advising on the acquisition of shares and other securities in the United Kingdom.

This document, which is an admission document required by the AIM Rules, has been prepared in connection with the proposed placing and subsequent admission to trading of the Company's entire issued and to be issued Ordinary Shares on AIM. This admission document has been drawn up in accordance with the AIM Rules. This document does not constitute a prospectus as defined in the AIM Rules and contains no offer of transferable securities to the public within the meaning of sections 85 and 102B of FSMA and has not been drawn up in accordance with the Prospectus Rules. This document does not constitute an offer to the public within the meaning of FSMA or otherwise. A copy of this admission document has been delivered to the London Stock Exchange as an admission document in respect of the Ordinary Shares but has not and will not be delivered to the Financial Services Authority for filing or approval.

No offer or invitation to subscribe for Ordinary Shares may be made to the public in the Cayman Islands. This Admission Document and the Ordinary Shares offered here have not been, and will not be, registered under the laws and regulations of the Cayman Islands, nor has any regulatory authority in the Cayman Islands passed comment upon or approved the accuracy or adequacy of this Admission Document. There is no investment compensation scheme available to investors in the Cayman Islands. **Application has been made for all of the Ordinary Shares, issued and to be issued, to be admitted to trading on AIM, a market operated by the London Stock Exchange. It is expected that Admission will become effective and that dealings for normal settlement in the Ordinary Shares will commence on 26 June 2007.**

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UKLA. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The AIM Rules are less demanding than those of the Official List of the UKLA. It is emphasised that no application is being made for admission of the Ordinary Shares to the Official List. No application has been made for the Ordinary Shares to be listed on any other recognised investment exchange. Each AIM company is required pursuant to the AIM Rules to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on Admission in the form set out in Schedule Two to the AIM Rules for nominated advisers. Neither the UKLA nor the London Stock Exchange have examined or approved the contents of this document.

CHINA MEDICAL SYSTEM HOLDINGS LIMITED

(Incorporated in the Cayman Islands with registration number MC-179153)

Placing of 7,246,376 New Ordinary Shares at 138p per Share

and

Admission to trading on AIM

Evolution Securities Limited

Nominated Adviser

Evolution Securities China Limited

Financial Adviser and Broker

Ordinary Share Capital immediately following the Placing and Admission

Authorised			Issued and fully paid	
Amount	Number		Amount	Number
\$100,000,000	1,000,000,000	Ordinary Shares of US\$0.10 each	\$4,724,637.60	47,246,376

This document has not been approved by or filed with the Securities and Futures Commission in Hong Kong, the Registrar of Companies in Hong Kong or any other regulator in Hong Kong and, accordingly:

- the Ordinary Shares may only be offered or sold in Hong Kong to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in other circumstances which do not constitute an offer to the public in Hong Kong for the purposes of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) or the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or superseded from time to time; and
- only persons permitted to do so under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) may issue or have in their possession for the purposes of issue, any advertisement, invitation or document relating to the Ordinary Shares, except where Ordinary Shares are intended to be disposed of to persons outside Hong Kong or to be disposed of in Hong Kong only to persons whose ordinary business involves the acquisition, disposal or holding of securities, whether as principal or agent.

This document has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Ordinary Shares may not be circulated or distributed, nor may the Ordinary Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than institutional investors (as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore ("SFA")), accredited investors as defined in Section 4A of the SFA or any other person pursuant to an offer that is made on terms that Ordinary Shares are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and in accordance with the provisions of the SFA unless otherwise permitted by law (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Where the Ordinary Shares are subscribed or purchased under Section 275 of the SFA by a relevant person, each of: (A) A corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (B) A trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Ordinary Shares under Section 275 of the SFA except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

The Company whose registered office appears on page 8 of this document and the directors of the Company, whose names appear on page 8 of this document, accept individual and collective responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Company and of the directors of the Company, each of whom has taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information. The Ordinary Shares being placed will, following allotment, rank *pari passu* in all respects with the existing issued ordinary share capital of the Company on Admission including the right to receive all dividends and other distributions declared on the Ordinary Shares after Admission.

Evolution Securities Limited, which is regulated and authorised in the UK by the Financial Services Authority, is acting as Nominated Adviser (for the purpose of the AIM Rules) exclusively for the Company in connection with the proposed Placing and Admission. The responsibilities of Evolution Securities as Nominated Adviser under the AIM Rules and the AIM Rules for nominated advisers are owed solely to the London Stock Exchange and are not owed to the Company or any Director or to any other person, whether in respect of any decision to acquire Placing Shares in reliance on any part of this document or otherwise. Evolution Securities Limited is not acting for, and will not be responsible to, any persons other than the Company for providing the protections afforded to customers of Evolution Securities Limited or for providing advice in relation to the contents of this document, the Placing, the application for Admission or other arrangements described in this document. No representation or warranty, express or implied, is made by Evolution Securities Limited as to the contents of this document (without limiting the statutory rights of any person to whom this document is issued) and Evolution Securities Limited has not authorised any part of this document for the purposes of the Prospectus Rules. No liability is accepted by Evolution Securities Limited for the accuracy of any information or opinions contained in, or for the omission of any material information from, this document for which the Company and its Directors are solely responsible.

Evolution Securities China Limited is acting exclusively as financial adviser and broker to the Company in connection with the Placing and proposed admission of the Ordinary Shares to trading on AIM. Evolution Securities China Limited, which is authorised and regulated in the UK by the Financial Services Authority, will not be responsible to anyone other than the Company for providing the protections afforded to clients of Evolution Securities China Limited, or for providing advice in relation to the contents of this admission document or any other matter. No representation or warranty express or implied is made by Evolution Securities China Limited as to the contents of this document and Evolution Securities China Limited disclaims any liability whatsoever for the accuracy of the information contained in this document or for the omission of any information from this document. Evolution Securities China Limited has not authorised the contents of any part of this admission document.

No action has been taken or will be taken in any jurisdiction by the Company, Evolution Securities Limited or Evolution Securities China Limited that would permit a public offer of Ordinary Shares in any jurisdiction where action for that purpose is required, nor has any such action been taken with respect to the possession or distribution of this document. Persons into whose possession this document comes are required by the Company, Evolution Securities Limited and Evolution Securities China Limited to inform themselves about and to observe any restrictions as to the Placing and the distribution of this document. Any failure to comply with these restrictions may constitute a violation of the securities law of such jurisdiction.

The Ordinary Shares are being offered to certain institutional investors in the United Kingdom and certain other jurisdictions. The Ordinary Shares have not and will not be registered under the US Securities Act 1933, as amended, or under the applicable state securities laws of any state of the US, or under the applicable securities laws of Australia, Canada, Republic of South Africa, Republic of Ireland or Japan. Subject to certain exceptions, the Ordinary Shares may not be offered or sold within the US, Australia, Canada, Republic of South Africa, Republic of Ireland or Japan or to or for the account of or benefit of any national, resident or citizen of the US, or any person resident in Australia, Canada, Republic of South Africa, Republic of Ireland or Japan. This document does not constitute an offer to sell or a solicitation of an offer to purchase or subscribe for Ordinary Shares in any jurisdiction where it is unlawful to make such offer or solicitation.

Prospective investors should read the whole text of this admission document. An investment in the Company involves a significant degree of risk, may result in the loss of the entire investment and may not be suitable for all recipients of this document. Your attention is drawn to the section entitled "Risk Factors" set out in Part IV of this admission document that should be taken into account in considering whether to invest in the Ordinary Shares. All statements regarding the Company's business, financial position and prospects should be viewed in the light of these risk factors.

Copies of this admission document, which is dated 21 June 2007 will be available free of charge during normal business hours on any day (except Saturdays, Sundays and public holidays) at the office of Evolution Securities Limited for a period of at least one month from the date of Admission.

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DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

“Act”	the Companies Act 1985 as amended, or the Companies Act 2006
“Adjusted Net Profit Margin”	profit for the year excluding share-based payment expenses, employee benefit recognised and research and development costs as a percentage of turnover
“Admission”	the admission of the Existing Ordinary Shares and the Placing Shares to trading on AIM and such admission becoming effective in accordance with the AIM Rules
“AIM”	the AIM market operated by the London Stock Exchange
“AIM Rules”	the rules and guidance notes for AIM companies and their nominated advisers issued by the London Stock Exchange from time to time in relation to AIM traded securities and the operation of AIM
“Articles” and “Articles of Association”	the articles of association of the Company
“Board”	the board of directors of the Company for the time being, including a duly constituted committee of the directors as of the date of this document
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Cayman Islands”	the British Overseas Territory of the Cayman Islands
“certificated” or “in certificated form”	an Ordinary Share which is not in uncertificated form (that is, not in CREST)
“CMS” or “Company”	China Medical System Holdings Limited, a company incorporated in the Cayman Islands under the Act with registration number MC-179153
“CMS Group” or “the Group”	CMS and its subsidiaries
“CMS International”	CMS International Investment Limited, a company incorporated in the British Virgin Islands
“CMS Peptides”	CMS Peptides Patent Holding Company Limited, a company incorporated in BVI, a 70 per cent. owned subsidiary of the Group
“Combined Code”	the revised principles of Combined Code on Corporate Governance published in June 2006 by the Financial Reporting Council and appended to, but not forming part of, the Listing Rules published by the UKLA
“Companies Law”	the Companies Law (2004 Revision) of the Cayman Islands
“CREST”	the computer based system and procedures administered by CRESTCo Limited which enable title to securities to be held and transferred without a written instrument
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended
“Crosspac Group”	Crosspac Group Limited, a company incorporated in BVI

“Deed Poll”	the deed entered into by the Depositary for the creation and issue of DI’s, a summary of which is contained in paragraph 15 of Part VI of this document
“Depositary”	Computershare Investor Services plc of The Pavilions, Bridgwater Road, Bristol BS99 7NH
“DI” or “Depositary Interests”	the CREST depositary interests representing an entitlement to Ordinary Shares, further details of which are contained in the CREST International Manual
“Directors”	the directors of the Company whose names appear on page 8 of this document and “Director” means any one of them
“Disclosure and Transparency Rules”	the rules made in accordance with section 73A(3) of FSMA relating to the disclosure of information in respect of financial instruments which have been admitted to trading on a regulated market
“Enlarged Issued Share Capital”	the Ordinary Shares in issue immediately following Admission, including the Placing Shares
“Evolution Securities”	Evolution Securities Limited, the Company’s nominated adviser for the purposes of the AIM Rules, authorised and regulated in the UK by the Financial Services Authority
“Evolution Securities China” or “Evolution China”	Evolution Securities China Limited, the Company’s financial adviser and broker for the purposes of the AIM Rules, a member of the London Stock Exchange and authorised and regulated in the UK by the Financial Services Authority
“Evolution Securities China Option”	the option to acquire Ordinary Shares granted to Evolution China by the Company, conditional upon Admission, further details of which are set out in paragraph 9.3 of Part VI of this document
“Existing Ordinary Shares”	the Ordinary Shares in issue immediately prior to Admission
“FDA”	the US Food and Drug Administration
“FSA” or “Financial Services Authority”	the Financial Services Authority of the United Kingdom, the single statutory regulator under FSMA
“FSMA”	the Financial Services and Markets Act 2000, as amended, including any regulations made pursuant thereto
“GMP”	Good Manufacturing Practice
“Healthlink”	Healthlink Consultancy Inc, a company incorporated in BVI
“HK\$”	Hong Kong Dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Kangzhe BVI”	Kangzhe Pharmaceutical Industrial Ltd., a company incorporated in BVI
“Kangzhe Hunan”	Kangzhe (Hunan) Medical Company Limited, a sino-foreign equity joint venture incorporated in PRC
“Kangzhe Industrial”	Shenzhen Kangzhe Industrial Investment Company Limited, a company incorporated in PRC (not a member of the Group)
“Kangzhe Shenzhen Medical Instrument”	Shenzhen Kangzhe Medical Instrument Company Limited, a company incorporated in PRC

“Kangzhe Shenzhen Pharmaceutical”	Shenzhen Kangzhe Pharmaceutical Company Limited, wholly foreign owned enterprise incorporated in PRC
“Kangzhe Shenzhen R&D”	Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited, a company incorporated in PRC
“Kaplan-Meier Survival Curve”	the survival curve using the statistical method known as Kaplan Meier to describe the overall survival profile for patients participating in the clinical trials
“Lock-in Agreements”	the agreements not to dispose of Ordinary Shares, details of which are set out in paragraph 8 of Part VI of this document
“London Stock Exchange”	London Stock Exchange plc
“National ‘863’ Program”	the Hi-Tech Research and Development Program of China
“Official List”	the official list of the UK Listing Authority
“Ordinary Shares” or “Shares”	the ordinary shares of US\$0.10 each in the capital of the Company
“P-Value”	a statistics term. A measure of probability that a difference between groups during an experiment happened by chance. For example, a p-value of .01 ($p = .01$) means there is a 1 in 100 chance the result occurred by chance. The lower the p-value, the more likely it is that the difference between groups was caused by treatment
“PCT”	Patent Co-operation Treaty
“Pepharm R&D (BVI)”	Pepharm R&D (BVI) Limited, a company incorporated in BVI (not a member of the Group)
“Pepharm R&D (HK)”	Pepharm R&D Limited, a company incorporated in Hong Kong (not a member of the Group)
“Pharmapep Hunan”	Hunan Pharmapep Zhongnan R&D Company Limited, a company incorporated in the PRC
“Placing”	the conditional placing by Evolution China, as agent for the Company, of the Placing Shares at the Placing Price pursuant to the terms of the Placing Agreement described in paragraph 9.1 of Part VI of this document
“Placing Agreement”	the conditional agreement dated 21 June 2007 between the Company, the Directors, Evolution Securities China, Evolution Securities and Treasure Sea Limited relating to the Placing, further details of which are set out in paragraph 9.1 of Part VI of this document
“Placing Price”	the price of 138p per Placing Share
“Placing Shares”	the 7,246,376 new Ordinary Shares to be issued pursuant to the Placing
“the PRC” or “China”	the People’s Republic of China, which, for the purposes of this Admission Document, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and the Republic of Taiwan
“Prospectus Directive”	directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading

“Qingdao League”	Qingdao League Pharmaceutical Company Limited, a company incorporated in the PRC
“R&D”	research and development
“Registrars”	Computershare Investor Services (Channel Islands) Ltd, PO Box 83, Ordnance House, 31 Pier Road, St Helier, Jersey JE4 8PW Channel Islands
“Renminbi” or “RMB”	the lawful currency of the PRC from time to time
“Reporting Accountants”	Deloitte & Touche LLP
“SAFE”	the State Administration Bureau of Foreign Exchange of the PRC
“SFDA”	State Food and Drug Administration in the PRC
“Share Dealing Code”	the code on dealings in the Company’s securities adopted by the Company conditionally on Admission
“Shareholder”	a holder of Ordinary Shares
“Shenzhen Shenke”	Shenzhen Shenke Medical Instrument Technical Development Company Limited, a company incorporated in the PRC
“Sino Talent”	Sino Talent Limited, a company incorporated in Hong Kong
“Sky Limited”	Sky United Trading Limited, a company incorporated in Hong Kong
“Takeover Code”	the Takeover Code published by the Panel on Takeovers and Mergers
“Treasure Sea Limited”	Treasure Sea Limited, a company registered in the British Virgin Islands, controlled by Mr. Lam Kong, Chairman and CEO of the Company
“TRIPS”	the Agreement on Trade Related Aspects of Intellectual Property Rights, a treaty administered by the WTO
“UK Listing Authority” or “UKLA”	the Financial Services Authority, acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“US\$”	United States Dollars
“uncertificated” or “in uncertificated form”	an Ordinary Share recorded in the Company’s register as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
“WFOE”	wholly foreign owned enterprise in the PRC
“WTO”	World Trade Organisation
“£”	UK pounds sterling

PLACING STATISTICS

Placing Price per Placing Share	138 pence
Gross proceeds raised by the Placing	£10 million
Estimated net proceeds of the Placing receivable by the Company	£8 million
Number of new Ordinary Shares being issued pursuant to the Placing	7,246,376
Number of Ordinary Shares in issue immediately following the Placing and Admission	47,246,376
Placing Shares as a percentage of the Enlarged Issued Share Capital on Admission	15.34
Market capitalisation of the Company following the Placing at the Placing Price	£65.2 million
AIM symbol for the Ordinary Shares	CMSH
ISIN number	KYG211081081

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of Admission document	21 June 2007
Admission becomes effective and dealings in the Ordinary Shares to commence on AIM	26 June 2007
Expected date for CREST accounts to be credited	26 June 2007
Despatch of definitive share certificates by no later than	29 June 2007

All times are London times and each of the times and dates above may be subject to change.

EXCHANGE RATES

Example exchange rates are set out below to assist in the understanding of this document:

£1: US\$1.98

£1: RMB15.19

£1: HK\$15.46

Please note that these exchange rates were not used in the production of the financial information included in this document.

DIRECTORS, SECRETARY AND ADVISERS

Directors	<p><u>Lam</u> Kong (<i>Chairman and Chief Executive Officer</i>) <u>Chen</u> Hongbing (<i>Executive Vice President and Chief Operating Officer</i>) <u>Hou</u> Xiaoxuan (<i>Vice President</i>) <u>Chen</u> Yanling (<i>Chief Financial Officer</i>) <u>Hui</u> Ki Fat (<i>Executive Director</i>) Stuart Hamilton <u>Leckie</u> (<i>Independent Non-Executive Director</i>) Paul Bernard <u>Harper</u> (<i>Independent Non-Executive Director</i>)</p>
Registered Office	<p>Maples & Calder Corporate Services Limited PO Box 309GT Ugland House, South Church Street George Town, Grand Cayman Cayman Islands Tel: + 1 345 949 8066</p>
Head Office	<p>2/F, Shenyao Building Bagua 3rd Road Shenzhen 518029 People's Republic of China Tel: +86-755-82416868</p>
Company's website	<p>http://www.chinamedicalsystem.com</p>
Company Secretary	<p>Vincent Wing Sin Hui</p>
Nominated Adviser	<p>Evolution Securities Limited 100 Wood Street London EC2V 7AN</p>
Financial Adviser and Broker	<p>Evolution Securities China Limited 29-30 Cornhill London EC3V 3ND United Kingdom</p> <p>3606 Jin Mao Tower 88 Century Boulevard Pudong New Area Shanghai 200121, PRC</p>
Legal Advisers to the Company	<p>Hammonds England 7 Devonshire Square Cutlers Gardens London EC2M 4YH</p> <p>Hammonds Hong Kong Suite 1710 Jardine House 1 Connaught Place Central, Hong Kong</p> <p>Hammonds Beijing Suite 1419-1420 South Tower Beijing Kerry Centre 1 Guang Hua Road Chao Yang District Beijing 100020 PRC</p>

Cayman Islands Legal Advisers to the Company	Maples & Calder PO Box 309GT Ugland House, South Church Street George Town, Grand Cayman Cayman Islands
PRC Legal Advisers to the Company	Zhonglun Law Firm 18/F Shenzhen Development Bank Tower 5047 Shennan Road East Shenzhen, PRC
UK and Hong Kong Legal Advisers to the Nominated Adviser	Pinsent Masons CityPoint 1 Ropemaker Street London EC2Y 9AH Pinsent Masons 50th Floor Central Plaza 18 Harbour Road Hong Kong
Reporting Accountants	Deloitte & Touche LLP City House 126-130 Hills Road Cambridge CB2 1RY
Auditors to the Company	Deloitte Touche Tohmatsu 35/F One Pacific Place 88 Queensway Hong Kong
Registrars	Computershare Investor Services (Channel Islands) Ltd PO Box 83 Ordnance House 31 Pier Road St Helier Jersey JE4 8PW Channel Islands
Depository Interest Registrars	Computershare Investor Services Plc PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH United Kingdom

PART I

KEY INFORMATION

The following is derived from, and should be read in conjunction with, the full text of this document and prospective investors should read the whole document and not just rely on the key information set out below. In particular, attention is drawn to Part IV of this document, which is entitled "Risk Factors".

Introduction

The Group is an integrated and profitable pharmaceutical group focusing on research and development, manufacturing, distributing and marketing of prescription drugs, pharmaceutical products and medical equipment primarily in China. China Medical System Holdings Limited was incorporated on 18 December 2006 and became the holding company of the Group on 28 December 2006. The principal companies comprising the Group have been operating under the control of the Group's majority Shareholder, Mr. Lam, since his acquisition of Kangzhe Shenzhen Pharmaceutical through a PRC company in May 1995.

The Group's portfolio comprises five pharmaceutical products with exclusive distribution rights in the PRC, three in-house manufactured pharmaceutical products and a range of medical equipment. The products are aimed principally at the therapeutic areas of neurology, digestion, oncology, and ophthalmology. Further details of the Group's product portfolio are contained in Part III of this document.

Market Opportunity

Pharmaceutical market in the PRC

According to IMS Health, the total global pharmaceutical sales in 2005 grew 7 per cent. to US\$602 billion, and emerging markets, including China, experienced double-digit growth, outpacing global performance and signalling important shifts in the market place. China's pharmaceutical market was ranked ninth largest in the world in 2005, with total sales of US\$11.7 billion, representing the third consecutive year that the China market has achieved over 20 per cent. growth. IMS Health estimates that China will be the world's seventh largest pharmaceutical market by 2009. Boston Consulting Group, moreover, anticipates that China will be the world's fifth largest pharmaceutical market by 2010, IMS Health's view is that overall the total PRC pharmaceutical market is expected to grow at a compound annual growth rate of 16 per cent. to 19 per cent. from 2006 to 2010.

Key Strengths

- Successful track record of profitability and growth
- Exclusive distribution contracts
- Capability of introducing competitive products
- Promising R&D achievements and extensive drug pipeline
- Recognised R&D capability
- Nationwide sales and marketing network
- Certified GMP manufacturing capability
- Experienced and professional management team

Growth Strategy

- Expand the Group's sales and marketing network
- Enrich product portfolio for marketing
- Maximize sales of the Group's existing products in the Chinese market

- Continue engaging in new drug research and development
- Global R&D collaboration model

CMS Group, operating primarily in the PRC, will continue specialising in prescription drugs and will seek to achieve a competitive advantage through its integrated R&D, manufacturing, sales and marketing operations, with a view to maximising its opportunities to enhance profits in one of the fastest growing sectors in China.

Summary Financial Information

	<i>For the year ended 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Turnover	27,462	33,106	37,643
Gross profit	20,997	24,543	25,938
Profit before taxation, R&D expenses and share-based payment expenses	8,323	8,997	10,110
Profit before taxation and share-based payment expenses	6,419	6,873	8,370
Net profit for the year	4,202	4,808	3,949

The Directors are confident of achieving further growth in trading in 2007. Following the Company's strategy to add new products to enrich its drug portfolio, the Directors believe that growth in trading will remain strong throughout the current year.

PART II

INFORMATION ON THE GROUP

Introduction

The Group is an integrated and profitable pharmaceutical group focusing on research and development, manufacturing, distributing and marketing of prescription drugs, pharmaceutical products and medical equipment primarily in China. China Medical System Holdings Limited was incorporated on 18 December 2006 and became the holding company of the Group on 28 December 2006. The principal companies comprising the Group have been operating under the control of the Group's majority Shareholder, Mr. Lam, since his acquisition of Kangzhe Shenzhen Pharmaceutical through a PRC company in May 1995. Details of the Group are set out under "History of the Group" in this Part II and in Part VI of this document.

The Group's portfolio comprises five pharmaceutical products with exclusive distribution rights in the PRC, three in-house manufactured pharmaceutical products and a range of medical equipment. The products are aimed principally at the therapeutic areas of neurology, digestion, oncology, and ophthalmology. Further details of the Group's product portfolio are contained in Part III of this document.

In the past three years, the Group's gross profit and Adjusted Net Profit Margins have been stated at over 73 per cent. and 23 per cent. on average respectively. For the year ended 31 December 2006, profit before taxation, R&D expenses and share-based payment expenses was US\$10,110,000. As at 31 March 2007, the Group had 837 employees.

Sales and marketing is one of the most important core competencies of the Group. The Group has a sales team of more than 450 full time staff operating in 26 provinces and a number of major cities throughout China. Over 70 per cent. of the sales team have a professional background in medicine or pharmacy. The Group's principal products are marketed by its sales and marketing professionals and sold by approximately 280 distributors to approximately 3,000 hospitals in China.

The concerted effort of establishing the R&D platform and developing the Group's own patented products are the other important core competencies of the Group. Since the start of its R&D activities over 6 years ago, CMS Group has obtained 37 drug related patents in the PRC and 2 such patents overseas while it is in the process of applying for 21 drug related patents in the PRC and 94 such overseas. Among these are patented drugs for the treatment of primary liver tumour and non-small cell lung cancer, which have completed Phase IIb and Phase I clinical trials respectively in the PRC. The focus of the Group's R&D is on peptide and microbial ecological agent research, with particular emphasis on cancer, hepatitis, immune deficiency disorders, and gastrointestinal diseases.

CMS Group, operating primarily in the PRC, will continue specialising in prescription drugs and will seek to achieve a competitive advantage through its integrated R&D, manufacturing, sales and marketing, with a view to maximising its opportunities to enhance profits in one of the fastest growing sectors in China.

Market Opportunity

Pharmaceutical market in the PRC

According to IMS Health, the total global pharmaceutical sales in 2005 grew 7 per cent. to US\$602 billion, and emerging markets, including China, experienced double-digit growth, outpacing global performance and signalling important shifts in the market place. China's pharmaceutical market was ranked ninth largest in the world in 2005, with total sales of US\$11.7 billion, representing the third consecutive year that the China market has achieved over 20 per cent. growth. IMS Health estimates that China will be the world's seventh largest pharmaceutical market by 2009. Boston Consulting Group, moreover, anticipates that China will be the world's fifth largest pharmaceutical market by 2010. The IMS Health view is that, overall, the total PRC pharmaceutical market is expected to grow at a compound annual growth rate of 16 per cent. to 19 per cent. from 2006 to 2010.

Health status in the PRC

The MENET, an official website for distributing statistical data for the pharmaceutical market in the PRC, showed that among top 10 therapeutic drug classes by hospital sales in 2005 in China, the cancer and immune system drug is ranked number three with total sales of RMB22.1 billion, a market share of 14 per cent., and a 22 per cent. growth comparing to 2004.

Cancer in the PRC

Cancer is China's top killer. IMS Health has estimated US\$40 billion global sales of anti-cancer drugs in 2007.

(1) Liver cancer market

Liver cancer was the sixth most common cancer worldwide in 2002. Globally, approximately one million patients die of liver cancer per annum, which ranks as having the second highest malignant tumor mortality rate, below gastric cancer, in males, and ranks third for mortality rates from malignant tumors, below gastric cancer and esophagus cancer, in females. There were about 626,000 cases of liver cancer in the world in 2002, representing a global growth rate of 5.7 per cent. over 2001, with 55 per cent. of those cases occurring in China. The Group's self-developed drug product CMS024 is targeted at this market.

(2) Lung cancer market

Currently, in most developed countries, the type of cancer which ranks first in males and second in females in respect of malignant tumours is lung cancer. China was forecast to be the country with the highest incidence of lung cancer in 2005. China Daily forecast that if smoking and air pollution are not controlled in the PRC, its lung cancer patients would exceed one million per annum by 2025. The Group's licensed drug product WeiMaiNing Capsule and self-developed product CMS024-02 are targeted at this market.

Pharmaceutical R&D in the PRC

(1) Advantage of R&D in the PRC

In 2005, if research investments by member companies of the Pharmaceutical Research and Manufacturers of America (PhRMA), non-PhRMA members and other private and university research laboratories are taken into account, annual US biopharmaceutical research investment exceeded US\$90 billion. The Directors believe that there are huge advantages in conducting R&D in the PRC.

Pharmaceutical companies are constantly seeking new ways to reduce the cost and time involved in discovering and developing new drugs. One way to reduce the cost of drug development is to outsource the testing of new drugs to a Contract Research Organisation (CRO). A CRO provides clients with a wide range of pharmaceutical research services, including product development and formulation, clinical trial management as well as central laboratory services for processing trial data.

The Directors regard the competitive research costs, especially in human resources, as a compelling reason in making the PRC one of the best locations for outsourcing new drug R&D. For instance, companies conducting clinical trials in China can take advantage of a large population base and a diverse pool of patients, which are two factors that can accelerate clinical trials. In addition, the PRC's acceptance of traditional Chinese medicine brings a unique perspective to drug development.

The Company intends to continue to make use of the opportunities for outsourcing new drug R&D in the PRC.

The Directors are of the view that the rapid expansion of the PRC pharmaceutical market creates high potential returns for new drugs domestically. Through mergers and acquisitions and direct investment and contractual cooperation, multinational pharmaceutical companies have been setting up R&D centres in the PRC and have started to integrate the PRC R&D resources into their global R&D platform.

(2) *R&D status of the PRC*

Compared with international pharmaceutical research companies, investment in new drug R&D is relatively low in the PRC. According to the guideline of the Eleventh Five-Year Development of the Medical Industry, issued by the National Development and Reform Commission of the PRC, the proportion of total revenue from the medical sector invested into pharmaceutical R&D was 1.02 per cent. Insufficient investment in the PRC in new drugs R&D directly leads to a low level of innovation. It was reported that 96 per cent. of chemical drugs made in China are generic drugs. By way of comparison, for the three years between 2004 and 2006, R&D expenses excluding employee benefit recognised and share-based payment expenses in the Group constituted 6.93 per cent., 6.42 per cent. and 4.62 per cent. respectively of annual revenue.

According to the “National Guideline for Medium and Long term plans for Science and Technology Development (2006 – 2020)”, the PRC Government proposes to assist in new drug and advanced medical equipment research, in order to speed up the establishment of the national medical innovation platform, and to promote important new drug and medical device innovation.

Patent protection in the PRC has been improving. In 1992 and 2002 the PRC amended the laws for patent protection and in 2001 the PRC was admitted to the WTO and became a member of TRIPS. The Directors believe that these events have encouraged innovation in the pharmaceutical industry within the PRC.

In summary, the Directors believe that the opportunities for, and capabilities of, the Group to carry out patented drug R&D in the PRC indicate substantial development potential for the future.

History of the Group

Since its establishment, CMS Group has developed into a pharmaceutical group engaging in prescription drugs development through R&D, manufacturing and exclusive distribution of quality imported drugs. The original structure comprised two distinct groups of companies which are now under common ownership.

In December 2006, a share for share exchange agreement was entered into whereby China Medical System Holdings Limited was established as a holding company for the Group in order to reorganise the two separate groups into one. CMS is a Cayman Islands holding company and holds the following two groups of subsidiaries:

- (1) CMS International is the holding company for the production, promotion and sales of medical products. CMS International buys and sells pharmaceutical products mainly through its wholly owned subsidiary, Kangzhe Shenzhen Pharmaceutical, while the manufacturing side of the business is conducted by Kangzhe Hunan. In addition, CMS’s subsidiaries, Kangzhe Shenzhen Medical Instrument and Shenzhen Shenke, handle the medical devices arm of the business.
- (2) Healthlink is the holding company for the R&D function, of which CMS Peptides, the immediate 70 per cent. owned subsidiary, holds all the overseas patent rights. The remaining 30 per cent. of CMS Peptides is owned by Pepharm R&D (BVI), the sole owner of which is Dr. Waiming Wong, the Chief R&D Officer of the Group. The PRC patent rights are held by other wholly owned subsidiaries of the Group.

Immediately before Admission, 95.75 per cent. of the Company will be ultimately owned by six individuals who are all employees of the Group. The main controlling Shareholder is Mr. Lam Kong, who holds 85 per cent. of the Existing Ordinary Shares through Treasure Sea Limited (a BVI company). Five other Shareholders own 10.75 per cent. of the Existing Ordinary Shares, of which two Shareholders hold 5 per cent. each and the remaining three hold 0.25 per cent. each of the Existing Ordinary Shares. They all hold their shares through BVI companies. The remaining 4.25 per cent. of the Existing Ordinary Shares are held by 177 employees through a nominee account with Computershare Nominees (Channel Islands) Limited (“Computershare Nominees”).

Further details relating to the reorganisation of the CMS Group are set out at paragraph 3 of Part VI of this document.

Key Strengths

The Directors believe that the integration of the Group allows it to enhance profits from its R&D, manufacturing and sales and marketing activities, in addition to having the following competitive strengths:

Successful track record of profitability and growth

The Directors believe that the Group's investment in sales and marketing network enables it to benefit from greater operational efficiency and higher profit margins, as it increases the sales volumes of its products, and assists the introduction of additional products to its portfolio. The Group has achieved stable revenue growth in the past few years. The gross profit margin for the past three financial years was: 76.46 per cent., 74.13 per cent. and 68.91 per cent. respectively, and the Adjusted Net Profit Margin was 24.90 per cent., 22.02 per cent. and 23.05 per cent. respectively. The Directors believe that, based on figures for 2005, the Group's net profit margins were significantly higher than some of the pharmaceutical companies listed on the stock exchange of Hong Kong, Shenzhen and Shanghai.

Exclusive distribution contracts

The Group markets a number of therapeutic pharmaceutical products, including in-licensed and self-manufactured products. By the end of February 2007, the Group had five in-licensed products with exclusive distribution rights in China, comprising Deanxit, Ursofalk, Stulln, Ganfule and Weimaining, which target the antidepressant, digestion, ophthalmology and oncology markets. The Group's self-developed or manufactured products, including Jinerlun (Naloxone Hydrochloride Injection), Liernuo (Somatostatin Injection) and Shierxing (Doxycycline Hyclate Capsule), also contribute to the Group's sales performance.

Capability of introducing competitive products

In January 2007 CMS had in-licensed three new products with exclusive distribution rights in China, which suggests that further competitive products are likely to be attracted into CMS. Newly introduced products can also strengthen the Group's marketing network. The Directors consider that the continuing introduction of competitive products can ensure the development of CMS and create synergies to create sustainable revenue. In the past, CMS has successfully developed relationships with small and medium sized overseas drug manufacturers. CMS aims to introduce at least two new products each year to broaden its pharmaceutical distribution portfolio.

Promising R&D achievements and extensive drug pipeline

The Group has six products under development, which are mainly derived from peptides and microbiological sources. Tyrosyleutide (CMS024), one of the Group's most advanced self-developed innovative products has already completed Phase IIb clinical trials in the PRC. "Orphan Drug" status from the FDA was obtained in 2004. CMS024 has been proven in the clinical trials to inhibit growth of primary liver cancer in terminal cancer patients and prolong life by three months, and also to reduce the toxicity of chemotherapy in a combined treatment. The Directors believe that given the conclusiveness of the results in the clinical trials in Phase IIb, it is possible that the SFDA may approve the drug for sale in China without requiring Phase III clinical trials. Application for the approval of the sale of CMS024 in the PRC has been submitted to the SFDA and it has passed the technical examination by the SFDA. The Directors anticipate that CMS024 will be one of the first peptides for treatment of liver cancer in the world. In addition, Tyroservatide (CMS024-02), a compound used for the treatment of non-small cell lung cancer, completed Phase I clinical trials in the PRC in November 2006. Details of the Group's products under development are set out in paragraph 5 of Part III of this document.

Recognised R&D capability

As of 31 March 2007 the Group's research and development team comprised over 35 research personnel and medical professionals. Meanwhile, CMS has maintained collaborations with medical universities and colleges and research institutes in China. As a result of its efforts over a number of years, CMS has built a team of R&D professionals, who are experienced in both pre-clinical research and clinical trials and has established an R&D base. To date, the Group has filed 68 patent applications in China, in respect of which 37 drug related patents have been granted. 96 overseas applications have

been filed through CMS Peptides, a 70 per cent. owned subsidiary of the Group, with two patents for pharmaceutical substances having been granted.

Nationwide sales and marketing network

Over the years, the Group's sales and marketing team and licensed drug products have enabled the Group to become a profitable pharmaceutical group in China. The Group has a sales and marketing force in 26 provinces and a number of major cities in China, comprising more than 450 full-time staff, over 70 per cent. of which have professional backgrounds in medicine or pharmacy. As the exclusive agent for certain imported drugs in China, CMS distributes its products through approximately 280 distributors to approximately 3,000 hospitals nationwide in China. The Directors believe that the sales teams' professionalism has gained recognition through its extensive market network and allowed it to build up stable relationships with doctors.

Certified GMP manufacturing capability

In 1996, CMS successfully acquired a manufacturing facility in Hunan, which is located in the middle of Southern China, now called Kangzhe Hunan. Since March 2006, the manufacturing plant has been issued with GMP certificates for the production of the following dosage forms: tablets, capsules, granules, powders, small volume parenteral solutions, lyophilized powders for injection and raw materials of peptides (Thymopetin). With the manufacturing capacity of Kangzhe Hunan, the Directors believe that the Group can manufacture its own self-developed products at a cost lower than outsourced production thereby enhancing its competitiveness in the Chinese market.

Experienced and professional management team

The Board and senior management of the Group, with most members holding degrees in medicine or pharmacy, have many years of experience in the pharmaceutical industry. The Directors are of the view that they have a comprehensive understanding of Chinese regulatory policies, the market environment and development trends in the PRC pharmaceutical sector.

Growth Strategy

Expand the Group's sales and marketing network

The Group proposes to increase the number of sales and marketing professionals with the intention of continuing to expand into targeted markets and further penetrate into leading hospitals, both within and outside the Group's existing network. The Directors believe that its extensive sales and marketing network is a key factor to the Group's performance.

Enrich product portfolio for marketing

The Directors pay close attention to products with good prospects that have proven sales records in China. Through acquisition or in-licensing, the Group intends to introduce selectively more products with a proven sales record and growth potential in China into the Group's portfolio. The Group aims to utilise fully its enriched product portfolio and existing professional sales and marketing network with a view to generating strong profit growth.

Maximize sales of the Group's existing products in the Chinese market

With an established sales and marketing platform and good relationships with doctors, the Directors are confident in the Group's ability to maintain the competitiveness of its current products, Deanxit and Ursolfalk, in the anti-depressants and digestive markets. In addition, there is also an opportunity to increase the sales of other new in-licensed products, including Stulln, Ganfule and Weimaining which are targeted at the therapeutic areas of ophthalmology and oncology. By building good relationships with hospitals, the Group is striving to maximize its sales through its marketing efforts.

Continue engaging in new drug research and development

New drug R&D is one of the most important activities of the CMS Group. As a result of several years' effort, the Group has developed a diversified pipeline of peptide and micro-organism-based candidates, and a number of them are in different stages of development. The Group's research projects mainly

concentrate on highly prevalent illnesses with few satisfactory treatments in China, such as tumors and hepatitis B. CMS' most mature candidate, CMS024, is pending market approval by the SFDA. Apart from continuing the development of current projects, the Directors plan to research and develop additional drug candidates to expand the Group's R&D pipeline.

Global R&D collaboration model

CMS strives to seek opportunities to collaborate with Western research institutes, medical universities or small/medium sized biotechnology companies. The Directors believe that there are many outstanding basic research projects involving advanced research technologies generated in Western research institutes, medical schools, colleges and small and medium sized biotechnology companies, which are restricted by financial constraints from further development. In China, raw materials and human resources are cheaper than those in more developed countries. Taking full advantage of Chinese resources and the Group's R&D platform, CMS intends to attract high quality projects into China for further development. Through in-licensing the Directors believe that the Group is able to conduct the preclinical research and clinical trials, from Phase I to Phase III, in China with relatively lower costs and over shorter periods. Once a product is finally approved for marketing in China, CMS intends to obtain the distribution rights in China. Meanwhile, when clinical trials are undertaken, CMS can also out-license the relevant products to Western organisations to apply for investigational new drug clinical trials to pave the way for development in the global market. The Company may seek further investment from such sources as the US or EU biotechnology venture funds to carry out investigational new drug clinical trials in China. An international team of experts may also be invited to sit on the Group's advisory committee.

Intellectual Property

The Directors intend to build the Group's intellectual property platform by internal research and development and cooperating with other research institutes. The intellectual property would also provide licensing and royalty opportunities and thus create the potential to generate an additional source of revenue.

CMS has been utilising intellectual property to protect the Group's research achievements against potential competitors. In order to exploit overseas markets in the future, the Group endeavours to make applications through CMS Peptides under the PCT internationally for any potential innovative technologies. Generally a combined set of peptides is filed under a single PCT application, thereby lowering initial registration costs. Once a certain peptide is identified with outstanding results, it will be separated from the original application and processed individually.

IP management system

The Group has formulated a system for managing intellectual property. In order to promote working efficiency, all intellectual property matters of the Group are centrally co-ordinated by the Group's legal department. The Group has also signed confidentiality agreements with key employees to ensure that all innovative products developed belong to the Group. In order to manage the effectiveness of its intellectual property projects, the Group has engaged independent professional organisations, both domestic and overseas, to carry out the main intellectual property functions. Advice from professional consultants has been obtained to strengthen the Group's intellectual property strategy and to ensure sufficient intellectual property protection.

Achievements

CMS024 is at the most advanced stage among all of CMS's research projects and has completed Phase IIb clinical trials in the PRC. A PCT application was filed on the basis of US priority followed by a total of 29 patent applications covering 28 jurisdictions including China, the United States and Europe to secure the substance patent. At present, the applications have been granted in China, South Africa and Singapore. Additionally, two other applications have been filed in China to protect the manufacturing process of the peptide and the detection method of the anti-cancer effect of the peptide. The former one has been granted and the other is still pending approval.

The Directors take the view that CMS024-02 is another important research achievement of CMS, which has completed Phase I clinical trials in the PRC. A PCT application was filed on the basis of US priority followed by 23 patent applications covering 23 jurisdictions, including China, the United States and Europe to secure the substance patent. All applications are currently pending approval. Additionally, two other applications have been filed in China to protect the manufacturing process of the peptide and the biologically active peptide comprising the sequence of CMS02402 and its use. The latter application was filed on the basis of the Chinese application of CMS02402 and both are pending.

CMS017 (IVTNTT) and CMS010-26 (Biologically Active Peptide Vapeehptllteaplmpk Derivatives) are in the pre-clinical research phase of development. A PCT application was filed on the basis of US priority to secure the patent for the structure and the derivatives of the peptide. The PCT application of CMS017 includes six patents covering six jurisdictions, including China, the United States and Europe. The PCT application of CMS010-26 includes 16 patent applications covering 16 jurisdictions, including China, the United States and Europe. All applications are currently pending approval.

CMS-H001 (*Enterococcus faecalis*) and CMS-H002 (*Lactobacillus fermenti*), are microbial ecological agents which are also under pre-clinical research. A PCT and Chinese patent application have been filed to protect CMS-H001 and CMS-H002. All four applications are currently pending approval.

Competition

None of the licensed and manufactured drug products currently marketed by CMS have patent protection. Competitors to CMS may be able to produce similar generic products in the PRC.

According to the market research conducted by Synovate and provided to the Company in 2007, Deanxit, one of the most profitable products marketed by CMS in 2006, is one of the leading drugs for anti-depression treatment in China, with a market share of 17 per cent., ranked second following Prozac in 2006. The major market competitors for Deanxit are Prozac, Zoloft, and Seroxat.

Ursolfalk is another profitable product in CMS' drug portfolio. Ursolfalk is currently included in the national medical insurance list. The Directors are of the view that similar products are available in the PRC.

The Group has had a profitable track record in introducing its drugs with potential in the pharmaceutical market in the PRC. It has also taken great advantage of its professional and well-organised sales network as well as its drug products to continually earn profits and generate working capital. The Directors believe that the Company has created two core competencies – (1) a stable sales and marketing network and (2) an R&D platform with growth potential.

The widespread and stable sales and marketing network supports the sustainable growth of the Group's profit, and allows it to continue to invest in R&D.

Directors and Senior Management

The members of the Board and senior management team have over 70 years' combined experience in the pharmaceutical industry. The CMS management team consists of members who are highly motivated, and have an enthusiastic and entrepreneurial spirit. The management team consists of members qualified in medicine, pharmacology and biochemistry. The Directors believe that the Board has valuable experience in product research, registration, sales and distribution. The Directors further believe that the management team's familiarity with the rules and regulations of the pharmaceutical sector and its understanding of the complex business culture of the PRC, has put CMS at the leading edge of the PRC pharmaceutical market.

The following table sets out information regarding the Company's current Directors.

<i>Name</i>	<i>Age</i>	<i>Position</i>
Mr. Lam Kong	42	Chairman and CEO
Mr. Chen Hongbing	40	Executive Vice President and COO
Ms. Hou Xiaoxuan	40	Vice President

Ms. Chen Yanling	37	Chief Financial Officer
Mr. Hui Ki Fat	66	Executive Director
Mr. Stuart Hamilton Leckie	62	Independent Non-Executive Director
Dr. Paul Bernard Harper	61	Independent Non-Executive Director

Mr. Lam Kong – *Chairman and CEO*

Mr. Lam founded Kangzhe Shenzhen Pharmaceutical over ten years ago, building the business from a small distribution company to an integrated pharmaceutical group, and has since spearheaded all aspects of the creation, implementation and management of the company's investment strategy and business related to the research and development of new drugs.

Mr. Lam's sales career in China spans nearly twelve years. He is also the co-inventor of the peptide products in the CMS Group. He received his bachelor's degree in medicine from Zhanjiang Medical College, the name of which was changed to Guangdong Medical College in 1992.

Mr. Chen Hongbing – *Executive Vice President and COO*

Mr. Chen joined Kangzhe Shenzhen Pharmaceutical in 1995 and is currently the Executive Vice President and director of, Sales and Marketing. Prior to joining the Company, he was an oculist for four years. He graduated from Nanjing Medical College with a bachelor's degree in Clinical Medicine.

Ms. Hou Xiaoxuan – *Vice President*

Ms. Hou is currently the Vice President of Kangzhe Shenzhen Pharmaceutical and is responsible for product regulatory affairs and office administration. Ms. Hou joined Shenzhen Kangzhe Pharmaceutical in 1995. Before joining the company, she was a teacher at Kunming Medical College. Ms. Hou received a bachelor's degree in clinical medicine from Kunming Medical College, a master's degree in accountancy from Renming University of China and an EMBA from the Guanghua School of Management of Peking University.

Ms. Chen Yanling – *Chief Financial Officer*

Ms Chen joined Kangzhe Shenzhen Pharmaceutical in 1995 and is currently the Group's Chief Financial Officer. Ms. Chen has been heavily involved in financial due diligence, financial integration and the financial management of the Group's business. She received her accountancy qualification in 1997 and an EMBA from International East-West University in 1999.

Mr. Hui Ki Fat – *Executive Director*

Mr. Hui has served as a director of Sky United since 1999. Prior to his career in Sky United, he was Director and General Manager of Jebsen & Company Ltd. in Tianjin, China. He is also an associate member of the Institute of Medical Laboratory Technology in the UK.

Mr. Stuart Hamilton Leckie – *Independent Non-Executive Director*

Mr. Leckie was the Chairman of the Hong Kong Retirement Schemes Association, and was the Chairman of the International Actuarial Association's China Committee. He has served as the Chairman of Watson Wyatt in Asia Pacific, Chairman of Fidelity Investments, Asia Pacific, Independent Director of Hong Kong Securities Clearing Company Limited, Director of Exchange Fund Investment Ltd. and President of the Actuarial Society of Hong Kong. Additionally, he has served on three committees of Hong Kong's Securities and Futures Commission. Mr. Leckie qualified as an Actuary in the United Kingdom in 1972.

Dr. Paul Bernard Harper – *Independent Non-Executive Director*

Dr. Harper is an experienced non-executive director and company chairman. He has served as non-executive director of Physiomics, and also served as R&D director at Johnson & Johnson. Dr. Harper is currently serving as non-executive director of ReNeuron Group, the executive chairman of Angel Biotechnology, the chairman of the board of RegenTec Ltd. and the non-executive chairman of

Sareum Holdings plc. Dr. Harper received a BSc in Bacteriology and a PhD, from The University of Leeds.

In addition to the Directors, management responsibility for the operations of the Group rests with a senior management team of four people. This team of senior managers has had supervisory responsibility for the Group's Chinese and international pharmaceutical business, dealing with operational and financial issues, capital expenditure decisions and the development, adoption and implementation of strategy across the Group. The Group's senior management team are:

Name	Age	Position
Dr. Jonathan Zheng Ma	41	Vice President of International Operations
Mr. Edward Ng	44	Vice President of Investor Relations and Strategic Planning
Dr. Waiming Wong	46	Chief R&D Officer
Mr. Vincent Wing Sin Hui	34	Company Secretary

Dr. Jonathan Zheng Ma – Vice President of International Operations

Dr. Ma joined Shenzhen Kangzhe Pharmaceutical in 2005 and was appointed vice president of the Group in international operations in 2007. Earlier in his career, Dr. Ma served as associate director of biometrics, within the clinical data operations department of Pfizer PPG and provided services to the Centre for Drug Evaluation and Research of the FDA in the division of Anaesthetics Critical Care, and Addiction Drug Products. Dr. Ma was biostatistic reviewer of the FDA and was also a member of the FDA working group on HIV-1 antiviral drug resistance testing in drug development. Dr. Ma received his bachelor degree in mathematics from Peking University in 1988, a PhD from Yale University in 1995 and a master's degree in science from The University of Texas at El Paso in 1991.

Mr. Edward Ng – Vice President of Investor Relations and Strategic Planning

Mr. Ng is highly experienced in the investment banking industry. Mr. Ng joined the Group in 2007. A company controlled by Mr. Ng, Advance International Limited, has acted as a professional adviser to the Group in the 12 months prior to the date of this document. He is responsible for the Group's investor relations. Mr. Ng started his career with Crosby Limited in 1994 as an analyst. He moved to The Capital Group Companies, Inc., again as an analyst, until October 1999. He was appointed by DBS Securities Hong Kong Limited as the Head of Research from 1999 to 2001. Mr. Ng holds a BSc from Guildhall University London (formerly known as City of London Polytechnic) and an MBA in International Business & Export Management from The City University in London. Advance International Limited, a company controlled by Edward Ng, has provided financial advice to the Group.

Dr. Waiming Wong – Chief R&D Officer

Dr. Wong was appointed as chief R&D officer in 2007. He is also the co-inventor (along with Mr. Lam) of the peptide products of the Group. Prior to this, Dr. Wong worked as manager of pharma China department for Jebsen Co., Ltd. Dr. Wong received his BSc and PhD from the University of Hong Kong in 1983 and 1993 respectively.

Mr. Vincent Wing Sin Hui – Company Secretary

Mr. Hui joined the Group in 2007 as the Company Secretary. He is also the finance manager of Sky United, responsible for accounting and financial planning. Mr. Hui is a member of HKICPA (Hong Kong Institute of Certified Public Accountants) and AICPA (American Institute of Certified Public Accountants). Prior to joining the Group, he worked for Ernst & Young, Hong Kong. Mr. Hui received a bachelor's degree in biochemistry with nutrition and a master's degree in accounting and management science from the University of Southampton in the UK.

Employees

In addition to the above Directors and senior management team, the Group employed 837 full-time employees as at 31 March 2007.

All employees, excluding Dr. Jonathan Zheng Ma are located in the PRC including Hong Kong. The roles of employees as at 31 March 2007 can be approximately broken down into the following functions:

	<i>Total</i>
Sales	481
Research and development	90
Manufacturing	103
Administrators and management	163
	<u>837</u>

The full-time employees employed by the Group as at 31 December 2004, 2005 and 2006 were 809, 982 and 844 respectively.

Summary Financial Information

The table below summaries the trading results of the Group for the three years ended 31 December 2006. The information has been extracted from the Accountant's Report as set out in Part V of this document. Potential investors should read the whole of this admission document and not rely solely on the following summary information.

1. Consolidated Income Statement

	<i>For the year ended 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Turnover	27,462	33,106	37,643
Gross profit	20,997	24,543	25,938
Profit before taxation, R&D expenses and share-based payment expenses	8,323	8,997	10,110
R&D costs excluding share-based payment and employee benefits	(1,904)	(2,124)	(1,740)
Share-based payment expenses	(731)	(357)	(2,986)
Taxation	(1,486)	(1,708)	(1,435)
Net profit for the year	<u>4,202</u>	<u>4,808</u>	<u>3,949</u>
Attributable to:			
Equity holders of the company	3,575	4,883	4,014
Minority interests	627	(75)	(65)
	<u>4,202</u>	<u>4,808</u>	<u>3,949</u>

The Group's turnover has shown steady growth over the three years 2004 to 2006 as sales of its two principal products, Deanxit and Ursolfalk, have increased. These two products accounted for 83 per cent. of sales in 2006, up from 61 per cent. in 2004. These increasing proportions of Deanxit and Ursolfalk sales, which achieved gross margins of 63 per cent. and 73 per cent. respectively in 2006, have resulted in a small decrease in the overall gross margin of the Group from 76.5 per cent. to 68.9 per cent. between 2004 and 2006.

The adjusted net profit margin fell to 22.0 per cent. in 2005 from 24.9 per cent. in 2004 mainly as a consequence of investment in the sales and marketing resource in readiness for the launch of the Group's own products in 2006. As the turnover has picked up in 2006 so has the adjusted net profit margin increased to 23.1 per cent.

Share based payments relate to the transfers of shares to employees by the major shareholder and are treated as being the nature of remuneration. Further information on these payments is included in the accountant's report in Part V.

The Group's R&D is funded entirely by the revenue and profit generated from sales, manufacturing and promotion of products. The R&D costs (excluding share-based payment and employee benefits) as a percentage of turnover for the years ended 31 December 2004, 2005 and 2006 were 6.93 per cent., 6.42 per cent. and 4.62 per cent. respectively.

2. Inventory

The inventory turnover ratio shows that inventory days have been falling since 2005 therefore improving the Group's cash position.

	<i>As at 31 December</i>	
	2005	2006
Inventory turnover ratio ⁽¹⁾	5.03	7.06
Inventory turnover period in days ⁽²⁾	72	51

Notes:

⁽¹⁾ Calculated by dividing cost of goods sold by average inventory, average inventory being the sum of beginning and closing inventory divided by 2.

⁽²⁾ Calculated by dividing 360 by the inventory turnover ratio.

3. Trade and other receivables

	<i>As at 31 December</i>		
	2004	2005	2006
	US\$'000	US\$'000	US\$'000
Trade receivables	6,749	7,870	9,456
Other receivables	1,294	1,300	1,614
Total	<u>8,043</u>	<u>9,170</u>	<u>11,070</u>
Trade receivables turnover ratio ⁽¹⁾	N/A	4.53	4.35
Trade receivable turnover days ⁽²⁾	N/A	79	83

The group typically grants a credit period of approximately 90 days for customers to whom the Company extends credit.

Notes:

⁽¹⁾ Calculated by dividing turnover by average trade receivables, average trade receivables being the sum of beginning and closing trade receivables divided by 2.

⁽²⁾ Calculated by dividing 360 by the trade receivables turnover ratio.

4. Capital and Reserves

The reason for the decrease in capital in 2005 was because of a group reorganisation.

Current Trading, Prospects and Trends

The business of the Group has continued to grow since 31 December 2006. Trading for the first quarter of 2007 remains in line with the Directors' expectations and has grown by 24 per cent. from the first quarter of 2006. The growth in revenue has been derived from the increase in sales of existing products and new products added to the portfolio in the latter part of 2006. The gross profit margin of the new products is comparable with the existing products and the operational cost of the Group has not increased significantly.

The Directors are confident of achieving further growth in trading in 2007. Following the Company's strategy to add new products to enrich its drug portfolio, the Directors believe that growth in trading will remain strong throughout the current year.

Reasons for Admission and use of the Placing Proceeds

The Directors believe that the Group has reached the stage in its development where it will benefit from being admitted to trading on a stock market and that this will raise the Group's profile, enhance its standing with potential future trading partners and maintain its competitive position in the market. The proceeds from the Placing, net of expenses, are estimated to be approximately £8 million and the Directors intend to use the net proceeds as follows (in order of priority):

- approximately £3 million to finance product acquisitions;
- approximately £2.5 million to further develop the R&D programme; and
- approximately £2.5 million to provide working capital.

Details of the Placing

On Admission, and subject to the Placing becoming unconditional and not having been terminated in accordance with the terms of the Placing Agreement, the Company will have 47,246,376 Ordinary Shares in issue and a market capitalisation of approximately £65.2 million at the Placing Price. The Placing will involve the issue of 7,246,376 new Ordinary Shares to raise approximately £8 million, net of expenses.

All of the Ordinary Shares being offered in the Placing are being placed by Evolution Securities China with institutional and other investors.

The Placing Shares will represent approximately 15.34 per cent. of the Enlarged Issued Share Capital and will rank *pari passu* in all respects with the Existing Ordinary Shares on Admission. The Company, the Directors, Evolution Securities China, Evolution Securities and Treasure Sea Limited have entered into a Placing Agreement dated 21 June 2007, under which Evolution Securities China has agreed, conditional upon, *inter alia*, (i) Admission taking place on or before 8.00 a.m. on 26 June 2007 (or such later time and date as the Company and Evolution Securities China shall agree being not later than 8.00 a.m. on 31 August 2007) and (ii) the Placing Agreement becoming unconditional, save for Admission, and not having been terminated in accordance with its terms prior to Admission, to use its reasonable endeavours, as agent for the Company, to arrange for placees to subscribe for the Placing Shares. Further details of the Placing Agreement are set out in paragraph 9.1 of Part VI of this document.

Share Option Scheme

The Company does not have a share option scheme in place at the current time. However, the Board considers that equity and equity based incentives are a means of retaining, attracting and motivating key employees and, therefore, it considers that it may be appropriate to adopt such a scheme in the future.

Corporate Governance

The Directors support high standards of corporate governance and confirm that, following Admission, they will comply, so far as is practicable and taking into account the Company's size and nature, with the provisions of the Quoted Companies Alliance for AIM Companies published in 2005. Audit, remuneration and nomination committees have been established to operate with effect from Admission.

The audit committee's primary responsibilities are to monitor the financial affairs of the Company, to ensure that the financial performance of the Company and any subsidiary of the Company is properly measured and reported on, and to review reports from the Company's auditors relating to the accounting and internal controls. The audit committee will comprise, on Admission, Mr. Stuart Hamilton Leckie, who will act as chairman of the committee, and Dr. Paul Bernard Harper.

The remuneration committee's primary responsibilities are to review the performance of the Executive Directors and to determine the terms and conditions of service of senior management and any Executive Director appointed to the Board (including the remuneration of and grant of options to such person under any share scheme adopted by the Company). The remuneration committee will comprise,

on Admission, Dr. Paul Bernard Harper, who will act as chairman of the committee, and Mr. Stuart Hamilton Leckie.

The nomination committee's primary responsibilities are to make recommendations to the Directors on all new appointments of Directors and senior management, interviewing nominees, to take up references and to consider related matters. The nomination committee will comprise, on Admission, Mr. Stuart Hamilton Leckie, who will act as chairman of the committee, Dr. Paul Bernard Harper and Mr. Lam Kong.

Cayman Islands companies are not otherwise subject to a corporate governance regime.

Cayman Islands Company Law

The Company is an exempted company incorporated with limited liability under the laws of the Cayman Islands and is subject to the Companies Law which differs from the Act in relation to, *inter alia*, the issue of new shares by companies.

There are no statutory provisions in Cayman Islands law equivalent to section 80 of the Act relating to the authority of directors to allot and issue shares and there are no statutory provisions in Cayman Islands law equivalent to sections 89 to 96 of the Act, which confer pre-emption rights on existing shareholders in connection with the allotment of shares for cash. However, the Articles provide that the ability of the Directors to allot and issue shares shall be subject to the passing of an authorising resolution (as described in the Articles) and the Directors shall only be generally and unconditionally authorised to exercise all powers of the Company to allot and issue shares for a prescribed period specified in the authorising resolution up to an aggregate nominal amount equal to the authorised amount as specified in the authorising resolution.

In addition, the Companies Law does not contain provisions similar to those in the Takeover Code (as defined in the paragraph below) which oblige a person or persons acquiring at least 30 per cent. of shares in a company to which the Takeover Code applies to make an offer to acquire the remainder of the shares in such company. The Articles incorporate provisions equivalent to those contained in Rule 9 of the Takeover Code which may be amended by a special resolution of the Shareholders. The Ordinary Shares are subject to the compulsory acquisition provisions set out in section 88 of the Companies Law. Under these provisions, where an offeror makes a takeover offer and within four months of making the offer it has been approved by the holders of not less than 90 per cent. in value of the shares affected, that offeror is entitled to acquire compulsorily from non-accepting shareholders those shares which have not been acquired or contracted to be acquired on the same terms as under the offer.

Under the Companies Law, Shareholders are not obliged to disclose their interests in the Company in the same way as shareholders of a company governed by the Act are required to do. In particular, the relevant provisions of the Disclosure and Transparency Rules, published by the FSA, do not apply, although equivalent protections are provided for in the Articles.

Subject to the Articles, the Board could create a class of shares with terms intended to delay or prevent a change of control of the Company or to make removal of management more difficult. Additionally, the Board may create shares with liquidation rights, dividend rights or rights to receive consideration that greatly exceed the amount given to holders of Ordinary Shares.

A summary of the Memorandum and Articles is set out in paragraph 4 of Part VI of this document.

The Takeover Code

Although the Ordinary Shares will be admitted to trading on AIM, as the Company is incorporated in the Cayman Islands and its central place of management is in the PRC, the Company is not considered to be resident in the UK for the purposes of the Takeover Code which for the time being does not apply to the Company. Accordingly, the Company will not be subject to takeover regulations in the UK under the Takeover Code until such time as that position changes. Investors should be aware that the protections afforded to Shareholders by the Takeover Code which are designed to regulate the way in which takeovers are conducted will not be available. However, the Articles contain provisions

equivalent to Rule 9 of the Takeover Code (Mandatory Offers) (see paragraph 4.2(n) of Part VI of this document for further details).

Dividend Policy

Based on the number of Ordinary Shares in issue prior to the Placing and Admission on AIM of 40,000,000 shares, a cash dividend of US\$0.10 and US\$0.11 per Ordinary Share for the year ended 31 December 2004 and 31 December 2003 respectively was declared and paid by the Company during 2004. No dividends were declared and paid during 2005 and 2006.

The next dividend that the Company expects to pay will be a final dividend for the year ending 31 December 2007. For all future years the Directors intend to pay dividends at least once a year, at a level of 25-50 per cent. of the net profits for the year, where appropriate.

The declaration and payment by the Company of any future dividends and the amount of any such dividends will depend upon the Group's results, financial condition, cash requirements, future prospects, profits available for distribution and any other factors considered by the Directors to be relevant at the time.

The Company has not fixed any dates on which any entitlements will arise or any time limit after which entitlement to dividends will lapse. Non-resident Shareholders will be entitled to receive dividends subject to any local law requirements applicable to them.

The declaration and payment of dividends by the Company will be subject to the provisions of the Companies Law and the Articles.

Lock-in and Orderly Market Arrangements

Directors and senior management

Following the Placing, the Directors and senior management will be interested, in aggregate, in 38,511,728 Ordinary Shares, representing 81.51 per cent. of the Enlarged Issued Share Capital of the Company on Admission and following the Placing.

The Directors and senior management have agreed not to sell or otherwise dispose of or agree to sell or dispose of their interests in the Company's share capital for a period of 12 months following Admission. In addition, the Directors have agreed for a further 12 months from the first anniversary of Admission only to sell or dispose of their Ordinary Shares through Evolution Securities China as the Company's broker and only following consultation with Evolution Securities China and Evolution Securities in order to maintain an orderly market in the Ordinary Shares.

Major Shareholders

Six of the Shareholders, namely, Treasure Sea Limited, Wide Harvest Limited, Viewell Limited, Great Creation Holdings Limited (representing the Directors' interests as detailed in paragraph 5 of Part VI of this document), Befirst Technology Limited and Top Desire Technology Limited, who, following Admission, will, in aggregate, have an interest in approximately 81.16 per cent. of the Enlarged Issued Share Capital, have given undertakings to the Company, Evolution Securities and Evolution Securities China not to sell or otherwise dispose of or agree to sell or dispose of any of their respective interests in the Ordinary Shares held by them or any associate (subject to certain exceptions) for twelve months from the date of Admission. Subsequent to the initial twelve months' period, they have undertaken to consult Evolution Securities China and Evolution Securities prior to any disposal of Ordinary Shares and to make any disposal through Evolution Securities China (or the Company's broker for the time being) in order to maintain an orderly market in the Ordinary Shares.

Employees

Certain employees, Edward Ng, Vincent Wing Sin Hui, Sa Manlin, Jia Jinbin and Ma Zheng Jonathan, who will, in aggregate, have an interest in approximately 1.21 per cent. of the Enlarged Issued Share Capital following Admission (the "Locked-in Employees"), have given undertakings to the Company, Evolution Securities and Evolution Securities China not to sell or otherwise dispose of or agree to sell

or dispose of any of their respective interests in the Ordinary Shares held by them or any associate (subject to certain exceptions) for twelve months from the date of Admission. Subsequent to the initial twelve months period, the Locked-in Employees have also undertaken to consult Evolution Securities China and Evolution Securities prior to any disposal of Ordinary Shares and to make any disposal through Evolution Securities China (or the Company's broker for the time being) in order to maintain an orderly market in the Ordinary Shares.

Further details of the interests of the Directors and major Shareholders in Ordinary Shares together with lock-in arrangements are set out in paragraph 8 of Part VI of this document.

Dealings

Application has been made to the London Stock Exchange for the Ordinary Shares that have been issued and for those that are proposed to be issued pursuant to the Placing to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings will commence on 26 June 2007.

CREST, Settlement and Depositary Interests

Securities issued by non-UK registered companies, such as the Company, cannot be held or transferred in the CREST system. However, to enable investors to settle such securities through the CREST system, a depositary custodian can hold the relevant securities and issue dematerialised DIs which are held on trust for the holders of the DIs. The Articles of Association permit DIs representing Ordinary Shares to be issued in the CREST system.

With effect from Admission, it will be possible for CREST members to hold and transfer interests in Ordinary Shares within CREST pursuant to a DI arrangement established by the Company with the Registrars. CREST is a voluntary system and holders of Ordinary Shares who wish to hold shares directly will also be able to do so. Shareholders who do not have a CREST account may also opt to hold DIs through a nominee. Further details of CREST and the arrangements in respect of DIs are set out in the paragraph entitled 'CREST and DIs' in Part VI of this document.

Taxation

The attention of investors is drawn to the information regarding UK and Cayman Islands taxation which is set out in paragraph 14 in Part VI of this document. These details are, however, intended only as a general guide to the current tax position under UK and Cayman Islands taxation law for certain types of investor. **Investors who are in any doubt as to their tax position or who are resident for tax purposes in jurisdictions other than the UK are strongly advised to consult their professional advisers.**

Additional Information

Investors should read the whole of this document which provides additional information on the Company and the Placing and not rely on summaries or individual parts only. Investors' attention is drawn, in particular, to the risk factors set out in Part IV of this document and the additional information set out in Part VI of this document.

PART III

PRODUCT PORTFOLIO

1. Licenced drug products

Deanxit Tablet

Deanxit is manufactured by H. Lundbeck A/S, Denmark. Deanxit is aimed at the treatment of mild to moderate Anxiety-Depression-Asthenia, Neurasthenia, Psychogenic depression, Depressive neuroses, Masked depression, Psychosomatic affections accompanied by anxiety and apathy, Menopausal depressions, Dysphoria and depression in alcoholics and drug-addicts. Kangzhe Shenzhen Pharmaceutical is the sole distribution agent for Deanxit in the PRC.

The survey results published by WMH (World Mental Health Survey Consortium) in 2004 showed that the global annual prevalence of dysthymic disorder was between 0.8 per cent. to 9.6 per cent., and in Beijing and Shanghai was 2.5 per cent. and 1.7 per cent. respectively. In 1993, WHO conducted a global investigation into the psychogeny patients in general hospitals, which revealed that depression and dysthymia sufferers accounted for 12.5 per cent. of those patients. The Directors therefore believe that antidepressants have enormous market potential, especially in the PRC. According to a report from Synovate Healthcare, Deanxit in 2006 ranked second in the domestic PRC antidepressant market as to the spontaneous awareness and patient share.

The Group has obtained from Lundbeck Export A/S, a wholly owned subsidiary of H. Lundbeck A/S, an exclusive right to import, distribute, promote, market and sell Deanxit in the PRC for a term which may only be terminated after the end of December 2008. Details of the distribution agreement are set out in paragraph 9.10 of Part VI. There is a comfort letter issued by Lundbeck Export A/S in March 2007 indicating that Lundbeck has no intention not to renew the distribution agreement with Kangzhe Shenzhen Pharmaceutical. Deanxit can be legally imported into China under the import drug license obtained by H. Lundbeck A/S and distributed in China by Kangzhe Shenzhen Pharmaceutical. The current import drug license will expire in October 2007. It will be the responsibility of H. Lundbeck A/S to renew such import drug license.

Ursofalk Capsule

Ursofalk, an ursodeoxycholic acid (UDCA) capsule, is imported from Dr. Falk Pharma GmbH, Germany. Ursofalk is intended to be used for the dissolution of cholesterol gallstones in the gallbladder when gallstones are radiolucent and the gallbladder function is intact, and treatment of cholestatic liver disease (e.g. primary biliary cirrhosis), and biliary reflux gastritis.

CMS has been the agent of Ursofalk with exclusive distribution rights in China since 2002. The Directors confirm that Ursofalk is marketed strictly as a prescription medicine and has already been included in the medical insurance list in China.

The market size for liver protective medicines in hospitals in China was about 2.87 billion RMB in 2004, with an annual growth rate exceeding 15 per cent. during the period from 1999 to 2004. It has been predicted that the market size would increase to 4.13 billion RMB in 2008.

The Group has obtained from Dr Falk Pharma GmbH an exclusive right to distribute Ursofalk in the PRC for a term extended to 16 June 2009. Details of the distribution agreements are set out in paragraph 9.12 of Part VI. Ursofalk can be legally imported into China under the import drug license obtained by Dr. Falk Pharma GmbH and distributed in China by Kangzhe Shenzhen Pharmaceutical. The current import drug license will expire in March 2010. It will be the responsibility of Dr. Falk Pharma GmbH to renew such import drug license.

Augentropfen Stulln Mono Eye-drops

Augentropfen Stulln Mono is a product of Pharma Stulln GmbH, Germany. As an eye-drop, Stulln is aimed at the treatment of all forms of ocular asthenopia and senile macula degeneration (SMD).

SMD usually occurs in persons aged above 50. The prevalence of SMD leading to progressive vision defects, which seriously affects sufferers' quality of lives is the leading cause of aged people's blindness in western countries. Some western scholars indicated that, the prevalence of SMD in the population aged above 75 is over 40 per cent. As a result of the trend of aging population the SMD patient population size in China is in growth gradually.

After the acquisition of the exclusive distribution right for Augentropfen Stulln Mono in China by CMS in 2007, the product is expected to be marketed at a market acceptable price.

The Group has obtained from Qingdao League an exclusive right to distribute Augentropfen Stulln Mono in the PRC for a term of ten years from 1 January 2007 until 31 December 2017. Details of the distribution agreement are set out in paragraph 9.13 of Part VI. Augentropfen Stulln Mono Eye-drops can be legally imported into China under the import drug license obtained by Pharma Stulln GmbH and distributed in China by Kangzhe Shenzhen Pharmaceutical. The current import drug license will expire in January 2008. It will be the responsibility of Pharma Stulln GmbH to renew such import drug license.

GanFuLe Tablet (GFL Tablet)

GFL Tablet is produced by Huahe Pharmacy LengShuiJiang Pharmaceutical Co. Ltd, a subsidiary of Huahe Pharmaceutical Co. Ltd., within the China National Group of Traditional & Herbal Medicine. GFL Tablet is targeted to treat primary cancer with stagnation of liver energy and spleen-deficiency symptoms and hepatitis B and cirrhosis with specified symptoms. GFL Tablet has been included in the National TCM (traditional Chinese medicine) protection list since 28 October 2006 and valid until 22 July 2013, pursuant to which GFL Tablet shall only be manufactured by the approved manufacturer which is stated to be Huahe Pharmacy LengShuiJiang Pharmaceutical Co. Ltd. during such protection period.

GFL Tablet has already been listed on the PRC medical insurance list. As the exclusive distribution agent of certain drug products in China, the Directors believe that the GFL Tablet will have great market potential and confirm to that market the GFL Tablet as a prescription medicine with an acceptable end user price.

WeiMaiNing Capsule (WMN Capsule)

WMN Capsule is produced by Huayi Pharmaceutical Co. Ltd., an indirect subsidiary of the China National Group of Traditional & Herbal Medicine. It may be used in lung cancer patients who are not suitable for radiotherapy and chemotherapy cancer treatments. WMN Capsule has been included in the PRC medical insurance list under Category B.

As the exclusive distribution agent of WMN Capsule in China, starting from 2007, the Directors confirm that CMS has been marketing WMN Capsule in China as a strictly prescription medicine, at an acceptable end user price.

2. CMS manufactured products

Naloxone Hydrochloride Injection

CMS started the manufacturing of Naloxone Hydrochloride Injection in 1997. It is targeted to relieve respiratory depression caused by opioid combined anesthesia and to treat opiums overdose and acute alcohol intoxication.

CMS expects to maintain market share by relying on the brand loyalty of its products and sales and marketing professionals' efforts.

Somatostatin Injection

Somatostatin Injection is targeted at treating severe acute esophageal varicosis haemorrhage, severe acute gastric or duodenal ulcer haemorrhage, complicated acute erosive gastritis or hemorrhagic gastritis, adjuvant therapy of pancreatic/biliary/intestinal fistula, prevention and treatment of complications of pancreas surgery post-operation, and the adjuvant therapy of diabetic ketoacidosis.

Somatostatin was introduced into the PRC for clinical trial by hospitals more than 10 years ago, and is listed on the medical insurance list, under Category B.

With the Group's own research technologies and manufacturing capability on peptides, CMS was granted approval for manufacturing and marketing Somatostatin Injection by the SFDA, and plans to market the product during 2007. Relying on the Group's sales and marketing network, it expects to gain a significant percentage of the market share.

Doxycycline Hyclate Capsule

Doxycycline Hyclate Capsule is imported from Sunpharma GmbH, Germany and packed/manufactured by CMS. Doxycycline Hyclate Capsule is targeted at the treatment of microbial infections. CMS is the exclusive distribution agent of this product in the PRC, and has already obtained the right to repackage the product under the permits granted by the SFDA. It is expected that the product will be launched in the coming months.

3. Medical equipment

Infusion pump, Intravenous Infusion Equipment and Infusion Supervision System

CMS is now producing integrated infusion monitoring system for hospital use, comprising an infusion pump, intravenous infusion equipment, and a central monitoring transfusion management system, in which infusion pump and intravenous infusion equipment are patent protected devices. The Directors confirm that the infusion and injection pumps can operate independently, or can be linked to the multi-device wireless supervision system to form an integrated system. In the Directors view, the benefit of this system is that one operative unit will be sufficient to take care of multiple patients so as to increase the efficiency and safety of operation. Once a hospital starts to use this system, the Directors expect that it will be difficult for the hospital to go back to use other systems because the link between the pumps and the supervision system is a proprietary system.

The CMS sales team will work to ensure the quality of their after sales services. The Directors expect that the integrated system will begin to generate sales during 2007.

4. New Drug Research and Development

New drug R&D provides the Group with an opportunity to produce products with their own intellectual property rights. This also represents one of the Group's core competencies. In the CMS Group, the strategy of R&D consists of two approaches: internal development of new drug products in China, and in-licensing and collaborations on new drug products with international institutions for further development in China. Because of the significantly lower costs of new drug development in China versus the developed countries, the CMS Group can effectively leverage its resources in China.

The Group will continue to acquire products from inside and outside China through in-licensing or collaboration. Once suitable products (mostly at early to middle stages) have been identified, the Group will invest in the development in China and bring the products from pre-clinical through clinical trials to regulatory approval. CMS will market these products in China through its existing sales network. At the same time, CMS will seek out-licensing and collaboration opportunities to find partners to develop these products outside China. Through this approach, CMS expects to acquire a reasonable share of the international markets.

In relation to research CMS is primarily engaged in the development of biologically active peptides, microbiology preparation, the development of oligonucleotide and anti-bacterial compounds focusing on therapeutic areas and major diseases in oncology and hepatic diseases.

CMS is engaging in patent drugs R&D. The Directors confirm that CMS has isolated quantities of small molecular peptides through modern pharmaceutical technologies. In general, CMS will utilize industrial technologies to synthesize these peptides and then screen the candidates to obtain the active agents. Once the objective candidates are determined, CMS will carry out comprehensive R&D procedures step by step, including pre-clinical researches into pharmacodynamics, pharmacokinetics, quality standard, toxicology, followed by three phases of clinical trials and the submission of new drug

applications to the SFDA for marketing approval. Through several years of effort, CMS has obtained very fruitful results in peptides R&D.

5. Products in development

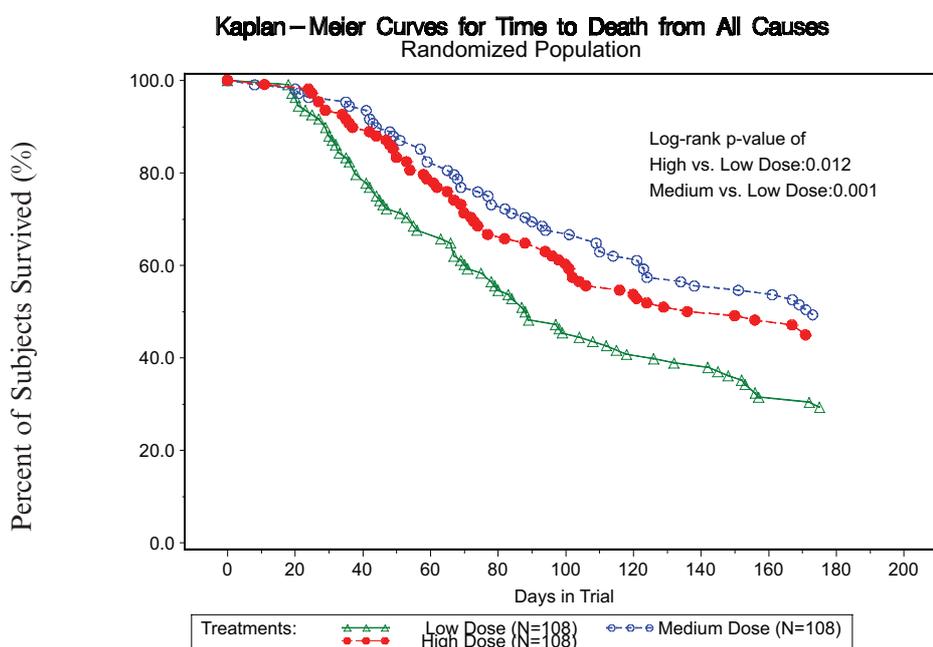
CMS024

CMS024, with the common name of Tyroserleutide, is the lead compound developed by CMS through 6 years' study and is anticipated to be the first tripeptide treatment for unresectable primary liver carcinoma in the world. Through clinical trials, CMS024 has proven to be effective, safe and well-tolerated. In addition, CMS024 was granted 'Orphan Drug' status by the FDA and financially supported by the National "863" Program.

During the period from October 2003 to April 2005, CMS024 completed Phase I, Phase IIa and Phase IIb clinical trials successively in China. On 9 June 2005, CMS submitted a new drug application for CMS024 to SFDA for marketing approval. At present, CMS024 has been through the technical examination and is waiting for final administrative approval.

CMS024 is aimed at treating primary liver carcinoma. Based on global statistics, in 2002 there were approximately 626,000 new cases of liver cancer, representing an annual growth rate of 5.7 per cent., with 55 per cent. of those cases occurring in China (about 344,000).

Results of clinical trials, which are also shown in the graph below, confirm that CMS024 can prolong patients' survival, with mild side effects and toxicity. It was stated in the CMS024 Phase II clinical trial result report that the patients who received medium and high doses had statistically higher survival compared to those in the low dose group under the Kaplan-Meier Survival Curves for the said three treatment groups. From the graph below, the P-Value for the comparison between the high dose versus low dose was 0.012, and the P-Value for the medium dose versus low dose was 0.001. Therefore the Directors believe that there will be significant market potential for CMS024 in China.



With patent applications in the USA, Europe, Japan and some other major countries, and 'Orphan Drug' designation by the FDA, CMS expects to cooperate with other international agencies to develop the global market of CMS024 by out-licensing its patent right.

CMS024-02

CMS024-02, with the common name of Tyroservatide, is used for the treatment of non-small cell lung cancer. In October 2005, it was approved for Phase I clinical trial, which lasted from March 2006 to November 2006. At present, Phase II clinical trial is in the process of application.

Lung cancer is one of the most common occurrences of malignant tumors worldwide. The morbidity and mortality of lung cancer all over the world has been growing for nearly half a century. According to a WHO report in 2000, 7.065 million patients died of malignant tumors worldwide, with lung cancer heading the list, and accounting for 19 per cent. of the deaths.

The Phase I clinical trial of CMS024-02 was completed and it has proven to be safe and will be tolerated by patients. In March 2007, CMS submitted an application for a Phase II clinical trial, which will be conducted between 2007 and 2008.

(Expected clinical timetables for CMS024-02)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Pre-clinical			→						
Phase I			→						
Phase II				→					
Phase III					→				
Marketing Approval						→		→	

CMS017

CMS017 is in pre-clinical stage and is currently targeted for Hepatitis B treatment.

Hepatitis B (HBV) is one of the main diseases threatening human health. The infection of HBV is extensive around the world, and there are approximately 350 million HBV carriers globally. The number of carriers in China alone is approximately 120 million. It has been reported that some HBV patients may develop chronic hepatitis, liver cirrhosis or liver cancer, leading to death. The Directors therefore believe that there are considerable market opportunities for CMS017.

Regarding CMS017, the Group is expecting to complete all the pre-clinical studies, submit an investigational new drug application to the SFDA and commence Phase I clinical trials during 2008.

(Expected clinical timetables for CMS017)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Pre-clinical		→		→					
Phase I				→					
Phase II					→				
Phase III						→			
Marketing Approval							→		→

CMS010-26

CMS010-26 is in preclinical stage and is expected to be used to target the treatment of nephritis.

Nephritis is categorized in four types: (i) acute nephritis, (ii) rapidly progressing nephritis, (iii) chronic nephritis and (iv) latent nephritis. The Group is anticipating the completion of all the pre-clinical studies for CMS010-26, submission of an IND application to the SFDA and the commencement of Phase I clinical trials during 2008.

(Expected clinical timetables for CMS010-26)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Pre-clinical				→					
Phase I					→				
Phase II						→			
Phase III							→		
Marketing Approval								→	

New Projects

The CMS Group has been undertaking preliminary R&D on the following potential drug candidates:

<i>Potential Drug Candidate</i>	<i>Potential Target Treatment</i>
CMS-H001	Helicobacter pylori (HP) – induced gastritis and peptide ulcer
CMS-H002	Ulcerative colitis
Oligonucleotides ¹	Metastatic human tumors
Antibiotic ²	Bacterial infection

¹ Cooperative project with Baylor College of Medicine (USA)

² Cooperative project with Bioleap, LLC (USA)

PART IV

RISK FACTORS

Before deciding whether or not to invest in Ordinary Shares, prospective investors should carefully consider the specific risk factors set out below together with all other information contained in this document. If any of the following risks were to occur, the Group's business, financial position, results, prospects and/or future operations may be materially adversely affected. In such circumstances, the market price of the Ordinary Shares may fall and an investor may lose all or part of his initial investment. The risks listed below do not necessarily comprise all of those risks associated with an investment in CMS and are not set out in any order of priority. The investments offered in this document may not be suitable for all of its recipients. A prospective investor should be aware that an investment in the Company is speculative and involves a high degree of risk. An investment in CMS is only suitable for investors who are capable of evaluating the risks and merits of such investment and who have sufficient financial resources to bear any loss which might result from such investment. Before making an investment decision, prospective investors are advised to consult an independent financial adviser authorised under the FSMA who specialises in advising on investments of this kind. Additional risks and uncertainties not presently known to the Directors or which the Directors currently deem immaterial may also have an adverse effect upon the Company.

1. Risks relating to the business and operations of the Group

Expenditure on R&D of new drugs

The Group has two R&D subsidiaries and cooperates intensively with a number of research institutions. The Group's R&D capacity requires a significant amount of capital investment, however, successful development of new drugs is unpredictable. Products that appear to be promising at the early phases of R&D may fail to be commercialised for a number of reasons, including the discovery of harmful side effects in pre-clinical evaluation and clinical trials and the failure to obtain the necessary regulatory approvals. There is no assurance that the Group's R&D projects will be fruitful or will be completed within the anticipated time frame.

Unsuccessful R&D, delays in the approval procedures of new drugs or the introduction of substitute products with similar therapeutic effects by other manufacturers, could adversely affect the profitability of the Group. In addition, financial resources spent on the R&D of new drugs would be wasted if the R&D project proves to be unsuccessful, as such expenditure incurred cannot be recovered.

Failure to maintain the Group's reputation and brand names

The Directors believe that the Group's sales are largely dependent on its brand names ("Kangzhe" and "CMS"). Therefore, it is important that the Group continues to maintain its brand names and good reputation in order to attract and increase the number of the Group's clients and users. Promotion and enhancement of the Group's reputation and brand names depends largely on its ability to develop safe and effective products. If users no longer perceive products to be safe and effective, the Group's brand name and reputation could be materially and adversely affected, resulting in an adverse impact on the business and financial position. Additionally, good reputation and popularity of the Group's products may attract counterfeit products. Such counterfeits could be of inferior quality and less effective, which might affect the Group's image and reputation.

Non-renewal of licences, permits and certificates

According to the measures for Administration of Drug Registration (the "Measures") of the PRC and relevant administrative regulations promulgated by the SFDA, all pharmaceutical enterprises are required to obtain various licences, permits and certificates from competent government authorities before carrying out pharmaceutical manufacturing and sales business in the PRC.

The Group has obtained all requisite licences and permits for the manufacture and sale of its own pharmaceutical products and the distribution of those imported medicines. Other requisite permits and registration for imported medicines, which must be obtained by the manufacturers and/or domestic importers, have also been acquired. However, these licences and permits have validity periods and are subject to periodic renewal. An application should be resubmitted to government authorities for

renewal, usually six months prior to the expiry date. Such application will be reassessed by the competent authorities and the standards of compliance required may be amended from time to time.

There can be no assurance that all permits and/or licences currently held by the Group can or will be renewed. In addition, the manufacturers or importers of imported medicines could fail to renew their permits or licences, which is beyond the control of the Group. There may be a possibility that the Group will not be able to carry on its business without such licences and permits. It may also be costly for the Group to comply with any subsequent modifications of, or additions to, or new restrictions imposed under, the present compliance standards. Such changes could impose an additional burden on the Company, which may adversely affect its profitability.

Application for new drug marketing authorisation of CMS024 and further products

Under the Measures, clinical trial of a drug is classified into 4 Phases: I, II, III and IV. It is specified that before making an application for marketing a new drug, Phases I, II and III shall be conducted and completed. In the case of CMS024, however, the Group submitted the application for new drug registration without going through Phase III clinical trials. The application was accepted by the SFDA in July 2005 and a pharmacology evaluation was completed by the SFDA in January 2006. The Group is expecting a further drug evaluation during 2007. Given that no Phase III clinical trial has been conducted on CMS024, there is a risk that the SFDA may raise further queries with the Group and delay the entire new drug application procedure, or even request the Group to conduct Phase III clinical trials before proceeding further on the application. While the Directors have no reason to believe otherwise, there is no guarantee that the SFDA will approve the drug application of CMS024 without any delay. Indeed, there is no guarantee that the SFDA will approve the drug application of any of the Group's products.

The Group may face competition from competitors with much greater capital

The pharmaceutical and medical technology industries are extremely competitive. The Group may face significant competition, both actual and potential, including competition from competitors which have greater capital resources than the Group, or which are able to carry on their business in a way that is more effective, economically viable or advanced than the Group or which undertake an aggressive pricing policy thereby putting pressure on the Group's margins. Despite its current contractual arrangements, there is no assurance that the Group will be able to compete successfully in such a market place.

The Group may need additional access to capital in the future

The Group's capital requirements depend on numerous factors, including its ability to expand its customer base. If its capital requirements vary materially from its current plans, the Group may require further financing. Any additional equity financing may be dilutive to existing Shareholders, and debt financing, if available, may involve restrictions on financing and operating activities. In addition, there can be no assurance that the Group will be able to raise additional funds when needed or that such funds will be available on a timely basis, on terms favourable to the Group or at all. If the Group is unable to obtain additional financing on acceptable terms as needed or at all, the Group may be required to reduce the scope of its operations or anticipated expansion or to cease trading.

Failure to adhere to regulatory and legislative requirements

The industry in which the Group operates is subject to a substantial quantity of regulation. Failure to comply with these regulations could result in termination of the Group's contracts or the disqualification of data for submission to regulatory authorities. The Group may also be fined and prevented from conducting future clinical trials. This may have a negative impact on the Group's reputation.

Governmental, legal or regulatory restrictions may have a negative impact on the Group's profitability. Failure to obtain regulatory approval in respect of a product may have a negative impact on the Group's business. An increase or change in governmental, legal or regulatory requirements may restrict the Group's ability to offer its service and products in a competitive manner and thereby have a detrimental impact on its business.

Management of future growth

The Group's plans to continue its growth will place additional demand on the Group's management, customer support, marketing and administrative and technological resources. If the Group is unable to manage its growth effectively, its business, operations or financial condition may deteriorate.

To date, the Group has grown through acquisitions and subsequent organic growth. The Group will continue to consider further acquisition opportunities. If the Group is unable to integrate successfully an acquired company or business, the acquisition could lead to disruptions to the business.

The Group may also consider international acquisition opportunities. Such acquisitions may involve additional difficulties and risks such as the need to overcome language and cultural hurdles.

If the operations or assimilation of an acquired business does not accord with the Group's expectations, the Group may have to decrease the value afforded to the acquired business or realign the Group's structure.

Market for the Ordinary Shares

The market price of the Ordinary Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Group, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, general economic conditions, legislative changes in the Group's sector and other events and factors outside of the Group's control.

In addition, stock markets have from time to time experienced price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Ordinary Shares.

Dependence on key personnel

In order to compete effectively within the pharmaceutical and medical products sector, the Group must attract and maintain qualified sales, professional, scientific and technical operating personnel. In particular, the recruitment market for skilled personnel, particularly those with a medical degree, a PhD or equivalent degrees is highly competitive. The Group may not be successful in attracting or retaining key personnel.

Intellectual property

In the pharmaceutical industry, patent protection is limited because of the lengthy gap between discovery and approval of a new patent. There can be no assurance that the patents will be issued with respect to applications now pending or which may be applied for in the future. The lack of any such patents may have a material adverse impact on the Group's ability to develop its business. In addition, no assurance can be given that patents granted to the Group will be sufficiently broad in their scope to provide protection for the Group's intellectual property rights against third parties. There can be no assurance as to the validity or scope of any patents which have been, or may in the future be, granted to the Group, that claims relating to the patents will not be asserted by other parties or that protection from expired patents will continue.

It may be possible for a third party to imitate or use the patents or utility designs belonging to the Group without authorisation. In this respect, the Group may incur significant expense and effort in enforcing its intellectual property rights. Infringements of intellectual property rights and the resulting diversion of resources to protect such rights could adversely affect the Group's business profitability.

The Group may develop products and be unaware that third parties have patented similar inventions, designs or manufacturing processes. If these third parties assert claims over these products, the Group may be prohibited from selling products integral to its business, or be exposed to potential liability from legal suits brought against the Group for alleged infringement of such third parties' rights. As of the date of this document, the Directors are not aware of any claim against the Group for the infringement of any third party's intellectual property rights.

Product liability and insurance

Under the General Principles of the Civil Law of the PRC, which took effect in 1987, a defective product, which causes property damage or personal injury, may result in the manufacturers and vendors of such product having civil liability for such damage or injury. In 1993, the Product Quality Law of the PRC (the “Product Quality Law”) was promulgated to protect the legitimate rights and interests of end-users and consumers and to strengthen the supervision and control of the quality of products. Pursuant to the Product Quality Law, manufacturers who produce defective products may be subject to criminal liability and have their business licences revoked. In addition, pursuant to the Law on the Protection of the Rights and Interests of Consumers of the PRC (the “Consumers Protection Law”), the State Administration for Industry and Commerce is authorised to impose penalties on manufacturers and vendors for defective products.

In accordance with established practice in the PRC, the Group does not maintain any product liability insurance to cover any claims in respect of personal injury or the adverse affects of drugs and/or medical instruments sold by any subsidiaries of the Group. Under the insurance law of the PRC, a property obtained by illegal means or an illegitimate activity cannot be insured so as to avoid moral risk. Consequently, neither mandatory insurance nor commercial insurance is provided to cover the liability for the damage or injury caused by counterfeit in the PRC. In relation to adequate pharmaceutical products, it is not an industry practice in the PRC to procure insurance coverage for product liabilities arising from any adverse effects of such products. To the best knowledge of the Directors, there is no such insurance coverage available in the PRC. There can be no assurance that necessary insurance cover will be available in the future to the Group at an acceptable cost.

The Group’s business exposes it to potential product liability and indemnity risks for which, at present, it has no insurance cover. The Group may face claims of liability arising from the alleged harmful effects of consumption or use of its pharmaceutical products. A product liability or other claim without such insurance could materially and adversely affect the business or the financial position of the Group. Even if the Group is able to defend successfully such claims, there is no assurance that clients and customers will not lose confidence in the Group’s products, and this may adversely affect its reputation and business. Furthermore, the Group may have to incur expense, time and effort in defending such claims. There is no assurance that the Group will not face such claims in the future and that such claims may not have any adverse impact on the business operations or the financial position of the Group or that such occurrence will not damage the business reputation of the Group.

As of the date of this document, no product liability claims have been brought against the Group.

Dependence on supply by third parties

Part of the Group’s business depends on products or services provided by third parties. While the Directors have no reason to believe otherwise, there can be no assurance that the Group’s existing relationships with third parties will continue and if there is any interruption to the products or services provided by those third parties or those products or services are not as scaleable as anticipated or at all, or there are problems maintaining quality standards and delivering products to specifications, the Group’s business could be adversely affected, and the Group may be unable to find adequate replacement services on a timely basis, or at all.

Investment strategy

There can be no certainty that the Group will be able to implement successfully the business strategy set out in this document. The ability of the Group to implement its strategy in a competitive market requires effective planning and management control systems. The Group’s future growth will depend on its ability to expand and improve operational, financial and management information and control systems in line with the Group’s growth. Failure to do so could have an adverse effect on the Group’s business, financial condition and results of operations.

Forward-looking statements

Certain statements contained in this document may constitute forward-looking statements. Any such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Group to be materially different from

any future results, performance or achievements expressed or implied by such forward-looking statements.

Laws and regulation

The Group will be subject to laws in various jurisdictions, including the United Kingdom, the Cayman Islands, Hong Kong, the BVI and the PRC. Existing and future legislation, regulation and actions could cause additional expense, capital expenditure and restrictions and delays in the activities of the Group, the extent of which cannot be predicted. No assurance can be given that new laws, rules and regulations will not be enacted or existing laws, rules and regulations will not be applied in a manner which could limit or curtail certain of the Group's activities or services. In addition, the Group may have to defend itself against legal proceedings which could have an adverse affect on trading performance and, in turn, future profits.

2. Risks relating to the PRC

Changes in government policies

The pharmaceutical industry in the PRC is subject to the policies which are implemented by the PRC government from time to time. Changes in these policies may have a material impact on the entire or a certain part of the pharmaceutical industry and, in turn, on the Group. The PRC government may, for instance, impose control over aspects such as the pricing and sale of pharmaceutical products. If the business of the Group should become subject to any new form of government control, there could be a material adverse effect on the Group's business and operating results.

New M&A Rules

On 8 August 2006, six PRC regulatory agencies, including the China Securities Regulatory Commission (the "CSRC"), promulgated the "New M&A Rules" that became effective on 8 September 2006. These New M&A Rules, amongst other things, have a number of provisions that purport to require that an offshore special purpose vehicle ("SPV") formed for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange.

The transformation of Kangzhe Shenzhen Pharmaceutical from a PRC domestic enterprise into a WFOE was completed in accordance with the then applicable procedure, before the New M&A Rules took effect. The common interpretation is that the new regulations do not apply to an existing SPV with a WFOE set up before 8 September 2006. Moreover, since the ultimate majority shareholder of the Company, Mr. Lam Kong, is a permanent resident of Hong Kong and not a PRC resident, Zhonglun law firm, the PRC legal adviser, has advised the Company that the Company does not fall within the category of an SPV as defined under the New M&A Rules.

However, there exists some uncertainty in the application of the New M&A Rules in that they do not explicitly stipulate the requirements for the overseas listing of a non-SPV company with interests in the PRC. Zhonglun has consulted the CSRC on this matter but has received no definite indication that such a company would require the approval of the CSRC for its overseas listing. On this basis, Zhonglun is of the view and has advised the Company that no pre-approval of the CSRC is required for the purposes of this Admission. Zhonglun is also of the view that no further approval is required from the CSRC for the purposes of Admission under the current law.

If the CSRC determines that the Company is required to obtain its written approval prior to Admission, the Group may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on the Group's operations in the PRC, limit its operating privileges in the PRC, delay or restrict the repatriation of proceeds from the Placing into the PRC, or take other actions that could have a material adverse effect on the Group's business, financial conditions, results of operations, reputation and prospects, as well as on the trading price of the Ordinary Shares.

If the CSRC determines that the Admission requires its approval, the Group may be unable to obtain a waiver of the CSRC approval requirements, if and when procedures are established to obtain such a

waiver. Any uncertainties and/or negative publicity regarding any CSRC approval requirement could have a material adverse effect on the trading price of the Ordinary Shares.

SAFE regulations and registration of foreign exchange activities

SAFE issued a public notice in October 2005 requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies (referred to in the notice as an “offshore special purpose company”). PRC residents that are shareholders of offshore special purpose companies established before 1 November 2005 were required to register with the local SAFE branch before 31 March 2006. According to an administrative measure promulgated by SAFE which took effect on 1 February 2007, any ongoing or subsequent foreign exchange activity conducted by PRC domestic individuals must be registered with the local SAFE branch.

Pursuant to the foregoing regulations, the failure of PRC resident shareholders to register with the local SAFE branch on receiving foreign currency or making investments with foreign currency, or to amend their SAFE registrations pursuant to the SAFE notice, or the failure of future Shareholders who are PRC residents to comply with the registration procedures set forth in the SAFE regulations, may subject such Shareholders to fines and legal sanctions and may also limit the Group’s ability to contribute additional capital into the Group’s PRC subsidiaries, limit the ability of the Group’s PRC subsidiaries to distribute dividends to the Company or otherwise adversely affect the business.

Economic considerations

The PRC has a long history of a planned economy and is subject to annual, five and ten year plans formulated by the PRC government. In recent years, the PRC government has introduced economic reforms aimed at transforming the PRC economy from a planned economy into a market economy with socialist characteristics. These economic reforms allow greater utilisation of market forces in the allocation of resources and greater autonomy for enterprises in their operations. However, many rules and regulations implemented by the PRC Government in such economic reforms are still at an early stage of development and further refinements and amendments are necessary to enable the economic system to develop into a more sophisticated form.

The PRC government has only recently encouraged substantial private economy activity and there can be no assurance that the PRC government’s pursuit of economic reforms will be consistent or effective. However, it is considered that the PRC’s admittance into the WTO will encourage the PRC government to continue to pursue its current strategy of encouraging private economic activity. Many of the reforms are unprecedented or in an experimental stage and are expected to be refined in order to enable the economic system to develop into a more sophisticated form. There can be no assurance that the continued introduction of such reforms will not have an adverse effect upon the business, operations and profitability of the Group.

In addition, the economy of the PRC differs from the economies of most developed countries in many respects including governmental involvement, level of development, growth rate, controls on foreign exchange and allocation of resources. The economy of the PRC has experienced significant growth in the past twenty years but growth has been uneven both geographically and among various sectors of the economy. Economic growth has been accompanied by a period of high inflation. The PRC government has implemented various measures from time to time to control inflation and restrain the rate of economic growth. The PRC economy has experienced high growth over the last few years, due to political and economic liberalisation, which has led to an increased level of domestic consumer spending. However, a downturn in the performance of the PRC economy may lead to a decline in this spending which could adversely affect the financial performance of the Group.

Political and social considerations

The PRC has been undergoing a series of political reforms, particularly since 1978. The Directors expect that such reforms will continue. Such reforms have in the past resulted in significant economic growth and social progress. However, there can be no assurance that any future reform policy of the PRC government will be effective. The Group’s business may be adversely affected by such future reforms or lack of them.

Legal considerations

The PRC legal system is relatively new, and the PRC government is still in the process of developing a comprehensive system of laws. Since 1979, many laws and regulations dealing with economic matters with respect to general and foreign investments have been promulgated in the PRC. In 1982, the PRC National People's Congress amended the PRC constitution to attract foreign investments and to safeguard the "lawful rights and interests" of foreign investors in the PRC. Since then, the trend of legislation has been to significantly enhance the protection afforded to various forms of foreign investment in the PRC. However, despite significant improvements in its legal system, there may still be difficulties in obtaining swift and equitable enforcement of rights or in obtaining enforcement of a judgment by a court of another jurisdiction. This creates additional uncertainties as to the outcome of litigation.

In particular, the following uncertainties may affect the Group's operations and its profitability:

- (i) Substantial uncertainties regarding the interpretation and application of the PRC laws and regulations;
- (ii) New laws may be applied retrospectively;
- (iii) There may be a requirement to obtain new licences, permits or approvals and there is no guarantee that these may be obtained;
- (iv) The PRC government has broad discretion in dealing with violations of law and regulations, including levying fines, revoking business and other licences and requiring actions necessary for compliance; and
- (v) The PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all.

Devaluation or appreciation in the value of the Renminbi or restrictions on convertibility of the Renminbi

The external value of the Renminbi is subject to changes in policies of the PRC government and to international economic and political developments. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong Dollars and US Dollars, has been based on rates set by the People's Bank of China, which were set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. The Renminbi to US Dollars exchange rate experienced significant volatility prior to 1994, including periods of sharp devaluation.

On 21 July 2005, the People's Bank of China reformed the Renminbi exchange rate regime by moving to a managed floating exchange rate based on market supply and demand with reference to a basket of currencies. From that date, the Renminbi was no longer pegged to the US Dollar.

The People's Bank of China will periodically adjust the Renminbi exchange rate band as necessary and, as a consequence, the Renminbi exchange rate will be more flexible than before. There is therefore a risk that the fluctuations in the Renminbi exchange rate may be greater than were previously experienced and any large appreciation or devaluation of the Renminbi against the US Dollar could have an adverse effect on the Group's business and operating results.

Under the current regulations on foreign exchange control in the PRC, foreign investment enterprises are allowed to distribute their profits or dividends in foreign currencies to foreign investors through designated foreign exchange banks without the prior approval of the SAFE. However, the exchange of Renminbi into foreign currencies for capital items, such as direct investment, loans and security investment, is under strict control and requires the approval of the SAFE. The distribution of the Group's profits or dividends may be adversely affected if the PRC government imposes greater control on the ability of the Renminbi to be exchanged into foreign currencies. There can be no assurance that the Group will be able to obtain sufficient foreign exchange to pay dividends or satisfy other foreign exchange requirements in the future.

Taxation

Any change in the Company's tax status or in taxation legislation could affect the Company's ability to provide returns to Shareholders. Statements in this document concerning the taxation of Shareholders

are based on current United Kingdom and Cayman Islands, the PRC and Hong Kong tax law and practice, which are subject to change.

Receipt of dividends from, and transfer of funds to, the Group's Chinese operating subsidiaries

The Company is a Cayman Islands incorporated company, holding the operating subsidiaries of the Group. Some of the operating subsidiaries are WFOEs. The ability of these subsidiaries to declare dividends and other payments to the Company may be restricted by factors that include changes in applicable foreign exchange and other laws and regulations in the PRC and in the Cayman Islands. In particular, under the PRC law, profit available for distribution from the PRC operating subsidiaries is determined in accordance with generally accepted accounting principles in the PRC. This calculation may differ from the one performed in accordance with International Financial Reporting Standards. As a result of the potential difference in profit calculation, there is a risk that the PRC subsidiaries may not have sufficient profit to distribute to the Company to enable it to make distributions to the Shareholders in the future. In addition, distributions by the Company's subsidiaries to the Company other than as dividends may be subject to governmental approval and taxation. Any transfer of funds from the Company to its PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, is subject to registration or approval of certain PRC governmental authorities, including the relevant administration of foreign exchange and/or the relevant examining and approval authority. Further, it is not permitted under PRC law for the Company's PRC subsidiaries to directly lend money to each other. Therefore, it is difficult to change the Group's capital expenditure plans once the relevant funds have been remitted from the Company to its PRC subsidiaries. These limitations on the free flow of funds between the Company and its PRC subsidiaries could restrict the Group's ability to act in response to changing market conditions and to reallocate funds from one PRC subsidiary to another in a timely manner.

3. Risks relating to the Ordinary Shares

Cayman Islands company law

The Company is an exempted company incorporated in the Cayman Islands under the Companies Law. There are a number of differences between the corporate structure of the Company and that of a public limited company incorporated in England under the Act.

As a result the rights of the Shareholders will be governed by the laws of the Cayman Islands and the memorandum and Articles. The laws of the Cayman Islands relating to the protection of the interests of minority Shareholders differ in some respects from those established under statutes or judicial precedent in existence in England. Such differences may mean that the Company's minority shareholders may have less protection than they would have under the laws of England.

Set out below is a description of some principal relevant differences between companies incorporated in England and the Cayman Islands.

(i) Pre-emptive rights:

Shareholders do not have statutory pre-emption rights under the Companies Law over further issues of shares of the Company. Certain restrictions on the ability of the Directors to allot Ordinary Shares are contained in the Articles, which may be amended by resolutions of Shareholders, as described in paragraph 4 of Part VI of this document.

(ii) Takeover Code:

The Takeover Code will not apply to the Company (as further described in Part II of this document) and accordingly, any takeover of the Company will be unregulated by the UK takeover authorities. Whilst the Articles incorporate certain takeover protections, those provisions will not provide the full protections afforded by the Takeover Code. The relevant provisions of the Articles are summarised in paragraph 4 of the Part VI of this document.

(iii) Disclosure of interests in shares:

Under the Companies Law, Shareholders are not obliged to disclose their interests in the Company in the same way as shareholders of a company subject to the Disclosure and Transparency Rules are required to do. In particular, the Disclosure and Transparency Rules do

not apply to the Company. The Articles of the Company incorporate provisions equivalent to those contained in the Disclosure and Transparency Rules, but may be amended by a special resolution of the Shareholders.

Investment in AIM securities and liquidity of the Company's Shares

An investment in companies whose shares are traded on AIM is perceived to involve a higher degree of risk and be less liquid than an investment in companies whose shares are listed on the Official List. AIM is a market designed primarily for emerging or smaller companies. The rules of this market are less demanding than the Official List. The future success of AIM and liquidity in the market for Ordinary Shares cannot be guaranteed. In particular, the market for Ordinary Shares may become or may be relatively illiquid and therefore, such Ordinary Shares may be or may become difficult to sell.

The market for the Company's Ordinary Shares following Admission may be highly volatile and subject to wide fluctuations in response to a variety of factors which could lead to losses for Shareholders. These potential factors include, amongst others:

- investor perceptions of the Group and the Group's business plans;
- variations in the Group's operating results;
- announcements of new pharmaceutical products;
- changes in pricing policy made by the Group, the Group's competitors or other pharmaceutical producers;
- changes in senior management personnel; and
- general economic and other factors.

Prospective investors should be aware that the value of the Ordinary Shares may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Company. Investors may, therefore, realise less than or lose all of their investment.

Dividends

There can be no assurance as to the level and frequency of future dividends. The declaration, payment and amount of any future dividends of the Company is subject to the discretion of the Directors and will depend, amongst other things, upon the Company's earnings, financial position, cash requirements and availability of profits as well as the provisions of relevant laws and generally accepted accounting principles in the PRC from time to time.

Dilution of Shareholders' interest as a result of additional equity fundraising

The Group may need to raise additional funds in the future to finance, amongst other things, expansion of the business, new developments relating to its existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata basis to existing Shareholders, the percentage ownership of the existing Shareholders may be reduced, Shareholders may experience subsequent dilution and/or such securities may have preferred rights, options and pre-emption rights senior to the Ordinary Shares.

Control by significant Shareholders

Upon completion of the Placing, Treasure Sea Limited, which is owned and controlled by Lam Kong (the Chairman and CEO of the Company) will be interested in an aggregate of 71.96 per cent. of the Enlarged Issued Share Capital of the Company immediately following Admission. Treasure Sea Limited will, therefore, be able to exercise significant influence over certain corporate governance matters requiring Shareholder approval, including the election of Directors and the approval of significant corporate transactions and any other transactions requiring a majority vote.

Treasure Sea Limited's interests may conflict with those of some or all of the Company's minority Shareholders. There is no assurance that Treasure Sea Limited, as the controlling shareholder of the Company, will always vote its Ordinary Shares in a way that benefits the minority Shareholders of the Company.

PART V

ACCOUNTANT'S REPORTS ON THE HISTORICAL FINANCIAL INFORMATION

Deloitte.

21 June 2007

The Board of Directors
on behalf of China Medical System Holdings Limited
PO Box 309GT
Ugland House, South Church Street
George Town, Grand Cayman
Cayman Islands

Evolution Securities China Limited
29-30 Cornhill
London
EC3V 3ND

Evolution Securities Limited
9th Floor
100 Wood Street
London
EC2V 7AN

Dear Sirs

China Medical System Holdings Limited (the "Company")

We report on the financial information set out in Part V of the AIM admission document dated 21 June 2007 of China Medical System Holdings Limited (the "Group") (the "Admission Document"). This financial information has been prepared for inclusion in the Admission Document on the basis of the accounting policies set out in Note 4 to the financial information. This report is required by Annex I item 20.1 of Commission Regulation (EC) No 809/2004 (the "Prospectus Directive Regulation") as applied by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in Note 2 to the financial information and in accordance with International Financial Reporting Standards ("IFRS").

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

Save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Annex 1 item 23.1 of the Prospectus Directive Regulation as applied by Paragraph (a) of Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of Admission Document, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation and in accordance with IFRS each as described in Notes 2 and 4 to the financial information.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) as applied by Paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully

Deloitte & Touche LLP

Chartered Accountants

Cambridge, United Kingdom

Deloitte & Touche LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu ("DTT"), a Swiss Verein whose member firms are separate and independent legal entities. Neither DTT nor any of its member firms has any liability for each other's acts or omissions. Services are provided by member firms or their subsidiaries and not by DTT.

CONSOLIDATED INCOME STATEMENTS

	Note	<i>For the year ended 31 December</i>		
		2004 US\$'000	2005 US\$'000	2006 US\$'000
TURNOVER	7	27,462	33,106	37,643
Cost of goods sold		(6,465)	(8,563)	(11,705)
Gross profit		20,997	24,543	25,938
Other income	8	46	180	107
Employee benefits recognised		(416)	(175)	(231)
Share-based payment expenses		–	–	(1,453)
Other selling expenses		(8,877)	(11,458)	(11,470)
Selling expenses		(9,293)	(11,633)	(13,154)
Employee benefits recognised		(188)	(82)	(143)
Share-based payment expenses		–	–	(639)
Impairment of goodwill		(29)	(205)	–
Other administrative expenses		(3,674)	(3,914)	(4,303)
Administrative expenses		(3,891)	(4,201)	(5,085)
Employee benefits recognised		(127)	(100)	(71)
Share-based payment expenses		–	–	(449)
Other research and development costs		(1,904)	(2,124)	(1,740)
Research and development costs		(2,031)	(2,224)	(2,260)
Finance costs	9	(121)	(100)	(103)
Share of results of an associate		(19)	(49)	(59)
Profit before taxation		5,688	6,516	5,384
Taxation	10	(1,486)	(1,708)	(1,435)
PROFIT FOR THE YEAR	11	<u>4,202</u>	<u>4,808</u>	<u>3,949</u>
Attributable to:				
Equity holders of the company		3,575	4,883	4,014
Minority interests		627	(75)	(65)
		<u>4,202</u>	<u>4,808</u>	<u>3,949</u>
Dividends paid	12	<u>8,411</u>	–	–
Earnings per share (basic and diluted) US\$	13	<u>0.11</u>	<u>0.12</u>	<u>0.10</u>

CONSOLIDATED BALANCE SHEETS

	Note	As at 31 December		
		2004 US\$'000	2005 US\$'000	2006 US\$'000
Non-current assets				
Property, plant and equipment	14	3,031	3,601	4,499
Prepaid lease payments	15	244	244	246
Interests in an associate	16	–	180	121
Deferred tax assets	17	348	324	222
Deposits paid for acquisition of property, plant and equipment		–	143	–
		<u>3,623</u>	<u>4,492</u>	<u>5,088</u>
Current assets				
Inventories	18	1,771	1,631	1,684
Trade and other receivables	19	8,043	9,170	11,070
Amount due from an associate		–	–	101
Amounts due from a related company	20	2,603	4,953	–
Amounts due from directors	20	389	267	85
Tax recoverable		–	–	35
Cash and cash equivalents	21	3,448	4,414	8,948
		<u>16,254</u>	<u>20,435</u>	<u>21,923</u>
Current liabilities				
Trade and other payables	22	2,394	2,382	4,592
Amount due to a related company	23	5,459	9,207	–
Amounts due to shareholders	23	–	11,601	5,148
Taxation payable		1,177	722	447
Bank borrowings	24	1,087	1,239	3,739
		<u>10,117</u>	<u>25,151</u>	<u>13,926</u>
Net current assets (liabilities)		<u>6,137</u>	<u>(4,716)</u>	<u>7,997</u>
		<u>9,760</u>	<u>(224)</u>	<u>13,085</u>
Capital and reserves				
Share capital	25	10,115	20	2
Reserves	27	(568)	(174)	13,221
Equity attributable to equity holders of the company		<u>9,547</u>	<u>(154)</u>	<u>13,223</u>
Minority interests	28	213	(70)	(138)
		<u>9,760</u>	<u>(224)</u>	<u>13,085</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Attributable to the equity holders of the company</i>									
	Share capital US\$'000	Capital reserve US\$'000	Surplus reserve fund (note 27) US\$'000	Public welfare fund (note 27) US\$'000	Accumulated profits/ (losses) US\$'000	Dividend reserve US\$'000	Translation reserve US\$'000	Total US\$'000	Minority interest US\$'000	Total US\$'000
Balance at 1 January 2004	10,105	4,075	1,116	558	(6,744)	4,241	(1)	13,350	2,401	15,751
Profit for the year and total recognised income	–	–	–	–	3,575	–	–	3,575	627	4,202
Issue of shares	10	–	–	–	–	–	–	10	–	10
Employee benefits recognised (note a)	–	731	–	–	–	–	–	731	–	731
Acquisition of subsidiary	–	–	–	–	–	–	–	–	44	44
Acquisition of additional interest in a subsidiary (note b)	–	292	–	–	–	–	–	292	(2,859)	(2,567)
Transfer	–	–	574	287	(861)	–	–	–	–	–
Dividend proposed – 2004	–	–	–	–	(4,170)	4,170	–	–	–	–
Dividend paid	–	–	–	–	–	(8,411)	–	(8,411)	–	(8,411)
Balance at 31 December 2004	10,115	5,098	1,690	845	(8,200)	–	(1)	9,547	213	9,760
Exchange differences arising from translation of PRC operations recognised directly in equity	–	–	–	–	–	–	393	393	(1)	392
Profit/(loss) for the year	–	–	–	–	4,883	–	–	4,883	(75)	4,808
Total recognised income and expenses for the year	–	–	–	–	4,883	–	–	4,883	(76)	4,807
Acquisition of additional interest in a subsidiary (note b)	–	88	–	–	–	–	–	88	(207)	(119)
Group restructuring (note c)	(10,095)	(5,327)	–	–	–	–	–	(15,422)	–	(15,422)
Transfer	–	–	743	–	(743)	–	–	–	–	–
Employee benefits recognised (note a)	–	357	–	–	–	–	–	357	–	357
Balance at 31 December 2005	20	216	2,433	845	(4,060)	–	392	(154)	(70)	(224)
Exchange differences arising from translation of PRC operations recognised directly in equity	–	–	–	–	–	–	688	688	(3)	685
Profit/(loss) for the year	–	–	–	–	4,014	–	–	4,014	(65)	3,949
Total recognised income and expense for the year	–	–	–	–	4,014	–	–	4,014	(68)	3,946
Group reorganisation (note d)	(18)	18	–	–	–	–	–	–	–	–
Contribution from a shareholder (note d)	–	5,689	–	–	–	–	–	5,689	–	5,689
Recognition of share based payment expenses (note f)	–	2,541	–	–	–	–	–	2,541	–	2,541
Employee benefits recognised (note a)	–	445	–	–	–	–	–	445	–	445
Balance at 31 December 2006	2	8,909	2,433	845	(46)	–	1,080	13,223	(138)	13,085

Notes:

- a) Dr. Lam Kong, the controlling shareholder of the Group, granted phantom shares to certain employees of Shenzhen Kangzhe Pharmaceutical Company Limited (“Shenzhen Kangzhe”) in 2001, 2004, 2005 and 2006 for their services rendered. The obligation under the phantom shares was treated as a capital contribution for such employee benefits recognised. Up to 31 December 2006, the total amount of employee benefits recognised and credited to the capital reserve amounted to US\$1,736,000.
- b) During the years ended 31 December 2004 and 2005, the Group acquired additional interests in subsidiaries from Dr. Lam Kong, resulting in a discount on acquisition of US\$292,000 and US\$88,000, respectively. As Dr Lam Kong was the controlling shareholder of both the minority interests and the Company, the discount on acquisition of additional interests in subsidiaries has been regarded as a capital contribution from a shareholder and credited to the capital reserve.
- c) During the year ended 31 December 2005, the Group underwent a reorganisation (see note 2). All the shareholders of Shenzhen Kangzhe transferred their entire equity interests in Shenzhen Kangzhe to Sino Talent Limited (“Sino Talent”). A debit capital reserve of US\$5,327,000 was recorded, representing the difference between the CMS International Investment Limited (“CMS International”) for the transfer of the entire interest in Shenzhen Kangzhe pursuant to the Group Restructuring and the nominal value of Shenzhen Kangzhe’s share capital. CMS International is the immediate holding company of Sino Talent.
- d) On 28 December 2006, the Group underwent another reorganisation (see note 2). Pursuant to such group reorganisation, the Company has become the holding company of the companies comprising the Group since that date. A credit capital reserve of US\$18,000 represents the difference between the par value of shares issued by the Company for the entire interest in CMS International and Healthlink Consultancy Inc. (“Healthlink”) pursuant to the Group Reorganisation and the nominal value of the issued share capital of CMS International and Healthlink.
- e) During the year ended 31 December 2006, an amount of US\$5,689,000 was contributed by Dr. Lam Kong to the Company by way of waiver of an equivalent amount of advance to the Company. This has been treated as a capital contribution and credited to the capital reserve.
- f) During the years ended 31 December 2000, 2001 and 2006, Dr. Lam Kong granted certain shares of the Company that were held by him to certain employees of the Group for their services rendered. Such share-based payment was treated as a capital contribution from the shareholders. Up to 31 December 2006, the total amount of share-based payment expense recognised and credited to the capital reserve amounted to US\$6,412,000.

CONSOLIDATED CASH FLOW STATEMENTS

	Note	For the year ended 31 December		
		2004 US\$'000	2005 US\$'000	2006 US\$'000
OPERATING ACTIVITIES				
Profit before taxation		5,688	6,516	5,384
Adjustments for:				
Share of result of an associate		19	49	59
Impairment loss recognised in respect of goodwill		29	205	–
Depreciation of property, plant and equipment		331	365	488
Release of prepaid lease payments		6	6	6
Interest income		(12)	(28)	(21)
Interest expenses		121	100	103
Loss on disposal of property, plant and equipment		–	51	–
Allowance for inventories		80	393	126
Allowance for bad and doubtful debts		250	99	35
Employee benefits recognised		731	357	445
Share-based payment expenses		–	–	2,541
Gain on disposal of associate		(19)	–	–
Operating cash flows before movements in working capital		7,224	8,113	9,166
Decrease/(increase) in inventories		2,160	(208)	(124)
Increase in trade and other receivables		(520)	(1,021)	(1,628)
Increase in amount due from associate		–	–	(101)
(Increase)/decrease in amounts due from directors		(149)	132	191
(Decrease)/increase in trade and other payables		(1,242)	(73)	2,130
Cash generated from operations		7,473	6,943	9,634
PRC enterprise income tax paid		(1,184)	(2,136)	(1,643)
NET CASH FROM OPERATING ACTIVITIES		6,289	4,807	7,991
INVESTING ACTIVITIES				
Interest received		12	28	21
Purchase of property, plant and equipment		(665)	(975)	(1,127)
Deposit paid for acquisition of property, plant and equipment		–	(143)	–
Proceeds from disposal of property, plant and equipment		–	61	–
Proceeds from disposal of other investment		15	–	–
Acquisition of an associate		–	(434)	–
Acquisition of additional interests in a subsidiary		(2,567)	(119)	–
Acquisition of a subsidiary	29	(132)	–	–
Proceeds from disposal of associates		213	–	–
Advance from (repayment to) a related party		5,212	(2,277)	5,001
NET CASH FROM (USED IN) INVESTING ACTIVITIES		2,088	(3,859)	3,895

CONSOLIDATED CASH FLOW STATEMENTS (continued)

	<i>For the year ended 31 December</i>		
<i>Note</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
FINANCING ACTIVITIES			
Interest paid	(121)	(100)	(103)
New bank borrowings raised	1,087	1,812	5,660
Advance from (repayment to) a related company	2,656	(175)	–
Repayment of borrowings	(2,296)	(1,688)	(3,201)
Repayment to amounts due to shareholders	–	–	(9,971)
Proceeds from issue of shares	10	–	–
Dividends paid	(8,411)	–	–
NET CASH USED IN FINANCING ACTIVITIES	<u>(7,075)</u>	<u>(151)</u>	<u>(7,615)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,302	797	4,271
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR	2,146	3,448	4,414
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	–	169	263
CASH AND CASH EQUIVALENT AT END OF THE YEAR, represented by bank balances and cash	<u><u>3,448</u></u>	<u><u>4,414</u></u>	<u><u>8,948</u></u>

NOTES TO THE FINANCIAL STATEMENTS

1. General

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 December 2006. As at 31 December 2006, its ultimate holding company and immediate holding company was Treasure Sea Limited, a company incorporated in British Virgin Islands. The address of its registered office is P.O. Box 309GT, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands. The address of its principal place of business is 2/F, Shenyao Building, Bagua 3rd Road, Shenzhen 518029, the People's Republic of China ("PRC").

The Company is an investment holding company. The principal activities of its subsidiaries at the date of this report are set out in note 35. Pursuant to a group reorganisation in preparation for the listing of the Company's shares on the AIM Market operated by London Stock Exchange Group Plc ("AIM") (the "Group Reorganisation"), the Company became the holding company of the Group on 28 December 2006.

The consolidated financial information has been prepared solely for the purpose of inclusion in the AIM Admission Document of the Company in connection with the proposed listing of its shares on AIM.

The functional currency of the Company is Renminbi as it is the currency in which the majority of the Group's transactions are denominated. The financial statements of the Group are presented in United States dollars ("US\$") as the directors consider this presentation is more useful for its current and potential investors.

2. Basis of presentation of Financial Information

Shenzhen Kangzhe Pharmaceutical Company Limited ("Shenzhen Kangzhe") and its subsidiaries are engaged in the business of distribution and importation of drugs in the PRC.

Shenzhen Kangzhe was incorporated on 9 October 1985. In June 2001, Shenzhen Kangzhe acquired from its parent company, Shenzhen Kangzhe Industrial Investment Co. Ltd. ("Kangzhe Industrial"), a 75 per cent. equity interest in Kangzhe (Hunan) Medical Co. Ltd. ("Hunan Kangzhe"). In March 2004, Kangzhe Pharmaceutical Industrial Ltd. ("Kangzhe Pharmaceutical") was established and then acquired the remaining 25 per cent. equity in Hunan Kangzhe. The acquisitions of 75 per cent. and 25 per cent. interests in Hunan Kangzhe were accounted for using the purchase method.

Shenzhen Kangzhe Medical Instrument Ltd. ("Kangzhe Medical") was incorporated and registered in Shenzhen in February 2000 by Kangzhe Industrial and 90 per cent. of the equity interest was transferred to Shenzhen Kangzhe in November 2001. In June 2005, the remaining 10 per cent. equity interest in Kangzhe Pharmaceutical was acquired by Hunan Kangzhe. The acquisitions of 90 per cent. and 10 per cent. interests in Kangzhe Medical were accounted for using the purchase method.

Healthlink Consultancy Inc. ("Healthlink") was established on 6 June 2002. Healthlink and its subsidiaries are engaged in the research and development of new pharmaceutical products. In March 2003, Healthlink set up a wholly owned subsidiary, Kangzhe Pharmaceutical Research and Development (Shenzhen) Ltd. ("Shenzhen R&D"). In April 2004, Shenzhen R&D purchased an effective 70 per cent. equity interest in Hunan Pharmaprep Zhong Nang Research and Development Ltd. ("Hunan R&D"). The acquisition of the 70 per cent. interest in Hunan R&D was accounted for using the purchase method.

Shenzhen Kangzhe held equity interests in an associate and certain other investments (hereinafter collectively referred to as the "Non-listed Group"). In June 2004, Shenzhen Kangzhe transferred out its entire interests in the Non-listed Group to the immediate holding company, Kangzhe Industrial.

CMS International Investment Limited ("CMS International") and Sino Talent Limited ("Sino Talent") were incorporated on 17 February 2004 and 29 October 2004 respectively where CMS International was the immediate holding company of Sino Talent.

Pursuant to a group reorganisation in August 2005, all shareholders of Shenzhen Kangzhe transferred their entire equity interests to Sino Talent (the “Group Restructuring”). On 15 August 2005, Sino Talent and CMS International became the immediate holding company and intermediate holding company of Shenzhen Kangzhe respectively.

On 28 December 2006, the entire share capital of Healthlink Consultancy Inc. was transferred to China Medical System Holdings Limited.

Pursuant to a group reorganisation in preparation for the listing of the Company’s shares on AIM (the “Group Reorganisation”), the Company became the holding company of the Group on 28 December 2006.

The consolidated income statements and the consolidated cash flow statements for the three years ended 31 December 2006 include the results and cash flows of the companies comprising the Group as if the current group structure had been in existence throughout the three years ended 31 December 2006 or since their respective date of incorporation or establishment where this is a shorter period. The consolidated balance sheets of the Group as at 31 December 2004, 31 December 2005 and 31 December 2006 have been prepared in order to present the assets and liabilities of the companies comprising the Group as if the current group structure had been in existence as at those dates.

3. Adoption of International Financial Reporting Standards

The International Accounting Standards Board (the “IASB”) issued a number of new and revised International Accounting Standards (“IASs”), International Financial Reporting Standards (“IFRSs”) and the related Interpretations (“IFRICs”) (hereafter collectively referred to as “new IFRSs”) which are effective for the accounting periods beginning on or after 1 January 2005, 1 December 2005 and 1 January 2006. For the purposes of preparing and presenting the consolidated financial statements of each of the three years ended 31 December 2004, 2005 and 2006, the Group has consistently adopted all these new IFRSs.

The IASB has issued the following new standards, amendment and interpretations that have been issued but are not yet effective. The Group has considered these new standards, amendments and interpretations but does not expect that they will have a material impact on how the results of operations and financial position of the Group are prepared and presented.

IAS 1 (Amendment)	Capital disclosures ¹
IAS 23 (Amendment)	Borrowing costs ²
IFRS 7	Financial instruments: Disclosures ¹
IFRS 8	Operating segments ²
IFRIC 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies ³
IFRIC 8	Scope of IFRS 2 ⁴
IFRIC 9	Reassessment of embedded derivatives ⁵
IFRIC 10	Interim financial reporting and impairment ⁶
IFRIC 11	IFRS 2: Group and Treasury Share Transactions ⁷
IFRIC 12	Service concession arrangements ⁸

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2009.

³ Effective for annual periods beginning on or after 1 March 2006.

⁴ Effective for annual periods beginning on or after 1 May 2006.

⁵ Effective for annual periods beginning on or after 1 June 2006.

⁶ Effective for annual periods beginning on or after 1 November 2006.

⁷ Effective for annual periods beginning on or after 1 March 2007.

⁸ Effective for annual periods beginning on or after 1 January 2008.

4. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year, other than those resulting from the Group Restructuring and the Group Reorganisation, are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interests in subsidiaries is recorded at historical cost and the excess of the cost of acquisition over the carrying amounts of net assets acquired is recognised as goodwill.

Discount on acquisitions represents the excess of the net fair value of an acquiree's identified assets, liabilities and contingent liabilities over the cost of the business combination. Discounts on acquisitions are recognised as a capital contribution where such transactions are with a significant shareholder of the Group.

Accounting for business combinations involving entities under common control

Where business combinations involve entities under common control, financial statement items of the combining entities or businesses for the reporting period in which the common control combination occurs, and for any comparative periods disclosed, are included in the consolidated financial statements of the combined entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties. The combined entity recognises the assets, liabilities and equity of the combining entities or business at the carrying amounts in the consolidated financial statements of the controlling party or parties prior to the common control combinations.

Business combinations other than involving entities under common control

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the

net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the costs of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

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 estimated customer returns, rebates, other similar allowances and sales related taxes.

Revenue from the sale of goods is recognised when goods are delivered and title has passed.

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

Property, plant and equipment

Property, 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 property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method as follows:

Buildings	4.75% per annum
Leasehold improvement	Over the lease term
Plant and machinery	18% per annum
Motor vehicles	18% per annum
Furniture, fixtures and equipment	18% per annum

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Construction in progress is stated at cost less identified impairment losses which include all construction costs and other direct costs attributable to such projects, and borrowing costs capitalised in accordance with the Group's accounting policy. It is not depreciated until completion of construction and the relevant assets are available for use. Costs of completed construction works are transferred to the appropriate category of property, plant and equipment.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is considered to be sufficiently certain that the development costs incurred on a clearly-defined project will be recovered through future commercial activity and that the criteria of IAS 38 Intangible Assets are met. The resultant asset is amortised on a straight line basis over its useful life and carried at cost less subsequent accumulated amortisation and any accumulated impairment loss.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Prepaid lease payment

Prepaid lease payment represents cost of land use rights paid to the Land Bureau of the PRC Government.

Land use rights are stated at cost and are charged to the income statement over the period for which the relevant land use right has been granted to the Group.

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised on the Group's consolidated balance sheet when the Group has become a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly cash and cash equivalents, loans and receivables. The accounting policies adopted in respect of the loans and receivables are set out below.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from an associate, a related company and directors, and bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue cost.

The Group's financial liabilities (including trade and other payables, amounts due to related companies, amounts due to shareholders and bank borrowings) are subsequently measured at amortised costs, using the effective interest method.

Derecognition

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

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit for the year as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax of the Group is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated from the functional currency of the respective companies into the presentation currency of the Group (i.e. US\$) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve).

Leasing

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

The Group as lessee

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire depreciable assets are presented as deduction from the carrying amount of the relevant assets and transferred to profit or loss on a systematic and rational basis over the useful lives of the assets.

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes, which are defined contribution schemes, are charged as an expense when employees have rendered services entitling them to the contributions.

Equity-settled share-based payment transactions

A shareholder of the Group has granted shares to certain employees of the Group for their services rendered at no consideration. The fair value of services received is determined by reference to the fair value of share at the respective grant dates because the fair value of services cannot be reliably measured. Such fair value is recognised, as an expense in full at the grant date with a corresponding increase in equity (capital reserve).

5. Key sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet dates, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, are described below.

Trade receivables

On assessing any impairment of the Group's trade receivables, the management regularly reviews the recoverability, creditworthiness of customers and ages of the trade receivables. Impairment on trade receivables is made on the estimation of the future cash flow discounted at an effective interest rate. If the financial condition of the customers of the Group deteriorated, resulting in an impairment of their ability to make payments, additional impairment may be required.

6. Financial Risk Management Objectives and Policies

The Group's major financial instruments include trade and other receivables, amount due from a related company and amounts due from directors, bank balances, trade and other payables, amount due to related companies and shareholders, and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments arise in the normal course of the Group's business. The exposure to risks are managed and monitored closely in accordance with the Group's financial management policy as set out below to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's trade receivables have no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

7. Turnover

Turnover represents the net amount received and receivable for goods sold during the year.

The Group's operations are regarded as a single segment, being an enterprise engaged in research and development, manufacture and distribution of drugs and medical devices. Over 90 per cent. of the Group's sales are made in the PRC and over 90 per cent. of the Group's assets are situated in the PRC during the three years ended 31 December 2004, 2005 and 2006.

8. Other Income

	<i>For the year ended 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Gain on disposal of an associate	19	–	–
Interest income	12	28	21
Net exchange gain	2	120	2
Government subsidies	4	12	49
Others	9	20	35
	<u>46</u>	<u>180</u>	<u>107</u>

Note: The amount represented the incentive subsidies and grants by the PRC local authorities to the Group.

9. Finance Costs

	<i>For the year ended 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Interest on bank loans wholly repayable within five years	<u>121</u>	<u>100</u>	<u>103</u>

10. Taxation

	<i>For the year ended 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Current tax:			
PRC Enterprise Income Tax	1,528	1,684	1,336
Under (over) provision in prior year	22	–	(3)
	<u>1,550</u>	<u>1,684</u>	<u>1,333</u>
Deferred taxation (note 17)	(64)	24	102
Taxation charge for year	<u><u>1,486</u></u>	<u><u>1,708</u></u>	<u><u>1,435</u></u>

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable to each year.

The taxation for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	<i>For the year ended 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit before taxation	5,688	6,516	5,384
Less: Share of result of an associate	19	49	59
	<u>5,707</u>	<u>6,565</u>	<u>5,443</u>
Tax at the applicable tax rate of 15% (note)	856	985	817
Tax effect of expenses that are not deductible in determining taxable profit	336	502	488
Tax effect on income that is not taxable in determining taxable profit	–	(18)	(10)
Tax effect of tax losses not recognised	131	339	318
Tax effect on tax concession	(596)	(793)	(343)
Effect on different applicable tax rates of subsidiaries	737	693	245
Under (over) provision in prior year	22	–	(3)
Others	–	–	(77)
Taxation charge for the year	<u><u>1,486</u></u>	<u><u>1,708</u></u>	<u><u>1,435</u></u>

Note: the applicable PRC Enterprise Income Tax rate of 15 per cent. is the domestic rate in Shenzhen City, the PRC, where the operations of the Group are substantially based.

Taxation charge mainly represented income tax charge of Shenzhen Kangzhe at 15 per cent. The taxation charge is calculated at the applicable rates prevailing in the PRC.

Shenzhen Kangzhe, Kangzhe Medical and Shenzhen R&D are subject to PRC Enterprise Income Tax rate at 15 per cent., being the preferential tax rate in Shenzhen City.

Certain PRC subsidiaries are eligible for certain tax holidays and concessions in the PRC. The tax holidays and concessions normally are in the form of two years tax exemption from the first profitable year, followed by a 50 per cent. reduction of the applicable tax rate in the following three years. Kangzhe Medical was tax exempted in year 2002 to 2003. From 2004 to 2006, the reduced tax rate for the relief period for Kangzhe Medical is 7.5 per cent. The applicable tax rate of Hunan Kangzhe is 33 per cent. After the completion of the five year tax holiday and concession, a further 50 per cent. reduction in tax rate was granted by the Hunan Province Government to Hunan Kangzhe for year 2003 to 2008 and income tax rate is 15 per cent.

11. Profit for the Year

	<i>For the year ended 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit for the year has been arrived at after charging:			
Directors' remuneration			
Fees	–	–	–
Other emoluments	135	135	202
Pension costs	2	2	13
	<u>137</u>	<u>137</u>	<u>215</u>
Other staff costs	3,280	3,821	5,322
Employee benefits recognised	731	357	445
Share-based payment expenses	–	–	2,541
Pension costs	269	316	276
	<u>4,417</u>	<u>4,631</u>	<u>8,799</u>
Total staff costs			
Auditors' remuneration	26	38	35
Allowance for bad and doubtful debts	250	99	35
Allowance for inventories	80	393	126
Release of prepaid lease payments	6	6	6
Depreciation for property, plant and equipment	331	365	488
Cost of inventories recognised as an expense	6,385	8,170	11,267
Loss on disposal of property, plant and equipment	–	51	–
Minimum lease payment under operating lease in respect of property	127	213	268
	<u><u>127</u></u>	<u><u>213</u></u>	<u><u>268</u></u>

12. Dividend Paid

The dividends declared in respect of the years ended 31 December 2004 and 2003 amounted to US\$4,170,000 and US\$4,241,000 respectively which were fully paid during year ended 31 December 2004. Based on the number of ordinary shares in issue prior to the placing and admission to AIM of 40,000,000 shares, this represents a dividend rate per share of US\$0.10 and US\$0.11 in each respective year.

13. Earnings Per Share

Earnings per share is calculated as if the Company had been the parent company of the Group throughout the periods presented. Earnings per share is also based upon the weighted average number of shares adjusted to reflect the restructuring of share capital prior to the flotation of the Company as if the share restructuring had happened at the beginning of the periods presented. The calculation of earnings per share of US\$0.11, US\$0.12 and US\$0.10 is based on earnings of US\$4,202,000, US\$4,808,000 and US\$3,949,000 and a weighted average number of shares of 40,000,000, 40,000,000 and 40,000,000 for the years ended 31 December 2004, 2005 and 2006 respectively.

14. Property, Plant and Equipment

	<i>Buildings</i> <i>US\$'000</i>	<i>Leasehold</i> <i>improvement</i> <i>US\$'000</i>	<i>Plant and</i> <i>machinery</i> <i>US\$'000</i>	<i>Motor</i> <i>vehicles</i> <i>US\$'000</i>	<i>Furniture,</i> <i>fixtures and</i> <i>equipment</i> <i>US\$'000</i>	<i>Construction in</i> <i>progress</i> <i>US\$'000</i>	<i>Total</i> <i>US\$'000</i>
Cost							
At 1 January 2004	1,917	–	928	417	455	30	3,747
Acquisition of a subsidiary	–	–	125	–	10	–	135
Additions	38	18	153	24	38	394	665
Transfer	30	–	140	–	–	(170)	–
At 31 December 2004	1,985	18	1,346	441	503	254	4,547
Exchange differences	51	–	35	11	12	8	117
Additions	10	–	127	154	123	561	975
Disposals	(63)	–	(41)	–	–	(56)	(160)
Transfer	153	–	114	–	–	(267)	–
At 31 December 2005	2,136	18	1,581	606	638	500	5,479
Exchange differences	72	–	51	20	24	17	184
Additions	–	–	262	260	95	653	1,270
Transfer	90	–	553	–	–	(643)	–
At 31 December 2006	2,298	18	2,447	886	757	527	6,933
Depreciation							
At 1 January 2004	316	–	361	168	340	–	1,185
Provided for the year	109	2	129	66	25	–	331
At 31 December 2004	425	2	490	234	365	–	1,516
Exchange differences	12	–	15	7	11	–	45
Provided for the year	97	9	136	84	39	–	365
Eliminated on disposals	(24)	–	(24)	–	–	–	(48)
At 31 December 2005	510	11	617	325	415	–	1,878
Exchange differences	19	–	23	12	14	–	68
Provided for the year	124	7	207	85	65	–	488
At 31 December 2006	653	18	847	422	494	–	2,434
Carrying values							
At 31 December 2004	1,560	16	856	207	138	254	3,031
At 31 December 2005	1,626	7	964	281	223	500	3,601
At 31 December 2006	1,645	–	1,600	464	263	527	4,499

Construction in progress represented buildings, plant and machinery under construction which are located in the PRC.

The Group has pledged buildings, plant and machinery and construction in progress having an aggregate carrying amount of approximately US\$1,842,000, US\$2,545,000 and US\$2,382,000, respectively at 31 December 2004, 31 December 2005 and 31 December 2006 to secure general banking facilities granted to the Group.

15. Prepaid Lease Payments

	<i>As at 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
The Group's prepaid lease payments comprise:			
Leasehold land in PRC			
Medium-term lease	250	250	252
	<u>250</u>	<u>250</u>	<u>252</u>
Analysed for reporting purposes as:			
Current asset (included in trade and other receivables)	6	6	6
Non-current asset	244	244	246
	<u>244</u>	<u>244</u>	<u>246</u>
	<u>250</u>	<u>250</u>	<u>252</u>

The Group has pledged its land use right with carrying amount of approximately US\$250,000, US\$250,000 and US\$252,000 respectively at 31 December 2004, 31 December 2005 and 31 December 2006 to secure general banking facilities granted to the Group.

16. Interest in an Associate

	<i>As at 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Cost of unlisted investment in associates	–	229	229
Share of post-acquisition losses	–	(49)	(108)
	<u>–</u>	<u>180</u>	<u>121</u>

At 1 January 2004, Shenzhen Kangzhe held a 51 per cent. equity interest in Shenzhen Heng Chang. Shenzhen Heng Chang is a private limited liability company established in the PRC and was a 51 per cent. associate of Shenzhen Kangzhe. In June 2004, Shenzhen Kangzhe disposed of its entire interest in Shenzhen Heng Chang to Kangzhe Industrial for consideration of US\$213,000 resulting in a gain on disposal of US\$19,000.

Goodwill amounting to approximately US\$205,000 arose on the acquisition of an associate, Shenzhen Shenke Medical Instrument Technology Development Limited, during the year ended 31 December 2005. The movement on goodwill is set out below:

	<i>US\$'000</i>
Cost	
At 1 January 2004 and 2005	–
Acquisition of an associate	205
Impairment of goodwill	(205)
	<u>–</u>
At 31 December 2005 and 2006	<u>–</u>

As at 31 December 2006, the details of the associate are as follows:

<i>Name of associate</i>	<i>Place of incorporation and business interest</i>	<i>Attributable interest held by the Group</i>	<i>Principal activities</i>
Shenzhen Shenke Medical Instrument Technological Development Limited (“Shenzhen Shenke”)	PRC	51%*	Research and development, production and distribution of medical devices

*The Group holds 51 per cent. of the registered share capital of Shenzhen Shenke and it has the power to appoint four out of the seven directors of Shenzhen Shenke. However, under a shareholders’ agreement, the power to govern the financial and operating policies requires two thirds of the voting power in a general meeting. As a result, the Group does not have control on Shenzhen Shenke. The directors of the Company consider that the Group does exercise significant influence over Shenzhen Shenke and it is therefore classified as an associate of the Group.

The summarised financial information in respect of the Group’s associate is set out below:

	<i>2004</i> <i>US\$’000</i>	<i>2005</i> <i>US\$’000</i>	<i>2006</i> <i>US\$’000</i>
Total assets	–	397	388
Total liabilities	–	(46)	(142)
Net assets	<u>–</u>	<u>351</u>	<u>246</u>
Group’s share of net assets of an associate	<u>–</u>	<u>180</u>	<u>121</u>
Turnover	<u>–</u>	<u>75</u>	<u>332</u>
Loss for the year	<u>(37)</u>	<u>(140)</u>	<u>(116)</u>
Group’s share of result of an associate for the year	<u>(19)</u>	<u>(49)</u>	<u>(59)</u>

17. Deferred Tax Assets

The following are the deferred tax assets recognised and movements thereon during the year ended 31 December 2004, 31 December 2005 and 31 December 2006.

	<i>Unrealised profits on inventories</i> <i>US\$’000</i>
At 1 January 2004	(284)
Credit to consolidated income statement for the year	<u>(64)</u>
At 31 December 2004	348
Charge to consolidated income statement for the year	<u>(24)</u>
At 31 December 2005	324
Charge to consolidated income statement for the year	<u>(102)</u>
At 31 December 2006	<u>222</u>

At the 31 December 2004, 31 December 2005 and 31 December 2006, the Group has unused tax losses of approximately US\$895,000, US\$3,041,000 and US\$4,821,000 respectively available for offsetting against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2004, 31 December 2005 and 31 December 2006 are losses of approximately US\$867,000, US\$2,873,000 and US\$4,520,000 respectively that will expire within 5 years from the year of originating and will expire in or before 2011. Other losses may be carried forward indefinitely.

18. Inventories

	<i>As at 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Raw materials	229	178	183
Work in progress	13	13	7
Finished goods	1,529	1,440	1,494
	<u>1,771</u>	<u>1,631</u>	<u>1,684</u>

19. Trade and Other Receivables

The Group normally allows a credit period of three months to its trade customers.

An aged analysis of the trade receivables at the respective balance sheet dates was as follows:

	<i>As at 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
0–90 days	5,605	6,671	7,969
91–365 days	1,108	1,199	1,356
Over 365 days	36	–	131
	<u>6,749</u>	<u>7,870</u>	<u>9,456</u>

The directors consider that the carrying amount of the Group's trade and other receivables at the balance sheet date approximates their corresponding fair values.

20. Other Financial Assets

The amount due from an associate and a related company and amounts due from directors are unsecured non-interest bearing and repayable on demand. The directors consider the carrying amount of the amount due from an associate and a related company and amounts due from directors at the respective balance sheet dates approximates their corresponding fair values.

(a) Amount due from a related company

Particulars of the amount due from a related company in which the controlling shareholder of the Company, Dr Lam Kong, has beneficial interests are as follows:

	<i>As at 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Shenzhen Kangzhe Investment Limited	<u>2,603</u>	<u>4,953</u>	<u>–</u>

(b) Amounts due from directors

	<i>As at 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Lam Kong	324	170	–
Hon Xiaoxnam	2	19	3
Chen Hongbing	63	78	82
	<u>389</u>	<u>267</u>	<u>85</u>

21. Bank Balances and Cash

The bank deposits carry interest at the prevailing market rate of approximately 0.72 per cent. – 1.71 per cent. per annum.

The directors consider the carrying amount of the bank deposits approximates to their fair value.

22. Trade and Other Payables

An aged analysis of trade payables at the respective balance sheet dates was as follows:

	<i>As at 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
0–90 days	1,136	1,146	2,634
91–365 days	2	1	6
Over 365 days	7	6	1
	<u>1,145</u>	<u>1,153</u>	<u>2,641</u>

The directors consider the carrying amount of trade and other payables approximate their corresponding fair values.

23. Other Financial Liabilities

The amount due to related companies and amounts due to shareholders are unsecured, non-interest bearing and repayable on demand.

The directors consider the carrying amount of the amounts due to related companies and amounts due to shareholders at the respective balance sheet dates approximate their corresponding fair values.

Particulars of the amounts due from related companies are as follows:

	<i>As at 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Shenzhen Kangzhe Investment Limited	1,470	3,508	–
East Kingdom International Limited	3,989	5,699	–
	<u>5,459</u>	<u>9,207</u>	<u>–</u>

Shenzhen Kangzhe Investment Limited and East Kingdom International Limited are related companies in which a shareholder of the Company, Dr Lam Kong, has beneficial interests in these related companies.

24. Bank Borrowings

	<i>As at 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Bank borrowings repayable:			
On demand or within one year	<u>1,087</u>	<u>1,239</u>	<u>3,739</u>

All borrowings are denominated in RMB. Short-term bank borrowings are repayable within one year and are arranged at fixed interest rates ranged from 5.04 per cent. to 7.34 per cent., which expose the Group to fair value interest rate risks, and are secured by property, plant and equipment and the Group's land use rights.

The directors consider that the carrying amount of bank borrowings approximate their corresponding fair values.

25. Share Capital

The capital of the Group shown on the consolidated balance sheet as at 31 December 2004 is the capital of Shenzhen Kangzhe, CMS International and Healthlink. The share capital of the Group shown on consolidated balance sheet as at 31 December 2005 is the share capital of CMS International and Healthlink. The share capital of the Group shown on consolidated balance sheet as at 31 December 2006 is the share capital of the Company.

The Company	<i>Number of shares '000</i>	<i>Amount US\$'000</i>
Authorised share capital with nominal value of US\$0.1 each		
Balance at 31 December 2006	10,000	1,000
Issued and fully paid shared capital		
Allotment of 1 share upon incorporation on 18 December 2006	–	–
Issue of shares pursuant to Group Reorganisation	20	2
At 31 December 2006	20	2
The Group		<i>Amount US\$'000</i>
Movements in share capital:		
Capital of Shenzhen Kangzhe and Healthlink at 1 January 2004		10,105
Issue of shares of CMS International		10
Balance at 31 December 2004		10,115
Group Restructuring		(10,095)
Balance at 31 December 2005		20
Group Reorganisation		(18)
Balance at 31 December 2006		2

26. Employee Share Incentive Scheme

Pursuant to the Internal Management and Regulation on Employee Shareholding (“IMR”) dated 25 July 2001, Dr Lam Kong, the controlling shareholder of Shenzhen Kangzhe, granted 15 per cent. of the issued equity shares in Shenzhen Kangzhe (“equity shares”) to employees of Shenzhen Kangzhe for no consideration.

10.75 per cent. equity shares were granted to employees in December 2000 and April 2001. The fair values of the equity shares at the relevant grant dates were charged to the consolidation income statement as a share-based payment expense.

4.25 per cent. of issued equity shares were granted to employees in 2001, 2004, 2005 and 2006 (the “Phantom Shares”). The Phantom Shares are held under the name of Dr Lam Kong on behalf of such employees. The granted Phantom Shares could be repurchased at a consideration based on the net assets value of Shenzhen Kangzhe and its subsidiaries at the previous year end date following the date of purchase, calculated in accordance with accounting principles and relevant financial regulations in the PRC, if the employee leaves the Group. The employee benefits recognised at the grant date was determined based upon the net assets of Shenzhen Kangzhe and its subsidiaries at the previous year end date applicable to the phantom shares granted. For the period subsequent to the grant date, additional employee benefits were recognised with reference to the changes in net assets other than the divided declared in each year. An expense of US\$ 731,000, US\$ 357,000 and US\$ 445,000 was recognised in each of the years ended 31 December 2004, 2005 and 2006 respectively.

With effect from 31 December 2006, the equity interests of the Company have been transferred from Dr. Lam Kong to the holders of the phantom shares at no consideration. The US\$ 2,541,000 difference between the fair values of the Company's shares and the employee benefits previously recognised up to 31 December 2006 were charged to the consolidated income statement as share-based payment expenses.

A summary of the movement of the phantom shares during the years ended 31 December 2004, 2005 and 2006 is as follows:

	<i>Number of Phantom Shares</i>
At 1 January 2004	920,000
Granted during the year	2,542,200
Repurchased during the year	(10,800)
At 1 January 2005	3,451,400
Granted during the year	313,725
Repurchased during the year	(213,400)
At 31 December 2005	3,551,725
Granted during the year	145,300
Repurchased during the year	(145,300)
At 31 December 2006	<u>3,551,725</u>

The fair values of such shares in Shenzhen Kangzhe at the respective grant dates were determined by the income approach with the application of the discounted cash flow method.

27. Reserves

Surplus reserve fund

Articles of Association of the Group's subsidiaries established in the PRC require the appropriation of certain percentage of their profit after taxation each year to the surplus reserve fund until the balance reaches 50 per cent. of the registered capital of the relevant subsidiaries. In normal circumstances, the surplus reserve fund shall only be used for making up losses, capitalisation into registered capital and expansion of the subsidiaries' production and operation. For the capitalisation of surplus reserve fund into registered capital, the remaining amount of such reserve shall not be less than 25 per cent. of the registered capital.

Public welfare fund

Pursuant to their Articles of Association, the Group's subsidiaries established in the PRC shall make allocation from their profit after taxation at the rate of 5 per cent. to 10 per cent. to the public welfare fund. The public welfare fund can only be utilised on capital nature items for the collective welfare of employees. The public welfare fund forms part of the shareholders' equity but it is not distributable other than in liquidation.

28. Minority Interests

Minority interests represent the agreed share of net liabilities of a subsidiary by minority shareholders.

Pursuant to a supplementary shareholders' agreement entered on 28 April 2004, the minority shareholder of Hunan R&D, a 70 per cent. subsidiary of the Company, agreed to contribute additional capital to Hunan R&D to make good its retained losses.

29. Acquisition of a Subsidiary

On 30 April 2004, the Group acquired a 70 per cent. equity interest in Hunan R&D for a consideration of approximately US\$132,022. The acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was US\$29,000.

	<i>Acquiree's carrying amount before combination and fair value US\$'000</i>
Net assets acquired:	
Property, plant and equipment	135
Other receivables and prepayments	12
	<hr/>
	147
Minority interests	(44)
Goodwill (Note)	29
	<hr/>
Total consideration satisfied by:	
Cash	132
	<hr/> <hr/>
Net cash outflow arising on acquisition:	
Cash consideration paid	(132)
	<hr/> <hr/>

The acquiree has contributed insignificant total revenue and profit to the Group for the period between the date of acquisition and 31 December 2004. Had the acquisition been completed on 1 January 2004, there would not have been any material impact on the total Group's revenue and profit for the year ended 31 December 2004.

Note: The goodwill arising on acquisition of 70 per cent. equity interest in Hunan R&D was impaired and charged to income statement for the year ended 31 December 2004.

30. Non-cash Transaction

During the year ended 31 December 2005, the consideration paid for transferring the entire interest in Shenzhen Kangzhe to Sino Talent pursuant to the Group Restructuring of US\$11,601,000 and US\$3,821,000 respectively was settled through intercompany accounts with shareholders and related companies.

During the year ended 31 December 2006, an advance from a shareholder amounting to US\$5,689,000 was waived by that shareholder.

31. Operating Lease

The Group as lessee

The Group's total future minimum lease payments under non-cancellable operating lease in respect of property was payable as follows:

	<i>As at 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Within one year	103	92	96
In the second to fifth years inclusive	107	40	20
	<hr/>	<hr/>	<hr/>
	210	132	116
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The lease is negotiated for a term of 1 to 2 years.

32. Related Party Transactions

The Group had the following significant transactions with related companies in which the Dr Lam Kong, the shareholder of the Company has beneficial interests as follows:

	<i>For the year ended 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Technical services fee paid	36	—	—
Purchase of goods	56	—	—
	<u> </u>	<u> </u>	<u> </u>

During the three years ended 31 December 2006, the office premises occupied by the Group were owned by a related company in which all directors of the Company have beneficial interests. No rental expenses were charged by the related company over the three years ended 31 December 2006.

During the two years ended 31 December 2005, the Group acquired additional interests in a subsidiary from minority shareholders. Dr. Lam Kong is the controlling shareholder of the minority shareholders. The details are shown in Note 2.

Dr. Lam Kong, the controlling shareholder of the Company, has granted certain shares to the employees of Shenzhen Kangzhe pursuant to IMR (see Note 26).

In 2004, the Group disposed of an associate and certain other investments to Kangzhe Industrial for consideration of US\$228,000. In addition, Kangzhe Industrial provides a credit guarantee to a bank in the PRC in respect of a bank loan of RMB15,000,000 held by the Group with a term from 11 December 2006 to 11 June 2007.

Save as disclosed above, the Group has related party balances as at respective balance sheet dates shown in notes 20 and 23.

33. Capital Commitments

	<i>As at 31 December</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Capital commitments in respect of acquisition of property, plant and equipment:			
Authorised but not contracted for	—	426	—
Contracted for but not provided for	249	227	83
	<u> </u>	<u> </u>	<u> </u>
	<u>249</u>	<u>653</u>	<u>83</u>

34. Retirement Benefits Schemes

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

35. Subsidiaries of the Company

As at 31 December 2006, the details of the Company's subsidiaries are set as follows:

<i>Name of subsidiaries</i>	<i>Place and date of incorporation</i>	<i>Issue and fully paid share capital and registered and capital</i>	<i>Equity interest held by the Company</i>		<i>Principal activities</i>
			<i>Directly</i>	<i>Indirectly</i>	
CMS International	British Virgin Islands	US\$10,000	100%	–	Investment holding
CMS Peptides Patent Holding Company Limited	British Virgin Islands	US\$100	–	70%	Holdings of overseas registered patents
Healthlink	British Virgin Islands	US\$10,000	100%	–	Investment holding
Hunan Kangzhe	PRC	RMB 20,000,000	–	100%	Production of medicines
Hunan R&D	PRC	RMB 3,660,000	–	70%*	Research and development on microbiology related drugs
Kangzhe Medicine	PRC	RMB 10,000,000	–	100%	Production of medical devices
Kangzhe Pharmaceutical	British Virgin Islands	RMB 21,288,000	–	100%	Investment holding
Shenzhen Kangzhe	PRC	RMB 83,578,109	–	100%	Distribution and import of drugs and medical devices
Shenzhen R&D	PRC	US\$ 10,609,000	–	100%	Research and development of peptide related drugs
Sino Talent	Hong Kong	HK\$1	–	100%	Investment holding

*Pursuant to the shareholders' agreement entered on 28 April 2004, all the shareholders agree to share the accumulated losses and net deficit of Hunan R&D.

36. Subsequent Events

Subsequent to 31 December 2006, the following significant events took place:

- (a) In January 2007, Sino Talent acquired 50 per cent. and 10 per cent. equity interests in Sky United Trading Limited (“Sky United”), a private limited liability company incorporated in Hong Kong, from Mr Vincent Hui and his father respectively for aggregate cash consideration of HK\$3 million (equivalent to approximately US\$386,000 million) and Sky United will become a 60 per cent. subsidiary of the Company thereafter. Mr Vincent Hui is an employee of the Group.

The net assets acquired in this transaction are as follows:

	<i>Acquiree's carrying amount before combination and fair value US\$'000</i>
Net assets acquired:	
Property, plant and equipment	2
Trade and receivables	2,968
Amount due from a director	553
Bank and cash balances	42
Trade and other payables	(1)
Other borrowings	(2,831)
Amount due to a director	(6)
Dividend payable	(257)
Tax payable	(5)
Bank borrowings	(454)
	<hr/>
	11
Less: Minority interests	(4)
	<hr/>
Net assets acquired	7
Goodwill	379
	<hr/>
Total consideration, satisfied by cash	386
	<hr/> <hr/>
Net cash inflow arising on acquisition:	
Cash consideration paid	(386)
Cash and cash equivalents acquired	42
	<hr/>
	(344)
	<hr/> <hr/>

The goodwill arising on the acquisition of Sky United is attributable to the anticipated future operating synergies from the business combination.

- (b) In February 2007, Shenzhen Kangzhe acquired a 51 per cent. equity interest in Qingdao League Pharmaceutical Co Ltd. (“Qingdao League”) from an independent third party at a total consideration of RMB5,865,000.

Shenzhen Kangzhe entered into an operations agreement with Ophol Limited, the remaining 49 per cent. shareholder of Qingdao League, on 10 February 2007. The agreement states that Shenzhen Kangzhe will not participate in the operation of Qingdao League and that any liabilities arising from Qingdao League will be borne solely by Ophol Limited. Pursuant to the joint venture agreement and the operations agreement of Qingdao League, the directors of the Company regard Qindao League as a 51 per cent. associate of the Group.

- (c) Pursuant to the written resolutions of the shareholders of the Company passed on 25 April 2007, the transactions below were effected:
1. the authorised share capital of the Company of US\$1,000,000 divided into 10,000,000 ordinary shares of US\$0.10 each was increased to US\$100,000,000 by the creation of 90,000,000 ordinary shares of US\$0.10 each;
 2. there was a capitalisation issue of 39,980,000 new ordinary shares of US\$0.10 each to the existing shareholders at par by applying the sum of US\$3,998,000 standing to the capital reserve of the Company. Such new ordinary shares were credited as fully paid and rank *pari passu* with the then existing ordinary shares.

PART VI

ADDITIONAL INFORMATION

1. Responsibility

The Company (whose registered office appears on page 8) and the Directors (whose names appear on page 8) accept individual and collective responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Company and of the Directors, each of whom has taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

2. The Group

2.1 The Company was incorporated on 18 December 2006 in the Cayman Islands as an exempted company with limited liability under the Companies Law with registered number MC-179153 under the name of China Medical System Holdings Limited. The liability of the members of the Company is limited.

2.2 The registered office of the Company is c/o the offices of M&C Corporate Services Limited, PO Box 309GT Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands. The Company may be contacted on the following telephone number +(86) 755 8241 6868.

2.3 The Company is the holding company of the following subsidiaries (as at the date of this document):

<i>Company Name</i>	<i>Place of Incorporation</i>	<i>Percentage of issued share capital or Interest held</i>	<i>Principal activity</i>
CMS International Investment Limited	British Virgin Islands	100 per cent	Investment holding
Sino Talent Limited	Hong Kong	100 per cent. (indirect)	Investment holding
Shenzhen Kangzhe Pharmaceutical Co., Ltd	PRC	100 per cent. (indirect)	Wholesale import and export of Chinese traditional medicine; chemical preparations; antibiotics and biological chemistry medicine; sale of medical suturing materials, bond and medical electronic devices of Category III
Kangzhe Pharmaceutical Industrial Ltd	British Virgin Islands	100 per cent. (indirect)	Investment holding
Kangzhe (Hunan) Medical Co., Ltd	PRC	100 per cent. (indirect)	Manufacturing pharmaceutical preparations of Western and Chinese medicine, compound pharmaceutical preparations, sale of self-manufactured products
Shenzhen Kangzhe Medical Instrument Co., Ltd	PRC	100 per cent. (indirect)	Research, technological development and consultation relating to medical products; domestic commerce, property and marketing; production of medical electronic equipment in Category II

<i>Company Name</i>	<i>Place of Incorporation</i>	<i>Percentage of issued share capital or Interest held</i>	<i>Principal activity</i>
Shenzhen Shenke Medical Instrument Technical Development Co., Ltd	PRC	51 per cent. (indirect)	Technological development of medical equipment; sale of electronic, hardware and plastic medical products; technical, development and sale of operating, emergency, diagnosing and treatment room equipment and software of Category II; production, technical development and sale of dermal injectors, fluid infusion pumps and fluid infusion monitoring system; import and export of products and techniques
Healthlink Consultancy Inc.	British Virgin Islands	100 per cent	Investment holding
Kangzhe Pharmaceutical Research and Development (Shenzhen) Company Ltd	PRC	100 per cent. (indirect)	Research and development of medicines
CMS Peptides Patent Holding Company Limited	British Virgin Islands	70 per cent. (indirect)	Investment holding
Hunan Pharmapep Zhongnan R&D Co., Ltd	PRC	70 per cent. (indirect)	Research and development of genetic drugs; research into, manufacturing and sale of related materials for packaging of pharmaceutical products
Qingdao League Pharmaceutical Co., Ltd	PRC	51 per cent. (indirect)	Wholesale of Chinese traditional medicine, chemical preparations, antibiotics and biological chemistry medicine, biological products, retail of medical devices of Category II and III
Sky United Trading Ltd.	Hong Kong	60 per cent. (indirect)	Trading business
Crosspac Group Limited	British Virgin Islands	70 per cent. (indirect)	Investment holding

2.4 The principal legislation under which the Company was formed and now operates is the Companies Law and regulations made thereunder.

2.5 The Company's accounting reference date is 31 December.

2.6 The principal place of business of the Company is in the PRC.

3. Share capital of the Company

3.1 The authorised and issued share capital of the Company at the date of this document and as it is expected to be following Admission is as follows:

	<i>As at the date of this document</i>		<i>Following Placing and Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Nominal Value</i>	<i>Number of Ordinary Shares</i>	<i>Nominal Value</i>
Authorised share capital	1,000,000,000	US\$100,000,000	1,000,000,000	US\$100,000,000
Issued and fully paid up share capital	40,000,000	US\$4,000,000	47,246,376	4,724,637.60

3.2 Changes in the share capital of the Company preceding the date of this document were as follows:

(a) The Company was incorporated with an authorised share capital of US\$1,000,000 divided into 10,000,000 shares of a nominal value of US\$0.10 each;

- (b) On 18 December 2006 the 1 share in the Company held by the subscriber was transferred to Treasure Sea Limited;
- (c) Pursuant to a share for share exchange agreement dated 28 December 2006, in consideration for the transfer of the entire issued share capital of (1) CMS International and (2) Healthlink to the Company, 19,999 Ordinary Shares in total were issued to the then shareholders in (1) CMS International and (2) Healthlink as follows:
- | | |
|--------------------------------------|------------------------|
| (i) Treasure Sea Limited | 17,849 Ordinary Shares |
| (ii) Viewell Limited | 1,000 Ordinary Shares |
| (iii) Wide Harvest Limited | 1,000 Ordinary Shares |
| (iv) Great Creation Holdings Limited | 50 Ordinary Shares |
| (v) Befirst Technology Limited | 50 Ordinary Shares |
| (vi) Top Desire Technology Limited | 50 Ordinary Shares |

Details of the share for share exchange agreement are set out in paragraph 9.5 of Part VI.

- (d) By written resolutions of the Shareholders dated 25 April 2007, the Company increased its authorised share capital from US\$1,000,000 to US\$100,000,000 by the creation of 990,000,000 Ordinary Shares of US\$0.10 each;
- (e) By board resolutions dated 25 April 2007, 39,980,000 Ordinary Shares were issued and allotted to the Shareholders by way of capitalisation of the funds standing in the Company's premium account and distribution of funds out of the Company's retained profits account as follows:
- | | |
|--------------------------------------|----------------------------|
| (i) Treasure Sea Limited | 35,682,150 Ordinary Shares |
| (ii) Viewell Limited | 1,999,000 Ordinary Shares |
| (iii) Wide Harvest Limited | 1,999,000 Ordinary Shares |
| (iv) Great Creation Holdings Limited | 99,950 Ordinary Shares |
| (v) Befirst Technology Limited | 99,950 Ordinary Shares |
| (vi) Top Desire Technology Limited | 99,950 Ordinary Shares |

and immediately following the capitalisation, 1,700,000 Shares were transferred by Treasure Sea Limited to Computershare Nominees (Channel Islands) Limited for nil consideration.

3.3 *Allotment of shares*

- (a) Under Cayman Islands law, the Directors are generally authorised to allot shares in the Company up to the amount of its authorised share capital. Article 6, however, restricts the ability of the Directors to allot "Relevant Securities" as defined in Article 6 without the authority of the members. Such restriction does not apply to the allotment of the Placing Shares or the grant of any rights to subscribe for Ordinary Shares granted before Admission, including the Evolution Securities China Option, and the allotment of the relevant shares pursuant to those rights. For these purposes, Relevant Securities means shares in the Company and any right to subscribe for, or to convert any security into, shares in the Company (but not shares allotted pursuant to such a right).
- (b) By written resolutions of the Shareholders dated 25 April 2007, the Directors were generally and unconditionally authorised to exercise all powers of the Company to allot Relevant Securities up to a maximum aggregate nominal amount equal to one third of the aggregate nominal amount of the Enlarged Issued Share Capital, such authority expiring at the conclusion of the next annual general meeting of the Company or, if earlier, fifteen months from the passing of the resolution, unless previously revoked or varied by the Company in general meeting, save that the Company may, before such expiry, make an offer or agreement which would or might require Relevant Securities to be allotted after such expiry and the Directors may allot Relevant Securities pursuant to such an offer or agreement as if the authority conferred by the resolution had not expired.
- (c) By written resolutions of the Shareholders dated 25 April 2007, the Directors were also empowered pursuant to such authority to issue Relevant Securities for cash, provided that such power:
- | | |
|-----|--|
| (i) | is limited to the allotment of Relevant Securities in connection with a rights issue or open offer in favour of ordinary shareholders where the Relevant Securities respectively attributable to their interests are proportionate (as nearly as may be) to the respective number of ordinary shares held by them, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any regulatory body in, any territory; and/or |
|-----|--|

- (ii) is limited to the allotment (otherwise than pursuant to sub-paragraph (i) above) of Relevant Securities up to an aggregate nominal amount equal to 5 per cent. of the aggregate nominal amount of the Enlarged Issued Share Capital; and
 - (iii) shall expire at the conclusion of the next annual general meeting of the Company or, if earlier, fifteen months from the passing of the resolution, save that the Company may, before such expiry, make an offer or agreement which would or might require Relevant Securities to be allotted for cash after such expiry and the Directors may allot Relevant Securities in pursuance of such offer or agreement as if such power had not expired.
- 3.4 The number of Ordinary Shares in issue immediately prior to Admission will represent 84.66 per cent. of the Enlarged Issued Share Capital.
- 3.5 Save as disclosed in this document:
 - (a) no share or loan capital of the Company or any subsidiary is under option or has been agreed, conditionally or unconditionally, to be put under option;
 - (b) no persons have preferential subscription rights in respect of any authorised but unissued share or loan capital of the Company or any subsidiary;
 - (c) other than pursuant to the Placing there is no present intention to issue any of the authorised but unissued share capital of the Company;
 - (d) the Company has not issued any convertible securities, exchangeable securities or securities with warrants; and
 - (e) there are no acquisition rights and/or obligations over authorised but unissued share capital of the Company and no undertakings to increase the capital of the Company.
- 3.6 Other than pursuant to the Placing, none of the Ordinary Shares have been sold or are available in whole or in part to the public in conjunction with the application for the existing Ordinary Shares and the Placing Shares to be admitted to AIM.
- 3.7 Other than the current application for Admission, the existing Ordinary Shares and Placing Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made nor are there intended to be any other arrangements for there to be such dealings in the existing Ordinary Shares or Placing Shares.
- 3.8 The Shareholders all have the same voting rights for each Ordinary Share held. The Placing Shares will rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends and other distributions declared, made or paid after Admission on the issued share capital.
- 3.9 The Ordinary Shares are subject to the compulsory acquisition provisions set out in section 88 of the Companies Law. Under these provisions, where an offeror makes a takeover offer and within four months of making the offer it has been approved by the holders of not less than ninety per cent. in value of the shares to which the offer relates, that offeror is entitled to acquire compulsorily from dissenting shareholders those shares which have not been acquired or contracted to be acquired on the same terms as under the offer.
- 3.10 In order to comply with legislation or regulations aimed at the prevention of money laundering, the Company will adopt and maintain anti-money laundering procedures, and may require subscribers to provide evidence to verify their identity. Where permitted, and subject to certain conditions, the Company may also delegate the maintenance of its anti-money laundering procedures (including the acquisition of due diligence information) to a suitable person.
- 3.11 The Company reserves the right to request such information as is necessary to verify the identity of a subscriber. In the event of delay or failure on the part of the subscriber in producing any information required for verification purposes, the Company may refuse to accept the application, in which case any funds received will be returned without interest to the account from which they were originally debited.
- 3.12 If any person resident in the Cayman Islands knows or suspects that another person is engaged in money laundering or is involved with terrorism or terrorist property and the information for that knowledge or suspicion came to their attention in the course of their business, the person will be required to report such belief or suspicion to either the Financial Reporting Authority of the Cayman Islands, pursuant to the Proceeds of Criminal Conduct Law (Revised) if the disclosure relates to money laundering or to a police officer of the rank of constable or higher if the disclosure relates to involvement with terrorism or terrorist property, pursuant to the Terrorism Law. Such a report shall not be treated as a breach of confidence or of any restriction upon the disclosure of information imposed by any enactment or otherwise.
- 3.13 The Existing Ordinary Shares and the Placing Shares have been and will be issued under the Companies Law. The Ordinary Shares are in registered form.

4. Memorandum and Articles

A summary of the terms of the Memorandum and Articles is set out below. The summary below is not a complete copy of the terms of the Memorandum and Articles.

4.1 *Memorandum of Association*

The principal objects of the Company as set out in paragraph 3 of the Company's Memorandum of Association are unrestricted in scope and the Company has full power and authority to carry out any object not prohibited by the Companies Law.

4.2 *Articles*

New Articles of the Company were adopted on 25 April 2007. The Articles contain, *inter alia*, provisions to the following effect:

(a) *Share rights*

Subject to the provisions of the Companies Law and (as appropriate) the other relevant legislation, orders and regulations affecting the Company and to any special rights conferred on the holders of any shares or class of shares, shares may be issued with, or have attached, such rights and restrictions as the Company may by ordinary resolution determine from time to time. The Articles contain certain restrictions on the ability of the Directors to allot Ordinary Shares as described in paragraph 3.3 of this Part VI.

(b) *Voting*

Subject to any special rights or restrictions as to voting attached to any share by or in accordance with the Company's Articles for the time being at meetings of members:

- (i) on a show of hands every member who is present in person, in the case of a corporation, by duly authorised representative and entitled to vote shall have one vote;
- (ii) on a poll every member who is present in person or by proxy or, in the case of a corporation, by duly authorised representative and entitled to vote shall have one vote for every share of which he is the holder. A member is not entitled to vote either in person or by proxy in respect of shares held by him unless all calls or other sums presently payable by him in respect of those shares have been paid. A member is not entitled to vote in respect of shares held by him in relation to which he or any person appearing to be interested in such shares has been served with a notice given by the Directors in their absolute discretion under the Articles requiring him or such person to give details of any interest in any shares in the Company, and he or such person has failed to comply with such notice within the specified period.

(c) *Variation of rights*

Subject to the Companies Law, whenever the share capital of the Company is divided into different classes of shares, any of the rights for the time being attached to any class of shares may be varied or abrogated (whether or not the Company is being wound up) in such a manner (if any) as may be provided by those rights, or if no such provision is made either with the consent in writing of the holders of three quarters in nominal value of the issued shares of that class, or the authority of a special resolution passed at a separate general meeting of the holders of those shares. Although, under the Companies Law, a two thirds majority is required to pass a special resolution, under the Articles, a special resolution can only be passed by a majority of not less than 75 per cent. of Shareholders who, being entitled to do so, vote at a general meeting of the Company. At every such separate meeting (except an adjourned meeting) the quorum shall be two persons holding or representing by proxy at least one third in nominal amount of the issued shares of the class and at a adjourned meeting one holder present in person or by proxy (whatever the number of shares held by him) may constitute a quorum.

(d) *Transfer of shares*

Transfers of certificated shares may be effected by an instrument of transfer in any usual form or in any other form as the Directors may approve. Any written instrument of transfer of a share shall be signed by or on behalf of the transferor (and the transferee in the case of a partly paid share) and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof.

The Directors may in their absolute discretion and without assigning any reason therefore decline to register the transfer of any certificated share in limited circumstances, *inter alia* because it is not a fully paid share.

(e) *Return of capital on winding up*

If the Company shall be wound up, the liquidator may, with the authority of a special resolution of the Company, and any other authority required by the Companies Law: (i) divide amongst the members *in specie* the whole or any part of the assets of the Company and, for that purpose, value any assets and may determine how the division shall be carried out as between the members or different classes of members; or (ii) vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator shall think fit, but no member shall be compelled to accept any assets upon which there is any liability.

(f) *Redemption and pre-emption and bearer shares*

There are no redemption or pre-emption rights on transfer attaching to the Ordinary Shares. The Articles also provide that the Company will not issue shares to bearer. This is usual for a Cayman Company as the Companies Law requires that bearer shares be immobilised and held by a custodian.

(g) *Alteration of share capital*

The Company may by ordinary resolution increase, consolidate and divide, or sub-divide its share capital or cancel any shares which have not, at the date of the ordinary resolution, been taken or agreed to be taken by any person and diminish the amount of its share capital by the nominal amount of shares so cancelled. The Company may (subject to the Companies Law and to any rights conferred on the holders of any class of shares) by special resolution reduce its share capital or any capital redemption reserve fund in any way. Although, under the Companies Law, a two thirds majority is required to pass a special resolution, under the Articles, a special resolution can only be passed by a majority of not less than 75 per cent. of Shareholders who, being entitled to do so, vote at a general meeting of the Company.

(h) *Purchase of own shares*

The Company may, subject to the Companies Law, purchase shares of any class provided that the members have approved the manner of purchase by ordinary resolution.

(i) *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property and assets and uncalled capital, and, subject to the Companies Law, create and issue debentures and other securities. The Directors shall restrict the borrowings of the Company and exercise all voting and other rights and powers of control exercisable by the Company in relation to its subsidiary undertakings so as to procure (or as regards subsidiary undertakings, only so far as it can procure by such exercise) that the aggregate amount for the time being remaining outstanding of moneys borrowed by the Group and owing to persons outside the Group shall not at any time without the previous sanction of an ordinary resolution of the Company exceed an amount equal to three times the Adjusted Capital and Reserves of the Group, as defined.

(j) *Directors*

(i) Each of the Directors (other than any director who for the time being holds an executive office or employment with the Group) may be paid fees at such rate as may be determined by the Directors, provided that such fees in aggregate shall not exceed US\$400,000 per annum or such higher amount as may be determined by the Company by ordinary resolution. The Directors shall also be entitled to be paid all reasonable travelling, hotel and other expenses properly incurred by them in connection with their duties as Directors. If, by arrangement with the Directors, any Director performs any special services such Director may be paid such additional reasonable special remuneration therefore as the Directors may from time to time determine.

(ii) At each annual general meeting of the Company one third (or the nearest number to and exceeding one third) of the Directors who are subject to retirement by rotation for the time being shall retire from office and shall be eligible for re-election. The Directors to retire in each year shall be those subject to retirement by rotation who have been longest in office since they were last appointed or re-appointed, but as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree amongst themselves) be determined by lot.

(iii) Subject to the Companies Law and disclosure of his interests, no Director shall be disqualified by his office from contracting with the Company, holding any other office or place of profit under the Company (except auditor of the Company or any subsidiary), or being interested in any company in which the Company may be interested, or acting by himself or his firm in a professional capacity for the Company (except as auditor) nor shall any such contract, arrangement, transaction or proposal be liable to be avoided, nor shall any such Director be liable to account to the Company for any profit, remuneration or other benefit realised.

(iv) A Director shall not vote or be counted in any quorum at a meeting in relation to any resolution of the Directors or a committee of Directors in respect of any contract, arrangement,

transaction or any other proposal in which (together with any interest of any person connected with him) to his knowledge he has a material interest, save that this prohibition shall not apply to:

- (1) the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings;
 - (2) the giving of any security, guarantee or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he has himself assumed responsibility in whole or in part (either alone or jointly with others) under a guarantee or indemnity or by the giving of security;
 - (3) any issue or offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings in respect of which he is or may be entitled to participate in his capacity as a holder of any such securities or as an underwriter or sub-underwriter;
 - (4) any contract, arrangement, transaction or proposal in which he is interested by virtue of an interest in shares, debentures or other securities of the Company or otherwise in or through the Company;
 - (5) any contract, arrangement, transaction or proposal concerning any other company in which he, and any persons connected with him (within the meaning of section 346 of the Act), do not to his knowledge hold an interest in shares (within the meaning of Part 22 of the Act) representing one per cent. or more of any class of the equity share capital of that company or of the voting rights available to members of that company;
 - (6) any arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings, which does not accord to the Director any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and/or
 - (7) the purchase or maintenance of insurance for the benefit of Directors or for the benefit of persons including Directors.
- (v) A Director shall not vote or be counted in the quorum in respect of any resolution of the Directors or a committee of the Directors concerning his own appointment (or the terminating of his own appointment) as the holder of any office or place of profit with the Company or any company in which the Company is interested including fixing or varying the terms of his appointment or the termination thereof. Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) or the termination of the appointment of two or more Directors to offices or places of profit with the Company or any other company in which the Company is interested, a separate resolution may be put in relation to each Director and in such a case each of the Directors concerned shall be entitled to vote (and be counted in the quorum) in respect of each resolution, except that concerning his own appointment or the termination of his own appointment.
- (vi) The Directors may exercise all the powers of the Company to pay, provide or procure the grant of pensions or other retirement or superannuation benefits and death, disability or other benefits, allowances or gratuities to any person who is or has been at any time a Director of the Company or in the employment or service of the Company or of any company which is or was a subsidiary of or associated with the Company or of the predecessors in business of the Company or of any such subsidiary or associated company or the relatives and dependants of any such person. For that purpose the Directors may procure the establishment and maintenance of, or participate in, or contribute to, any non-contributory or contributory pension or superannuation fund, scheme or arrangement and pay any insurance premiums.
- (vii) The Directors may appoint any one or more of their body to hold any executive office for such period (subject to the Companies Law) and on such terms as the Directors shall think fit.
- (viii) The Directors may revoke or terminate any such appointment without prejudice to any claim for damages for breach of contract between the Director and the Company.
- (k) *Indemnity of officers*
Subject to the provisions of, and so far as may be consistent with, the Articles, every Director or other officer shall be indemnified out of the assets of the Company against all liabilities incurred by him in relation to his duties, powers or office.
- (l) *Untraced shareholders*
Subject to various notice requirements, the Company may sell any shares of a member if, during a period of 12 years, at least three cash dividend payments on those shares have become payable and the

cheques or warrants have remained uncashed and on or after the expiry of that period of twelve years, the Company has published advertisements both in a national newspaper and in a newspaper circulating in the area of the last known address of the member and the Company has received no indication of the existence of such member during such period and if the share is listed on the Official List of the UK Listing Authority, notice has been given to the UK Listing Authority of the Company's intention to make such a sale.

(m) *Dividends*

- (i) Out of the profits of the Company available for distribution, the Company may by ordinary resolution declare dividends, but no dividend shall be in excess of the amount recommended by the Directors.
- (ii) Except so far as the rights attaching to the shares provide otherwise, all dividends shall be apportioned and paid proportionately to the amounts paid up on the shares (provided that calls have been made for all such payments) during any portion or portions of the period in respect of which the dividend is paid.
- (iii) Any dividend which remains unclaimed for a period of 12 years after being declared or becoming due for payment shall be forfeited and shall revert to the Company. No dividend shall bear interest against the Company.
- (iv) There are no fixed dates on which entitlement to dividend arises.

(n) *Takeover provisions*

The Articles incorporate certain provisions which seek to provide Shareholders with certain protections provided by the Takeover Code. These provisions, amongst others include:

- (i) When either:
 - (1) any person (other than a Shareholder of the Group who owns, directly or indirectly, securities of the Company representing 30 per cent. or more of the outstanding shares of the Company as of the date immediately prior to Admission (an "Existing Substantial Shareholder")) acquires, whether by a series of transactions over a period of time or not, an interest in securities which (taken together with securities in which persons (other than an Existing Substantial Shareholder) acting in concert with such person are interested) represents 30 per cent. or more of the voting rights attributable to the issued and outstanding securities of the Company which are currently exercisable at a meeting of holders (the "Voting Rights"); or
 - (2) any person (other than an Existing Substantial Shareholder) who, together with persons (other than an Existing Substantial Shareholder) acting in concert with such person, is interested in securities which in the aggregate carry not less than 30 per cent. but not more than 50 per cent. of the Voting Rights and such person, or any person (other than an Existing Substantial Shareholder) acting in concert with such person, acquires an interest in any other securities which increases the percentage of the Voting Rights in which such person is interested, then such person and any person acting in concert with such person (each such person referred to below as the "Offeror") shall extend a written offer which may, subject to certain provisions of the Articles, include an offer to consummate a takeover, merger or consolidation transaction, however effected, including a reverse takeover, partial offer, tender offer, Court scheme (including a plan of reorganisation under insolvency or bankruptcy laws), or offer by a parent company for shares in its subsidiary (an "Offer") to the holders of all issued and outstanding capital shares of the Company. Offers for different classes of capital shares, if any, must be comparable.
- (ii) An Offer must be conditional only upon the Offeror having received acceptances in respect of securities which, together with securities acquired or agreed to be acquired before or during the Offer, will result in the Offeror and any person acting in concert with it holding securities carrying more than 50 per cent. of the Voting Rights.
- (iii) An Offer must be unconditional if the Offeror holds securities representing more than 50 per cent. of the Voting Rights.
- (iv) An Offer must, in respect of each class of shares involved, be in cash (or be accompanied by a cash alternative) at not less than the highest price paid by the Offeror or any person acting in concert with it for any interest in share capital of that class during the 12 months prior to the requirement to make the Offer and during the Offer period.

(o) *General meetings*

The Company must in each year hold a general meeting as its annual general meeting (“AGM”). Not more than 15 months can elapse between AGMs. An AGM must be convened, unless all members entitled to attend and vote agree to short notice, on giving 21 clear days’ notice in writing to all members of the Company.

Other meetings can be convened by the Company from time to time, referred to as extraordinary general meetings. The length of written notice to convene such a meeting varies depending on the nature of the business to be transacted. If the meeting is for the passing of an ordinary resolution, then generally 14 clear days’ written notice to convene an extraordinary general meeting is required. If the meeting is for the passing of a special resolution then 21 clear days’ notice must be given.

Extraordinary general meetings can be convened on shorter notice with the agreement of members being a special majority in number who have the right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. of the total voting rights of the members who have that right.

Members need not attend a meeting of the Company or class meeting of members in person but can do so by way of validly appointed proxy.

If a member is a body corporate, it can pass a resolution of its Directors or other governing body to authorise such person as it thinks fit to act as its representative at any meeting of the Company or class meeting of members.

The Directors shall also convene an extraordinary general meeting on the request of the members pursuant to the Act. If there are insufficient Directors to convene a general meeting, any Director or any two members may convene a general meeting.

(p) *Interests in shares*

Each Shareholder who from time to time, either to his knowledge holds, or becomes aware that he holds, voting rights (through his direct or indirect holding of shares and financial instruments) in 3 per cent. or more of the Company’s issued share capital of any class carrying rights to vote in all circumstances at general meetings of the Company (the “Relevant Share Capital”) is deemed to have a notifiable interest and must notify such interest to the Company. Notification is also required when an interest (i.e. voting rights) falls below 3 per cent. or rises or falls any whole percentage point above 3 per cent. Each Shareholder is also required, to the extent that he is lawfully able to do so, to notify the Company if any other person acquires or ceases to have a notifiable interest in Relevant Share Capital of which he is the registered Shareholder, or, if unable lawfully to provide such notification, to use his reasonable endeavours to procure that such other person makes notification of his interest to the Company. The Articles contains provisions similar to those contained in the Disclosure and Transparency Rules, which are applicable to UK incorporated companies on AIM.

In addition, the Directors shall have power by notice in writing to require a person, whom it knows or has reasonable cause to believe to be, or in the previous 3 years to have been, interested in Relevant Share Capital, within a reasonable period not being more than 5 business days, to confirm or deny such interest and to give such further information, as may be requested.

5. Directors’ and other interests

5.1 (a) The following are the Directors of the Company:

Executive directors

Lam Kong
Chen Hongbing
Hou Xiaoxuan
Chen Yanling
Hui Ki Fat

Non-executive directors

Stuart Hamilton Leckie
Paul Bernard Harper

(b) The following are the senior managers of the Group:

- | | | |
|-------|---------------|--|
| (i) | Lam Kong | Chairman and Chief Executive Officer of the Company. |
| (ii) | Chen Hongbing | Executive Director, Executive Vice President and Chief Operation Officer of the Company. |
| (iii) | Hou Xiaoxuan | Executive Director and Vice President of the Company. |
| (iv) | Chen Yanling | Executive Director and Chief Financial Officer of the Company. |
| (v) | Hui Ki Fat | Executive Director and Chief Executive Officer of Sky United Trading Limited. |

- (vi) Edward Ng Vice President of the Company, responsible for investor relations and strategic planning.
- (vii) Jonathan Zheng Ma Vice President of the Company, responsible for international operations.
- (viii) Waiming Wong Chief Research and Development Officer of the Company.

5.2 The interests of the Directors and associates (within the definition of related party as defined in the AIM Rules) in the share capital of the Company, all of which are beneficial interests, which would be required to be notified to the Company pursuant to the AIM Rules as at the date of this document and as expected to be immediately following Admission are as follows:

	<i>As at the date of this document</i>		<i>Following Admission and the Placing</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Share Capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Share Capital</i>
Lam Kong ¹	34,000,000	85.00%	34,000,000	71.96%
Chen Hongbing ²	2,000,000	5.00%	2,000,000	4.23%
Hou Xiaoxuan ³	2,000,000	5.00%	2,000,000	4.23%
Chen Yanling ⁴	100,000	0.25%	146,500	0.31%

- 1 Lam Kong is interested in Ordinary Shares through his ownership of the entire issued share capital of Treasure Sea Limited, which is the registered holder of 34,000,000 Ordinary Shares. Treasure Sea Limited has agreed that, subject to certain conditions, it will following the expiry of 12 months from the date of Admission transfer 200,000 Ordinary Shares for nominal consideration to a company controlled by Edward Ng.
- 2 Chen Hongbing is interested in Ordinary Shares through his ownership of the entire issued share capital of Viewell Limited, which is the registered holder of 2,000,000 Ordinary Shares.
- 3 Hou Xiaoxuan is interested in Ordinary Shares through her ownership of the entire issued share capital of Wide Harvest Limited, which is the registered holder of 2,000,000 Ordinary Shares.
- 4 Chen Yanling is interested in 100,000 Ordinary Shares through her ownership of the entire issued share capital of Great Creation Holdings Limited, which is the registered holder of 100,000 Ordinary Shares.

5.3 The Company is not aware of any person, other than the Directors and their connected persons (whose interests are set out above), who at the date of this document and immediately following Admission will be interested in shares or voting rights (within the meaning given to interests in the Articles), directly or indirectly, in three per cent. or more of the Enlarged Issued Share Capital or who will directly or indirectly, jointly or severally, exercise or could exercise control over the Company, other than those set out below:

	<i>As at the date of this document</i>		<i>Following Admission and the Placing</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Share Capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Share Capital</i>
Martin Currie Investment Management Limited	–	–	3,623,188	7.67%

5.4 Save as set out in this document:

- (a) neither the Directors nor any member of their families nor any person connected with them (within the meaning of the AIM Rules) has any interest, beneficial or non-beneficial, in the share or loan capital in the Group or in any related financial product (as defined in the AIM Rules) referenced to the Ordinary Shares;
- (b) there are no outstanding loans granted or guarantees provided by any member of the Group to or for the benefit of any of the Directors;
- (c) none of the Directors has any interest, direct or indirect, in any assets which have been or are proposed to be acquired or disposed of by, or leased to, any member of the Group;
- (d) save as described in this document no Director has any interest, whether direct or indirect, in any contract or arrangement which is or was unusual in its nature or conditions or significant to the business of the Group taken as a whole, which was effected by any member of the Group since its incorporation and which remains in any respect outstanding or unperformed.

5.5 None of the major Shareholders above has different voting rights to other Shareholders.

6. Directors' service agreements and terms of appointment

6.1 Details of the service agreements of the executive Directors are set out below:

- (a) Mr. Lam Kong has entered into a service agreement with Kangzhe Shenzhen Pharmaceutical, dated 21 June 2007 to act as the Chairman and Chief Executive Officer of the Group for an initial term of three years. The service agreement is conditional upon Admission and can be terminated by either side

giving to the other not less than six months' written notice or payment in lieu of notice. Mr. Lam has agreed to provide his services under the service agreement, with a basic salary of HK\$600,000 per annum (exclusive of director's fee and salaries), which will be subject to the Board's further review. The service agreement restricts Mr. Lam from having any interest in a competitive business. There are also provisions which, in the event of termination of his employment, restrict the association by Mr. Lam with a competitor and restrict him from soliciting clients and employees of the Group or from inducing any clients of the Group to reduce their business with it, for a period of one year from the date of termination of his employment. The service agreement also contains provisions which, *inter alia*, restrict disclosure of trade secrets or confidential information and protect the Group's intellectual property rights.

In addition to the service agreement, Mr. Lam has entered into a letter of appointment with the Company, dated 21 June 2007 to act as a Director of the Company. The appointment is for an initial term of one year commencing from 18 December 2006 and can be terminated by either side giving to the other not less than three months' written notice. Mr. Lam has agreed to be appointed as a Director under the appointment letter for an annual fee of £15,000 which will be subject to the Board's further review, together with director and officer liability insurance acquired by the Company with a maximum coverage of US\$10,000,000.

- (b) Mr. Chen Hongbing has entered into a letter of appointment with the Company, dated 21 June 2007 to act as a Director of the Company. The appointment is for an initial term of one year commencing from 18 December 2006 and can be terminated by either side giving to the other not less than three months' written notice. Mr. Chen has agreed to be appointed as a Director under the appointment letter for an annual fee of £15,000 which will be subject to the Board's further review, together with director and officer liability insurance acquired by the Company with a maximum coverage of US\$10,000,000.

In addition to the appointment letter, Mr. Chen has also entered into a labour contract with Kangzhe Shenzhen Pharmaceutical dated 1 April 2007 to act as Executive Vice President and Chief Operation Officer of the Group for an initial term of three years from 1 April 2007 to 31 March 2010 with a monthly salary of RMB43,000. The labour contract can be terminated by either side giving to the other not less than six months' written notice. Furthermore, the labour contract contains provisions which restrict Mr. Chen from disclosing trade secrets and confidential information and restrict the association by Mr. Chen directly or indirectly with Kangzhe Shenzhen Pharmaceutical's competitors during the continuance of his labour contract and for a period of two years from the date of termination of his employment. In the event that Mr. Chen is in breach of his confidentiality duty under the labour contract, Mr. Chen shall be liable to pay compensation of RMB100,000 without prejudice to Kangzhe Shenzhen Pharmaceutical's right to claim against him for all the losses it may have suffered as a result. The labour contract also contains provisions which protect Kangzhe Shenzhen Pharmaceutical's intellectual property rights.

- (c) Ms. Hou Xiaoxuan has entered into a letter of appointment with the Company, dated 21 June 2007 to act as a Director of the Company. The appointment is for an initial term of one year commencing from 18 December 2006 and can be terminated by either side giving to the other not less than three months' written notice. Ms. Hou has agreed to be appointed as a Director under the appointment letter for a fee of £15,000 which will be subject to the Board's further review, together with director and officer liability insurance acquired by the Company with a maximum coverage of US\$10,000,000.

In addition to the appointment letter, Ms. Hou has also entered into a labour contract with Kangzhe Shenzhen Pharmaceutical dated 1 April 2007 to act as Vice President of the Group for an initial term of three years from 1 April 2007 to 31 March 2010 with a monthly salary of RMB35,000. The labour contract can be terminated by either side giving to the other not less than six months' written notice. Furthermore, the labour contract contains provisions which restrict Ms. Hou from disclosing trade secrets and confidential information and restrict the association by Ms. Hou directly or indirectly with Kangzhe Shenzhen Pharmaceutical's competitors during the continuance of her labour contract and for a period of two years from the date of termination of her employment. In the event that Ms. Hou is in breach of her confidentiality duty under the labour contract, Ms. Hou shall be liable to pay compensation of RMB100,000 without prejudice to Kangzhe Shenzhen Pharmaceutical's right to claim against her for all the losses it may have suffered as a result. The labour contract also contains provisions which protect Kangzhe Shenzhen Pharmaceutical's intellectual property rights.

- (d) Ms. Chen Yanling has entered into a letter of appointment with the Company, dated 21 June 2007 to act as a Director of the Company. The appointment is for an initial term of one year commencing from 18 December 2006 and can be terminated by either side giving to the other not less than three months' written notice. Ms. Chen has agreed to be appointed as a Director under the appointment letter for an annual fee of £15,000 which will be subject to the Board's further review, together with director and officer liability insurance acquired by the Company with a maximum coverage of US\$10,000,000.

In addition to the appointment letter, Ms. Chen has also entered into a labour contract with Kangzhe Shenzhen Pharmaceutical dated 1 April 2007 to act as Chief Financial Officer of the Group for an initial term of three years from 1 April 2007 to 31 March 2010 with a monthly salary of RMB30,000. The labour contract can be terminated by either side giving to the other not less than six months' written notice. Furthermore, the labour contract contains provisions which restrict Ms. Chen from disclosing trade secrets and confidential information and restrict the association by Ms. Chen directly or indirectly with Kangzhe Shenzhen Pharmaceutical's competitors during the continuance of her labour contract and for a period of two years from the date of termination of her employment. In the event that Ms. Chen is in breach of her confidentiality duty under the labour contract, Ms. Chen shall be liable to pay compensation of RMB100,000 without prejudice to Kangzhe Shenzhen Pharmaceutical's right to claim against her for all the losses it may have suffered as a result. The labour contract also contains provisions which protect Kangzhe Shenzhen Pharmaceutical's intellectual property rights.

- (e) Mr. Hui Ki Fat has entered into a letter of appointment with the Company, dated 21 June 2007 to act as a Director of the Company. The appointment is for an initial term of one year commencing from 26 April 2007 and can be terminated by either side giving to the other not less than three months' written notice. Mr. Hui has agreed to be appointed as a Director under the appointment letter for an annual fee of £15,000 which will be subject to the Board's further review, together with director and officer liability insurance acquired by the Company with a maximum coverage of US\$10,000,000.

In addition to the appointment letter, Mr. Hui has entered into a service agreement with Sky United, dated 21 June 2007 to act as the Chief Executive Officer of Sky United for an initial term of three years. The service agreement is conditional upon Admission and can be terminated by either side giving to the other not less than six months' written notice or payment in lieu of notice. Mr. Hui will be paid a salary of HK\$180,000 per annum. Furthermore, the service agreement restricts Mr. Hui from having any interest in a competitive business. There are also provisions which, in the event of termination of his employment, restrict the association by Mr. Hui with a competitor and restrict him from soliciting clients and employees of the Group or from inducing any clients of the Group to reduce their business with it, for a period of one year from the date of termination of his service agreement. The service agreement also contains provisions which, *inter alia*, restrict disclosure of trade secrets and confidential information and protect the Group's intellectual property rights.

6.2 Details of the non-executive Directors' appointment letters are set out below:

- (a) The Company has entered into a letter of appointment with Stuart Hamilton Leckie providing, *inter alia*, certain remuneration for him as a non-executive director. The letter of appointment is for an initial term of one year commencing from 26 April 2007 and may be terminated at any time by three months' written notice by either party. Under the letter of appointment, Mr. Leckie is entitled to an annual fee of £15,000 and reimbursement of reasonable expenses as well as director and officer liability insurance acquired by the Company with a maximum coverage of US\$10,000,000 but no other remuneration.
- (b) The Company has entered into a letter of appointment with Paul Bernard Harper providing, *inter alia*, certain remuneration for him as a non-executive director. The letter of appointment is for an initial term of one year commencing from 26 April 2007 and may be terminated at any time by three months' written notice by either party. Under the letter of appointment, Dr. Harper is entitled to an annual fee of £15,000 and reimbursement of reasonable expenses as well as director and officer liability insurance acquired by the Company with a maximum coverage of US\$10,000,000 but no other remuneration.

6.3 Save that Kangzhe Shenzhen Pharmaceutical shall be liable to pay statutory compensation for the confidentiality and non-competition undertakings given by Chen Hongbing, Hou Xiaoxuan and Chen Yanling, none of the service agreements, letters of appointment or employment contracts referred to above provide benefits on termination of employment of any Director.

6.4 Save as stated in paragraphs 6.1 to 6.2 above, there are no service agreements existing or proposed between any Director or any individual and any member of the Group.

6.5 The aggregate of the remuneration paid including benefits in kind granted to the Directors for the six month period ended 31 December 2006 was US\$104,430. It is estimated that the aggregate remuneration to be paid including benefits in kind to be granted to the Directors in the current financial year under arrangements currently in force will not exceed US\$463,461.

7. Additional information on the Directors

7.1 The Directors hold or have held the following directorships or are or have been partners in the following partnerships within the five years prior to the date of this document:

<i>Name of director</i>	<i>Current directorships</i>	<i>Past directorships held in the last 5 years</i>
Lam Kong	Shenzhen Kangzhe Pharmaceutical Co., Ltd Shenzhen Kangzhe Medical Instrument Limited Sino Talent Limited CMS International Investment Limited Healthlink Consultancy Inc. East Kingdom International Investment Limited Treasure Sea Limited Pharmapep Research and Development International Limited Archiever Development Limited CMS Peptides Patent Holdings Company Limited Kangzhe Pharmaceutical Industrial Limited Sumpharma GmbH Sky United Trading Limited Qingdao League Pharmaceutical Co., Ltd Crosspac Group Limited Pepharm R&D Limited	Shenzhen Kangzhe Foodstuff Co., Ltd. Shenzhen Tianchi Pharmaceutical Technology Co., Ltd Guangdong Kangli Pharmaceutical Co., Ltd. Hunan Tianchi Pharmaceutical Technology Co., Ltd. Shenzhen Kangzhe Pharmaceutical Consultancy Limited Shenzhen Tianchi Investment Management Limited Shenzhen Kangzhe Hengchang Trading Limited Shenzhen Kangyi Medical Promotion and Consultancy Limited Shenzhen Jiesheng Consultancy Limited Being Champion Limited
Chen Hongbing	Shenzhen Shenke Medical Instrument Technical Development Co., Ltd Shenzhen Kangzhe Pharmaceutical Co., Ltd Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited Shenzhen Kangzhe Medical Instrument Limited Viewell Limited CMS International Investment Limited Healthlink Consultancy Inc. Kangzhe Pharmaceutical Industrial Limited Sino Talent Limited Qingdao League Pharmaceutical Co., Ltd Sky United Trading Limited	Shenzhen Kangzhe Foodstuff Co., Ltd. Shenzhen Kangzhe Hengchang Trading Limited
Hou Xiaoxuan	Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited Shenzhen Kangzhe Pharmaceutical Co., Ltd Shenzhen Shenke Medical Instrument Technical Development Co., Ltd Shenzhen Kangzhe Medical Instrument Ltd Kangzhe (Hunan) Medical Co., Ltd Sino Talent Limited Wide Harvest Limited CMS International Investment Limited Healthlink Consultancy Inc. Hunan Pharmapep Zhongnan Research and Development Limited Kangzhe Pharmaceutical Industrial Limited Qingdao League Pharmaceutical Co., Ltd Sky United Trading Limited	Shenzhen Kangzhe Foodstuff Co., Ltd. Shenzhen Tianchi Pharmaceutical Technology Co., Ltd. Shenzhen Kangzhe Hengchang Trading Limited Shenzhen Kangyi Medical Promotion and Consultancy Ltd

<i>Name of director</i>	<i>Current directorships</i>	<i>Past directorships held in the last 5 years</i>
Chen Yanling	Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited Shenzhen Kangzhe Pharmaceutical Co., Ltd Shenzhen Jiesheng Consultancy Co. Ltd Shenzhen Shenke Medical Instrument Technical Development Co., Ltd Great Creation Holdings Limited Sino Talent Limited Healthlink Consultancy Inc. CMS International Investment Limited Kangzhe Pharmaceutical Industrial Limited Qingdao League Pharmaceutical Co., Ltd	Shenzhen Kangzhe Hengchang Trading Limited
Hui Ki Fat	Sky United Trading Ltd.	Nil
Stuart Hamilton	KIFFA Ltd.	Woodrow Milliman China Limited
Leckie	The Hong Kong Retirement Schemes Association Stirling Finance Limited Pacific Century Trustees Ltd. Arisaig ASEAN Fund Ltd. China Life Trustees Ltd. Actuarial Society of Hong Kong Cititrust Limited HSBC Provident Fund Trustee (Hong Kong) Ltd. Bank Consortium Trust Company Limited The China Index Fund Ltd. Henderson Global Investors (Hong Kong) Ltd. The AlphaGen Hokuto Fund Ltd Pacific Assets Trust plc LIM China Master Fund SPC Limited (former name LIM China Opportunities Fund) FTSE/Xinhua Index Ltd. Best Sight Investment Limited Cosy Investment Limited Heritors Limited Kinnion Holding Limited Heritors Two Limited Japan Opportunities Fund II Limited The Scottish Residential Property General Partner Limited MetLife Fubon Limited (former name Citi Fubon Life Insurance Company Hong Kong Limited) The AlphaGen Crucis Fund Limited The AlphaGen Pyxis Fund Limited The Scottish Residential Property General Partner II Limited The AlphaGen Tenro Fund Limited Marco Polo Pure China Fund Gartmore A.I.S.D.M.A. Program Fund Limited	Tribridge Investment Partners Limited (former name Tiger Asia Capital Ltd.) Sinopia Greater China Ltd. Tiger Global Investments Fund Ltd. Kingsway Fund Management Ltd. L I Far East Ltd. New China Life Insurance Co., Ltd. Noonday Sun Investment Fund SPC The AlphaGen Giauzur Fund Limited Friends Provident International Limited Everbright Pramerica Fund Management Co., Ltd. Winterthur Life (Hong Kong) Limited
Paul Bernard Harper	Angel Biotechnology Holdings Ltd. Angel Biotechnology Holdings Plc RegenTec Ltd. Physiomics plc Sareum Holdings plc Sareum Ltd. FDAS Ltd. Monica Healthacare Ltd. ReNeuron Holdings plc.	Provensis Ltd.

7.2 None of the Directors has:

- (a) any unspent convictions in relation to indictable offences;
- (b) had any bankruptcy order made against him or entered into any voluntary arrangements with his creditors or suffered the appointment of a receiver over any of his assets;
- (c) been a director of a company which has been placed in receivership, creditors' voluntary liquidation, compulsory liquidation or administration, or been subject to a compulsory voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors, whilst he was a director of that company or had an administrator or an administrative receiver or other receiver appointed within the 12 months after he ceased to be a director of that company;
- (d) been a partner in any partnership which has been placed in compulsory liquidation or administration or been the subject of a partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- (e) owned, or been a partner in a partnership which owned, any asset which, while he owned that asset, or while he was a partner or within the 12 months after he ceased to be a partner in the partnership which owned that asset, entered into receivership;
- (f) been publicly criticised by any statutory or regulatory authority (including recognised professional bodies); or
- (g) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company.

8. Lock-In Agreements and Orderly Market Arrangements

- 8.1 Lock-in and Orderly Market Deeds dated 21 June 2007, between (1) the Company, (2) Evolution Securities China Limited, (3) Evolution Securities Limited and (4) each of (a) Treasure Sea Limited, (b) Wide Harvest Limited, (c) Viewell Limited, (d) Great Creation Holdings Limited, (e) Befirst Technology Limited and (f) Top Desire Technology Limited, pursuant to which, subject to certain exceptions (ie. acceptance of a general offer made for all of the shares, transfers pursuant to any sale, reconstruction or scheme of arrangement, any decision or ruling by an administrator, administrative receiver, or transfer to a subsidiary in the same corporate group), each of (a) Treasure Sea Limited, (b) Wide Harvest Limited, (c) Viewell Limited, (d) Great Creation Holdings Limited, (e) Befirst Technology Limited and (f) Top Desire Technology Limited, who will, together hold 81.16 per cent. of the Enlarged Issued Share Capital immediately after Admission, have undertaken to the Company, Evolution Securities China and Evolution Securities Limited that they will not, and they will procure that their associates will not, sell or otherwise dispose of or agree to sell or dispose of any of their respective interests in the Ordinary Shares for a period of twelve months from Admission.
- 8.2 In addition, each of Treasure Sea Limited, Wide Harvest Limited, Viewell Limited, Great Creation Holdings Limited, Befirst Technology Limited, Top Desire Technology Limited have undertaken to the Company, Evolution Securities China and Evolution Securities that they will not and they will procure that their associates will not at any time for an additional period of twelve months following the first anniversary of Admission, sell or otherwise dispose of or agree to sell or dispose of any of their respective interests in such Ordinary Shares unless they promptly notify and consult Evolution Securities and Evolution Securities China regarding the proposed sale and make any disposal through Evolution Securities China (or the Company's broker for the time being) in order to maintain an orderly market in the Ordinary Shares.
- 8.3 Lock-in and Orderly Market Deeds dated 21 June 2007 between (1) the Company, (2) Evolution Securities China Limited, (3) Evolution Securities Limited and (4) each of (a) Sa Manlin, (b) Jia Jinbin, (c) Jonathan Zheng Ma, (d) Vincent Wing Sin Hui and (e) Edward Ng. Pursuant to such deeds, certain employees, Sa Manlin, Jia Jinbin, Jonathan Zheng Ma, Edward Ng and Vincent Wing Sin Hui who will in aggregate, have an interest in approximately 1.21 per cent. of the Enlarged Issued Share Capital following Admission and Edward Ng and Vincent Wing Sin Hui who, save as disclosed in paragraph 5.2 of this Part VI in respect of Edward Ng, currently have no interest in the Enlarged Issued Share Capital (the "Locked-in Employees") have undertaken to the Company, Evolution Securities China and Evolution Securities that they will not and they will procure that their associates will not, sell or otherwise dispose of or agree to sell or dispose of any of their respective interests in the Ordinary Shares (subject to certain exceptions) for a period of twelve months from the date of Admission. Subsequent to the initial twelve month period, the Locked-in Employees have also undertaken to the Company, Evolution Securities China and Evolution Securities for an additional period of twelve months following the first anniversary of Admission that they will not, and they will procure that their associates will not sell or otherwise dispose of or agree to sell or dispose of any of their respective interests in the Ordinary Shares unless they promptly notify and consult Evolution Securities and Evolution Securities China regarding the proposed sale and make any disposal through Evolution Securities China (or the Company's broker for the time being) in order to maintain an orderly market in the Ordinary Shares.

- 8.4 Furthermore following Admission, 177 employees, will in aggregate, have an interest in approximately 3.60 per cent. of the Enlarged Issued Share Capital held by Computershare Nominees as bare trustee. The Company has circulated an informal memorandum of non-dealing to those employees detailing that the employees should not within the twelve months following Admission sell, charge or grant any interest over their Ordinary Shares (or DIs).

9. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the Group during the two years immediately preceding the date of this document or, contain a provision under which the Company has and/or any member within the Group has any obligations or entitlements which, at the date of this document, are, or may be, material:

- 9.1 A Placing Agreement dated 21 June 2007 between (1) the Company, (2) Evolution Securities China, (3) Evolution Securities, (4) the Directors and (5) Treasure Sea Limited under which Evolution Securities China has agreed, as the Company's agent to use reasonable endeavours to procure Placées to subscribe for Placing Shares at the Placing Price. The Placing Agreement provides that conditional upon Admission the Company has agreed to pay Evolution Securities China a corporate finance fee of £300,000, together with any applicable VAT and a commission of 5.75 per cent. of the Placing proceeds in respect of new Ordinary Shares to be subscribed in the Placing where Evolution Securities China procures subscribers for such Placing Shares. The Company has agreed to pay all other fees, costs and expenses relating to the Placing and application for Admission. The Placing Agreement is conditional, *inter alia*, on Admission having occurred on or before 8.00 am on 26 June 2007 or such later date as the Company and Evolution Securities China may agree but in any event not later than 8.00 am on 31 August 2007. The Placing Agreement contains certain warranties and indemnities given by the Company and the Directors in favour of Evolution Securities China and Evolution Securities. The Placing Agreement also contains provisions entitling Evolution Securities China and Evolution Securities to terminate the Placing agreement prior to Admission in certain specific circumstances including circumstances where any warranties are found to be untrue or inaccurate in any material respect.
- 9.2 Nominated adviser and broker agreement (the "Nomad Agreement") dated 21 June 2007 between (1) the Company (2) Evolution Securities China and (3) Evolution Securities pursuant to which, the Company has appointed Evolution Securities China to act as broker to the Company and Evolution Securities to act as nominated adviser in relation to Admission and the Company's continuing obligations as required by the AIM Rules. The agreement contains certain undertakings given by the Company and indemnities in respect of, *inter alia*, compliance with all applicable laws and regulations. The Company has agreed to pay Evolution Securities China a fee of £25,000 per annum for its services as broker and to pay Evolution Securities a fee of £25,000 per annum for its services as nominated adviser under the agreement. The Nomad Agreement can be terminated by either party giving 3 months' written notice.
- 9.3 Option agreement dated 21 June 2007 (the "Option Agreement") between (1) the Company and (2) Evolution Securities China. Under the Option Agreement, in consideration of the payment by Evolution Securities China of £1, and conditional upon Admission, the Company has granted Evolution Securities China the right to subscribe at the Placing Price per share for such number of shares as shall equal 1.5 per cent. of the Enlarged Issued Share Capital. The option can be exercised in whole or in part for a period of 5 years commencing on the date of Admission, upon expiry of which, it will lapse. Evolution Securities China's position is protected in various circumstances, including on a reorganisation or winding up of the Company. The Option Agreement is subject to English law.
- 9.4 Lock-in and orderly market deeds dated 21 June 2007 between Evolution Securities China, Evolution Securities, the Company and each of (a) Treasure Sea Limited, (b) Wide Harvest Limited, (c) Viewell Limited, (d) Great Creation Holdings Limited, (e) Befirst Technology Limited and (f) Top Desire Technology Limited and (g) the Locked-in Employees as described in paragraph 8 above.
- 9.5 A Share for Share Exchange Agreement dated 28 December 2006 between the respective shareholders of CMS International and Healthlink together with the Company. On 28 December 2006, the shareholders as sellers and the Company as buyer entered into a share for share exchange agreement for the sale of the sellers' entire legal and beneficial interest in CMS International and Healthlink in exchange for a total of 19,999 Ordinary Shares. Following completion on 28 December 2006 the then issued share capital of the Company was held by Treasure Sea Limited (89.25 per cent), Viewell Limited (5 per cent), Wide Harvest Limited (5 per cent), Great Creation Holdings Limited (0.25 per cent), Befirst Technology Limited (0.25 per cent) and Top Desire Technology Limited (0.25 per cent).
- 9.6 Share Transfer Agreement dated 13 November 2006 between Kangzhe Shenzhen Pharmaceutical and 4 individual shareholders of Qingdao League, whereby the 4 shareholders, Yang Da Yong, Chang Feng Chen, Tong Jie and Wang Tao (collectively, the "Sellers"), transferred their 51 per cent. shareholding in Qingdao League to Kangzhe Shenzhen Pharmaceutical for RMB 5,865,000.

A Hong Kong company Ophol Limited acquired the remaining 49 per cent. shareholding interest in Qingdao League simultaneously and executed a joint venture agreement with Kangzhe Shenzhen Pharmaceutical on 13 November 2006.

The share transfer became effective after various conditions precedent having been met, including obtaining approval for the transfer, the joint venture contract between Ophol Limited and Kangzhe Shenzhen Pharmaceutical and the articles of association of Qingdao League from the relevant supervising authority. An approval in relation to the transfer of the respective 51 per cent. and 49 per cent. shareholding interests in Qingdao League from the existing individual shareholders to Kangzhe Shenzhen Pharmaceutical and Ophol Limited, as well as the joint venture contract and articles of association, was issued on 18 January 2007.

The share transfer agreement contains non-competition clauses preventing the Sellers from participating in competing activities/companies for a period of two years from completion.

- 9.7 Joint Venture Contract between Kangzhe Shenzhen Pharmaceutical and Optol Limited dated 13 November 2006, pursuant to which the parties agreed to establish the sino-foreign joint venture of Qingdao League for the purpose of carrying out wholesale business of Chinese traditional medicine, chemical preparations, antibiotics, biological chemistry, medicine, biological finished products (vaccination is excluded) and medical device products within Categories II and III. Qingdao League has a registered capital of RMB 5,000,000, of which Kangzhe Shenzhen Pharmaceutical holds 51 per cent. equity interest and Ophol Limited holds 49 per cent. Under the joint venture contract, each of the parties agrees that it will not disclose to third parties any confidential information related to the joint venture and will not engage in any competing activities either by itself and/or through its subsidiaries.
- 9.8 Management Agreement between Kangzhe Shenzhen Pharmaceutical and Ophol Limited dated 10 February 2007, whereby the parties have agreed that Ophol Limited shall be wholly responsible for the management and operation of the business of Qingdao League in particular, the wholesale of supermarket business. Zhonglun has opined that this agreement will become effective upon approval from the relevant PRC authorities.
- 9.9 Asset Transfer Agreement dated 30 November 2005 between Pepharm R&D (HK) and CMS Peptides under which Pepharm R&D (HK) agreed to transfer and/or assign to CMS Peptides all its drug development and related business and a series of agreements set out in a schedule to the Asset Transfer Agreement, for a consideration of HK\$10,689,943. CMS Peptides entered into a co-operation agreement with Kangzhe Shenzhen R&D on 30 November 2005 to record their understanding relating to the development of peptides whereby it was agreed that CMS Peptides would be responsible for the research and development, product sales and registration of peptides and development and application in the overseas markets, while Kangzhe Shenzhen R&D would be responsible for the PRC market. There are clauses contained in the co-operation agreement which provide that the research results developed by each of the parties shall be jointly owned by Kangzhe Shenzhen R&D and CMS Peptides.
- 9.10 Distribution Agreement between Kangzhe Shenzhen Pharmaceutical and Lundbeck Export A/S (“Lundbeck”), a company whose business address is in Denmark, dated 9 August 2002, and an addendum dated 13 October 2005, whereby Lundbeck granted Kangzhe Shenzhen Pharmaceutical exclusive rights to import, distribute, promote, market and sell a finished drug product under the trade name of Deanxit in the PRC for a term which may only be terminated after the end of December 2008. Kangzhe Shenzhen Pharmaceutical obtained a comfort letter from Lundbeck in March 2007, pursuant to which Lundbeck has indicated that it has no intention not to renew the distribution agreement with Kangzhe Shenzhen Pharmaceutical.
- 9.11 Trading Service Agreement between Kangzhe Shenzhen Pharmaceutical and Sky United Trading Limited dated 9 August 2002, and supplemental agreement dated 5 January 2006, pursuant to which Kangzhe Shenzhen Pharmaceutical appointed Sky United Trading Limited as its agent to place orders with and import products from its supplier in Denmark, Lundbeck, at its request for export to China through Hong Kong.
- 9.12 Supplemental Distribution Agreements between Dr Falk Pharma GmbH (“Dr Falk”), a company in Germany, Dr Daqun Xu (as intermediary party) and Kangzhe Shenzhen Pharmaceutical, dated 23 May 2002 and 3 May 2005 respectively, which are supplemental to the distribution agreement made between East Kingdom International Limited and Dr Falk dated 6 July 1998, whereby Kangzhe Shenzhen Pharmaceutical shall replace East Kingdom International Limited to act as the exclusive agent of Dr Falk for distribution of its product under the trade name of Ursolfalk in the PRC for a term extended to 16 June 2009.
- 9.13 Exclusive Distribution Agreement of Augentropfen Stulln Mono between Qingdao League and Kangzhe Shenzhen Pharmaceutical dated 25 October 2006, and supplemental agreement dated 10 February 2007. Under the exclusive distribution agreement, Kangzhe Shenzhen Pharmaceutical has been granted exclusive distribution rights in relation to a finished drug product under the trade name of Augentropfen Stulln Mono in the PRC for a term of ten years from 1 January 2007 until 31 December 2017.

- 9.14 Exclusive Distribution Agreement between HuaHe Pharmacy Lengshuijiang Pharmaceutical Co., Ltd. and Kangzhe Shenzhen Pharmaceutical dated 29 December 2006. Under the exclusive distribution agreement, Kangzhe Shenzhen Pharmaceutical was appointed as exclusive distributor of Hua He Pharmacy Lengshuijiang Pharmaceutical Co., Ltd. to distribute a finished drug product, namely GanFuLe tablets, in the PRC for an initial term of five years from 29 December 2006 until 28 December 2011. This period will automatically be renewed for another five years until 28 December 2016 on condition that Kangzhe Shenzhen Pharmaceutical is able to meet the minimum order requirement under the exclusive distribution agreement.
- 9.15 Exclusive Agency Distribution Agreement between Kangzhe Shenzhen Pharmaceutical and HuaYi Pharmaceutical Co., Ltd. dated 28 January 2007 whereby Kangzhe Shenzhen Pharmaceutical was appointed as exclusive agent of HuaYi Pharmaceutical Co., Ltd. to distribute a finished drug product, namely WaiMaiNing Capsules in the PRC for a term of five years from 28 January 2007 until 27 January 2012. This period will automatically be renewed for another five years until 27 January 2017 on condition that Kangzhe Shenzhen Pharmaceutical is able to meet the minimum order requirement of at least 500,000 bottles of WaiMaiNing Capsules in year 2010 and 2011 respectively.
- 9.16 Exclusive Agent Agreement of Doxycycline between CMS International and Sunpharma GmbH, a company incorporated in Germany, dated 1 December 2006, whereby CMS International has been granted exclusive distribution rights for distribution of the product of Sunpharma GmbH, namely Doxycycline in the PRC for an indefinite term commencing from 1 December 2006.

10. Employee Share Arrangements

A number of employees received as a gift from Treasure Sea Limited certain Ordinary Shares in the Company. The Ordinary Shares are held as DIs and the relationship between the Company, the Registrars and the employees is as follows.

Computershare Nominees and the Company have a letter of engagement setting out Computershare Nominee's role in relation to certain share interests held by the employees and the relevant Ordinary Shares (DIs). Computershare Nominees has executed a number of nominee declarations in respect of the Ordinary Shares held beneficially by the employees stating that it holds the Ordinary Shares as nominee for the employees. The Company will direct Computershare Nominees on how to deal with the Ordinary Shares in accordance with directions the Company receives from the employees. Those employees and their Ordinary Shares are the subject of the memorandum of non-dealing as described at paragraph 8.4 of Part VI of this document.

Computershare Nominees will not pay dividends directly to the employees. Instead, it may either: (i) reinvest the dividends; or (ii) pay an aggregate amount of the dividends to the Company which would then distribute the dividends to the individual employees.

Computershare Nominees is not required to make any payments into China if the Ordinary Shares were sold. The payments will be made into a designated account of the Company in Hong Kong.

11. Share option scheme

The Company does not have a share option scheme in place at the current time. However, it considers that equity and equity based incentives are a means of retaining, attracting and motivating key employees and, therefore, it considers that it may be appropriate to adopt such a scheme at a future time. As described in paragraph 10 above, 4.81 per cent. of the Ordinary Shares immediately following Admission will be held by employees (excluding the Directors) of the Company.

12. Litigation

Other than as disclosed in this document, neither the Company nor any other member of the Group is or has been engaged in any governmental, legal or arbitration proceedings nor, as far as the Directors are aware, are there any governmental, legal or arbitration proceedings, pending or threatened against the Company or any other member of the Group, which may have or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position or profitability.

13. Working capital

The Directors are of the opinion that, having made due and careful enquiry, the working capital available to the Group, taking into account the estimated net proceeds of the Placing, will be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

14. Taxation

14.1 *Cayman Islands*

The Government of the Cayman Islands, will not, under existing legislation, impose any income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax upon the Company or the Shareholders. The Cayman Islands are not party to any double taxation treaties. The Company has applied for and received an undertaking from the Governor-in-Cabinet of the Cayman Islands that, in accordance with section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, for a period of 20 years from the date of the undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable (i) on the shares, debentures or other obligations of the Company or (ii) by way of the withholding in whole or in part of a payment of dividend or other distribution of income or capital by the Company to its members or a payment of principal or interest or other sums due under a debenture or other obligation of the Company.

14.2 *UK*

The following paragraphs are intended as a general guide only for investors who are resident and ordinarily resident in the United Kingdom for tax purposes, and who beneficially own ordinary shares as investments and not as securities to be realised in the course of a trade. This guidance may not apply to certain classes of persons. It does not purport to be comprehensive nor to describe all potential relevant considerations. The comments are based on the law and understanding of the practice of the tax authorities in the UK at the date of this document. On issue, the shares will not be treated as either “listed” or “quoted” securities for tax purposes. Provided that the Company remains one which does not have any of its shares quoted on a recognized stock exchange (which does not include AIM), the shares should continue to be treated as unquoted securities.

Any investor who is in any doubt about his/her tax position or who is subject to taxation in a jurisdiction additional to or outside the UK should consult his/her professional adviser.

Dividends

Dividends paid by the Company will not be subject to withholding tax in the Cayman Islands or in Hong Kong. UK resident individual shareholders who are domiciled in the UK will be liable to UK tax on dividends paid by the Company. UK resident individual shareholders who are not domiciled in the UK will generally only be subject to UK income tax on a dividend receipt only if the dividend is remitted to the UK.

Any dividends received by UK resident shareholders will be treated as foreign income for the purposes of UK taxation. Foreign dividends received by individuals subject to tax at the lower or basic rate of income tax will be taxed at 10 per cent. Those who are subject to tax at the higher rate tax band will pay income tax on the foreign dividend at 32.5 per cent. No tax credit will be available to the UK resident shareholder in respect of these dividends.

UK resident corporate shareholders will be liable to UK corporation tax on the gross dividend paid by the Company at a tax rate of up to 30 per cent. A UK resident company may seek relief for the underlying tax (tax borne by the company and its subsidiaries on the profits out of which the dividend is paid) associated with the dividend where certain conditions are satisfied.

Taxation of Chargeable Gains

An individual, who is resident and ordinarily resident and domiciled in the UK shall be liable to capital gains tax where a gain arises on the disposal of chargeable assets situated anywhere in the world (including shares in the Company held as an investment) subject to the application of relevant reliefs and exemptions. Capital gains tax is charged at the rate equivalent to the rate of income tax applied to an individual's top slice of income. Taper relief may be available to reduce the amount of any gain arising based upon the taper relief rules within the capital gains tax legislation. Taper relief is calculated by reference to the period the shares are held and the amount of relief available is dependant on whether the shares of the Company are considered to be “business” or “non-business” assets. The amount of relief available for “business” assets is higher than that available for “non-business” assets. Shares traded on AIM are treated as “unlisted” for the purposes of capital gains tax taper relief and therefore the Ordinary Shares may qualify as “business assets” in the hands of individual Shareholders. An individual Shareholder who is resident or ordinarily resident in the UK but not domiciled in the UK, and whose shares are not situated in the UK, will be liable to UK capital gains tax only to the extent that proceeds on the disposal of shares are remitted or deemed to be remitted to the UK. A company resident in the UK for corporation tax purposes will be liable to corporation tax in respect of a gain on the disposal of shares in the Company subject to the availability of indexation allowance and the substantial shareholdings exemption.

Stamp Duty and Stamp Duty Reserve Tax

The following comments do not apply to Ordinary Shares issued or transferred into depositary of clearance arrangements, to which special rules apply. There is generally no liability to UK stamp duty or stamp duty reserve tax (“SDRT”) on the issue of ordinary shares by a company incorporated in the Cayman Islands. Any agreement to transfer, or any transfer of, Ordinary Shares will generally not be subject to UK stamp duty or stamp duty reserve tax at the rate of 0.5 per cent. of the consideration for the transfer provided the ordinary shares continue to be registered in the Cayman Islands only. UK stamp duty may however potentially arise on transfers of ordinary shares depending on the circumstances, in particular whether the transfer of shares is executed in the UK, and stamp duty reserve tax may potentially arise, also at the rate of 0.5 per cent. of the consideration, if ordinary shares are dematerialised such that they become represented by depositary interests, such interests being transferred electronically within the CREST settlement system. A transfer of depositary interests effected within CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the actual consideration. Special rules apply to certain categories of person, including intermediaries and persons connected with depositary arrangements and clearance services. Any person who is in any doubt as to their tax position, and in particular any person who is subject to taxation in a jurisdiction other than the UK, is strongly advised to consult an appropriate adviser.

The above is a summary of certain aspects of current law and practice in the Cayman Islands and the UK. A shareholder who is in any doubt as to his tax position or who is subject to tax in a jurisdiction other than the Cayman Islands and the UK, should consult his or her professional adviser.

15. CREST and DIs

15.1 Introduction

CREST is a paperless settlement system allowing securities to be transferred from one person’s CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by non-UK registered companies, such as the Company, cannot be held or transferred in the CREST system. However, to enable investors to settle such securities through CREST, a depositary or custodian can hold the relevant securities and issue dematerialised DIs representing the underlying securities which are held on trust for the holders of the DIs.

The Articles permit the holding and transfer of Ordinary Shares and the DIs under CREST. With effect from Admission, it will be possible for CREST members to hold and transfer interests in Ordinary Shares within CREST pursuant to a DI arrangement established by the Company. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will also be able to do so. No temporary documents of title will be issued.

The Ordinary Shares will not themselves be admitted to CREST. Instead the Registrar, acting as depositary, will issue DIs in respect of the underlying Ordinary Shares. The DIs will be independent securities constituted under English law which may be held and transferred through CREST. DIs will have the same international security identification number (ISIN) as the underlying Ordinary Shares and will not require a separate listing on AIM. The DIs will be created and issued pursuant to the Deed Poll, which will govern the relationship between the Registrar, as depositary, and the holders of DIs.

Application will be made for the DIs in respect of the underlying Ordinary Shares to be admitted to CREST with effect from Admission. Holders of Ordinary Shares in certificated form who wish to hold DIs through the CREST system may be able to do so and should contact the Registrar.

15.2 Summary of the Deed Poll

As mentioned above, the DIs will be created pursuant to and issued on the terms of the Deed Poll. The Deed Poll is executed by the Registrars, as depositary, in favour of the holders of the DIs from time to time. Prospective holders of DIs should note that they will have no rights against CRESTCo Limited, or any of its subsidiaries in respect of the underlying Ordinary Shares or the DIs representing them.

Ordinary Shares will be transferred to an account of the Registrars or its nominated custodian (the “**Custodian**”) and the Registrars will issue DIs to participating members of CREST.

Each DI will be treated as one Ordinary Share for the purposes of determining, for example, eligibility for any dividends. The Registrars will pass on to holders of DIs any stock or cash benefits received by it as holder of Ordinary Shares on trust for such DI holders. DI holders will also be able to receive from the Registrars notices of meetings of holders of Ordinary Shares and other information to make choices and elections issued by the Company to the Shareholders.

Below is a summary only of the DI terms and the Deed Poll, therefore it does not contain all of the information that the holder may find useful. A copy of the full Deed Poll will be made available to the DI holders at the Registrar’s office at the address set out on page 9.

In summary, the Deed Poll contains, *inter alia*, provisions to the following effect:

- (a) The Registrars will hold (itself or through the Custodian), as bare trustee, the underlying Ordinary Shares issued by the Company and all and any rights and other securities, property and cash attributable to the underlying Ordinary Shares for the time being pertaining to the DIs for the benefit of the holders of the DIs. The Registrars will re-allocate securities or distributions allocated to the Registrars or the Custodian pro rata to the Ordinary Shares held for the respective accounts of the holders of DIs but will not be required to account for fractional entitlements arising from such re-allocation.
- (b) Holders of DIs warrant, *inter alia*, that the Ordinary Shares transferred or issued to the Registrars or Custodian on behalf of the Depository for the account of the DI holder are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Articles or any contractual obligation, or applicable law or regulation binding or affecting such holder.
- (c) The Registrars and any Custodian must pass on to DI holders, or exercise on their behalf, all rights and entitlements received by the Registrars or the Custodian in respect of the underlying securities. Rights and entitlements to cash distributions, to information, to make choices and elections and to attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form which they are received, together with amendments and additional documentation necessary to effect such passing-on, or exercised in accordance with the Deed Poll. If arrangements are made which allow a DI holder to take up rights in the Company's securities requiring further payment, the DI holder must pay the Registrars in cleared funds before the relevant payment date or other date notified by the Registrars if it wishes the Registrars to exercise such rights.
- (d) The Registrars will be entitled to cancel DIs and treat the holders as having requested a withdrawal of the underlying Ordinary Shares in certain circumstances including where a DI holder fails to furnish to the Registrars such certificates or representations as to material matters of fact, including his identity, as the Registrars deems appropriate.
- (e) The Deed Poll contains provisions excluding and limiting the Registrars' liability. For example, the Registrars shall not be liable to any DI holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud or that of any person for whom it is vicariously liable, provided that the Registrars shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless they have failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent. Furthermore, the Registrars' liability to a holder of DIs will be limited to the lesser of:
 - (i) the value of the shares and other deposited property properly attributable to the DIs to which the liability relates; and
 - (ii) that proportion of £5 million which corresponds to the portion which the amount the Registrars would otherwise be liable to pay to the DI holder bears to the aggregate of the amounts the Registrars would otherwise be liable to pay to all or any such holders in respect of the same act, omission, or event or, if there are no such amounts, £5 million.
- (f) The Registrars are entitled to charge holders of DIs fees and expenses for the provision of its services under the Deed Poll.
- (g) The holders of DIs are required to agree and acknowledge with the Registrars that it is their responsibility to ensure that any transfer of DIs by them which is identified by the CREST system as exempt from stamp duty reserve tax is so exempt, and to notify the Registrars if this is not the case, and to pay to CRESTCo Limited any interest, charges or penalties arising from non-payment of stamp duty reserve tax in respect of such transaction.
- (h) Each holder of DIs is liable to indemnify the Registrars and any Custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the DIs (and any property or rights held by the Registrars or Custodian in connection with the DIs) held by that holder, other than those resulting from the wilful default, negligence or fraud of the Registrars, or the Custodian or any agent if such Custodian or agent is a member of the Registrars' Group or if, not being a member of the same group, the Registrars shall have failed to exercise reasonable care in the appointment and continued use of such Custodian or agent.
- (i) The Registrars are entitled to make deductions from any income or capital arising from the underlying securities, or to sell such underlying securities and make deductions from the sale proceeds therefrom, in order to discharge the indemnification obligations of DI holders.

- (j) The Registrars may terminate the Deed Poll by giving 90 days' notice. During such notice period DI holders may cancel their DIs and withdraw their deposited property and, if any DIs remain outstanding after termination, the Registrars must, among other things, deliver the deposited property in respect of the DIs to the relevant DI holders or, at their discretion sell all or part of such deposited property. It shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to the Registrars, together with any other cash held by it under the Deed Poll pro rata to holders of DIs in respect of their DIs.
- (k) The Registrars or the Custodian may require from any DI holder information as to the capacity in which DIs are or were owned and the identity of any other person with or previously having any interest in such DIs and the nature of such interest and evidence or declarations of nationality or residence of the legal or beneficial owners of DIs and such information as is required for the transfer of the relevant Ordinary Shares to the holders. DI holders agree to provide such information requested and consent to the disclosure of such information by the Registrars or Custodian to the extent necessary or desirable to comply with their legal or regulatory obligations. Furthermore, to the extent that the Company's Articles require disclosure to the Company of, or limitations in relation to, beneficial or other ownership of the Company's securities, the holders of DIs are to comply with the Company's instructions with respect thereto.

16. General

- 16.1 The gross proceeds of the Placing are expected to amount to £10 million (approximately US\$19.8). Total costs and expenses payable by the Company in connection with the Admission and Placing (including professional fees, commissions, the costs of printing and the fees payable to the registrars) are estimated to amount to approximately £8 million (approximately US\$15.84) (excluding VAT).
- 16.2 The Placing Price represents a premium of approximately 2,632 per cent. over the nominal value of US\$0.10 per Ordinary Share.
- 16.3 The Group's auditors are Deloitte Touche Tohmatsu, who replaced PricewaterhouseCoopers LLP as auditors to the Group during the year ended 31 December 2006.
- 16.4 Deloitte Touche Tohmatsu has audited the consolidated financial statements of the Company for the financial years ended 31 December 2004, 2005 and 2006.
- 16.5 The Directors confirm that the accounts of the Company for the years ended 31 December 2004, 31 December 2005 and 31 December 2006 have been prepared in accordance with International Financial Reporting Standards and that they accept responsibility for them.
- 16.6 The financial information relating to the Group set out in the accountants' report in Part V of this document does not constitute statutory accounts.
- 16.7 Deloitte & Touche LLP has given and not withdrawn its written consent to the inclusion of references to its name in this document in the form and context in which it appears and to the inclusion of its report in Part V of this document in the form and context in which it is included and has authorised the content of its report.
- 16.8 Evolution Securities China Limited has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which it appears.
- 16.9 Evolution Securities Limited has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which it appears.
- 16.10 It is expected that definitive share certificates will be despatched (where applicable) by hand or first class post by 29 June 2007. In respect of Ordinary Shares represented by DIs in uncertificated form, it is expected that Shareholders' CREST accounts will be credited on 26 June 2007.
- 16.11 Save as disclosed in this document, there has been no significant change in the trading or financial position of the Group since 31 December 2006, the date for which the last audited financial information of the Group has been published.

- 16.12 Save as set out in this document no person (other than a professional adviser referred to in this document or trade suppliers or customers dealing with members of the Group) has:
- (a) received, directly or indirectly, from any member of the Group within the 12 months preceding the Company's application for Admission; or
 - (b) entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from any member of the Group on or after Admission, any of the following:
 - (i) fees totalling £10,000 or more;
 - (ii) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
 - (iii) any other benefit with a value of £10,000 or more at the date of Admission.
- 16.13 Save as disclosed in this document, there are no investments in progress of the Group which are or may be significant.
- 16.14 Save as disclosed in this document, the Directors are unaware of any exceptional factors which have influenced the Group's recent activities.
- 16.15 Save as disclosed in this document, the Directors are not aware of any patents or other intellectual property rights, licences, industrial, commercial or financial contracts or new manufacturing processes which are or may be of fundamental importance to the Group's business.
- 16.16 Save as disclosed in this document and as far as the Directors are aware, there are no known environmental issues that may affect the Group's utilisation of its tangible fixed assets.
- 16.17 Save as disclosed in this document, as far as the Directors are aware, there are no known trends, uncertainties, demands, commitments or events that are reasonably expected to have a material effect on the Group's prospects for at least the current financial year.
- 16.18 The Company has made statements in Part II of this document regarding the Group's competitive position on the basis of the Director's own knowledge and assessment of the markets in which the Group operates.

17. Third party information

Where information has been sourced from a third party, the information has been accurately reproduced so far as the Company and the Directors are aware and are able to ascertain from information published by that third party, and no facts have been omitted which would render the reproduced information inaccurate or misleading. Reference materials include various historical and recent publications. A comprehensive list of reports and information used in the preparation of this document is available if required.

18. Availability of Admission Document

Copies of this document are available free of charge from the offices of Evolution Securities during normal business hours on any weekday (Saturdays and public holidays excepted) from the date of this document until at least one month from the date of Admission.

Dated: 21 June 2007

GLOSSARY OF SPECIALIST TERMS

<i>“adjuvant therapy”</i>	the treatment of a disease with substances that enhance the action of drugs, especially drugs that promote the production of antibodies.
<i>“anesthesia”</i>	the absence of all sensation, especially sensitivity to pain, as induced by an anesthetic substance or by hypnosis or as occurs with traumatic or pathophysiologic damage to nerve tissue.
<i>“antibiotic”</i>	1. pertaining to the ability to destroy or interfere with the development of a living organism. 2. an antimicrobial agent, derived from cultures of a microorganism or produced semisynthetically, used to treat infections.
<i>“anti depressants”</i>	pertaining to a substance or a measure that prevents or relieves depression.
<i>“anxiety”</i>	anxiety is defined as a vague, uneasy feeling, the source of which is often nonspecific or unknown to the individual.
<i>“asthenia”</i>	1. the lack or loss of strength or energy; weakness; debility. 2. (in psychiatry) lack of dynamic force in the personality. Kinds of asthenia include myalgic asthenia and neurocirculatory asthenia.
<i>“biliary cirrhosis”</i>	an inflammatory condition in which the flow of bile through the ductules of the liver is obstructed. Primary biliary cirrhosis most commonly affects women in their middle years, and its cause is unknown. It is characterised by itching, jaundice, steatorrhea, and enlargement of the liver and spleen. The disease is slowly progressive. There is no specific medical or surgical treatment. Care must be taken to rule out secondary biliary cirrhosis caused by obstruction of the biliary structures outside the liver, because the latter conditions can be treated successfully.
<i>“biliary fistula”</i>	an abnormal passage from the gallbladder, a bile duct, or the liver to an internal organ or the surface of the body. Biliary fistulae into the duodenum may complicate cholelithiasis; a gallstone may become impacted, usually in the ileocecal valve and cause intestinal obstruction.
<i>“cancer”</i>	a neoplasm characterised by the uncontrolled tissue and of anaplastic cells that tend to invade surrounding tissue and to metastasize to distant body sites.
<i>“capsule”</i>	a small soluble container, usually made of gelatin, used for enclosing a dose of medication for swallowing.
<i>“carcinoma”</i>	a malignant epithelial neoplasm that tends to invade surrounding tissue and to metastasize to distant regions of the body.
<i>“cardiovascular disease”</i>	any abnormal condition characterised by dysfunction of the heart and blood vessels.
<i>“chemotherapy”</i>	the treatment of infections and other diseases with chemical agents. The term has been applied over the centuries to a variety of therapies, including malaria therapy with herbs and use of mercury for syphilis. In modern useage, chemotherapy usually entails the use of chemicals to destroy cancer cells on a selective basis. The cytotoxic agents used in cancer treatments generally

function in the same manner as ionizing radiation; they do not kill the cancer cells directly but instead impair their ability to replicate. Most of the commonly used anticancer drugs act by interfering with deoxyribonucleic acid and ribonucleic acid activities associated with cell division. Chemotherapeutic agents are often used in combination with radiation treatments for their synergistic effect. For example, a cytotoxic agent may be used to render a tumor cell more sensitive to the effects of ionizing radiation, thus allowing the cancer to be controlled with smaller doses of radiation.

“cholesterol”

a eukaryotic sterol that in higher animals is the precursor of bile acids and steroid hormones and a key constituent of cell membranes, mediating their fluidity and permeability.

“cirrhosis of liver”

a group of chronic diseases of the liver characterised by loss of normal hepatic globular architecture with fibrosis, and by destruction of parenchymal cells and their regeneration to form nodules. The disease has a lengthy latent period, usually followed by the sudden appearance of abdominal swelling and pain, hematemesis, dependent edema, or jaundice.

“clinical trial”

an experiment performed on human beings in order to evaluate the comparative efficacy of two or more therapies. The randomized controlled trial, which uses an appropriate control group for comparison with the experimental therapy and random allocation of patients to the experimental and control groups, is generally considered to yield the strongest scientific evidence of any well-designed trial. Another element of well-designed trials is called blinding.

“depression”

1. a depressed area, hollow, or fossa; downward or inward displacement. 2. a decrease of vital functional activity. 3. a mood disturbance characterised by feelings of sadness, despair, and discouragement resulting from and normally proportionate to some personal loss or tragedy. 4. an abnormal emotional state characterised by exaggerated feelings of sadness, melancholy, dejection, worthlessness, emptiness, and hopelessness that are inappropriate and out of proportion to reality.

“diabetic ketoacidosis”

diabetic coma, an acute, life-threatening complication of uncontrolled diabetes mellitus. In this condition urinary loss of water, potassium, ammonium, and sodium results in hypovolemia, electrolyte imbalance, extremely high blood glucose levels, and breakdown of free fatty acids, causing acidosis, often with coma.

“digestion”

the conversion of food into absorbable substances in the GI tract. Digestion is accomplished through the mechanical and chemical breakdown of food into smaller and smaller molecules, with the help of glands located both inside and outside the gut.

“drug resistance”

the ability of disease organisms to resist effects of drugs that previously were toxic to them. Bacterial resistance to an antibiotic can result from mutation of a strain that has been exposed to an antibiotic or similar agent. Such acquired resistance may result from a chromosomal disruption or acquisition of a stray bit of deoxyribonucleic acid (DNA) on a resistant plasmid. It can also be caused by extrachromosomal pieces of DNA that carry codes for antibiotic-resistant genes

from a transposon, a DNA segment capable of insertion into a bacterial chromosome resistant plasmid, or both. Decreased permeability to an antimicrobial is common form of intrinsic resistance. Alteration of inactivation of the antibiotic is perhaps the most common mechanism of drug resistance. Acquired resistance to beta-lactam antibiotics is determined by the production of enzymes that inactivate the antibiotic. Drug resistance may also result from a change in the target site on which it acts.

<i>“duodenal ulcer”</i>	duodenal ulcer, an ulcer in the duodenum, the most common type of peptic ulcer.
<i>“dysthymic disorder”</i>	a disorder of mood in which the essential feature is a chronic disturbance of mood of at least 2 years's duration.
<i>“effectiveness”</i>	1. the ability to produce a specific result or to exert a specific measurable influence. 2. the ability of an intervention to produce the desired beneficial effect in actual use.
<i>“erosive gastritis”</i>	an inflammatory condition characterised by multiple erosions of the mucous membrane lining the stomach. Nausea, anorexia, pain and gastric haemorrhage may occur.
<i>“esophagus”</i>	a muscular tube that in humans is about nine inches (23 centimetres) long and passes from the pharynx down the neck between the trachea and the spinal column and behind the left bronchus where it pierces the diaphragm slightly to the left of the middle and joins the cardiac end of the stomach.
<i>“fistula”</i>	an abnormal passage or communication, usually between two internal organs, or leading from an organ to the surface of the body.
<i>“gall bladder”</i>	vesica biliaris.
<i>“gallstones”</i>	a concretion formed in the gallbladder or bile duct.
<i>“gastritis”</i>	an inflammation of the lining of the stomach.
<i>“glomerular”</i>	pertaining to or of the nature of a glomerulus, especially a renal glomerulus.
<i>“haemorrhage”</i>	a loss of a large amount of blood in a short period, either externally or internally.
<i>“HBV”</i>	abbreviation for hepatitis B virus
<i>“helicobacter pylori (HP)”</i>	a species that causes gastritis and pyloric ulcers in humans; H.pylori infection is associated with gastric cancer. Formerly called Campylobacter pylori.
<i>“hemorrhagic gastritis”</i>	a form of acute gastritis usually caused by a toxic agent, such as alcohol, aspirin or other drugs, or bacterial toxins that irritate the lining of the stomach.
<i>“hepatic”</i>	pertaining to the liver.
<i>“hepatic disease”</i>	pertaining to the liver

<i>“hepatitis”</i>	an inflammatory condition of the liver, characterised by jaundice, hepatomegaly, anorexia, abdominal and gastric discomfort, abnormal liver function, clay-colored stools, and tea-colored urine. The condition may be caused by bacterial or viral infection, parasitic infestation, alcohol, drugs, toxins, or transfusion of incompatible blood.
<i>“hepatitis B”</i>	a viral hepatitis caused by HBV. The virus is transmitted by transfusion of contaminated blood or blood products, by sexual contact with an infected person, or by the use of contaminated needles and instruments. Severe infection may cause prolonged illness destruction of liver cells, cirrhosis, increased risk of liver cancer, or death. A vaccine is available and recommended for infants, teenagers, and adults at risk for exposure. Treatment may involve transplantation. Also called serum hepatitis.
<i>“infusion pump”</i>	an apparatus designed to deliver measured amounts of a drug or IV solution through IV injection over time. Some kinds of infusion pumps can be implanted surgically.
<i>“intestinal fistula”</i>	1. an abnormal passage communicating with the intestine. 2. an artificially created opening through the abdominal wall into the intestine.
<i>“investigational new drug”</i>	a drug not yet approved for marketing by the relevant Food and Drug Administration and available only for use in experiments to determine its safety and effectiveness. The use of an investigational new drug in human subjects requires approval by the relevant Food and Drug Administration of an application that includes reports of animal toxicity tests, descriptions of proposed clinical trials and a list of the investigators and their qualifications.
<i>“lyophilize”</i>	to freeze-dry a substance under vacuum conditions.
<i>“malignant tumors”</i>	one that has the properties of invasion and metastasis and that shows a greater degree of anaplasia than do benign tumors,
<i>“metastatic”</i>	pertaining to or of the nature of metastasis.
<i>“microbiology”</i>	the branch of biology that is concerned with the study of microorganisms, including bacteria, algae protozoa, and fungi.
<i>“microorganism”</i>	any tiny, usually microscopic entity capable of carrying on living processes. It may be pathogenic.
<i>“naloxone hydrochloride”</i>	a narcotic antagonist structurally related to oxymorphone, used as an antidote to narcotic overdose, and as an antagonist for pentazocine overdose; administered parenterally.
<i>“nephritis”</i>	any one of a large group of diseases of the kidney characterised by inflammation and abnormal function.
<i>“neurasthenia”</i>	a term introduced by Beard in 1869, and now virtually obsolete, to refer to a syndrome of chronic mental and physical weakness and fatigue, which was supposed to be caused by exhaustion of the nervous system.
<i>“neurology”</i>	the scientific study of the nervous system especially in respect to its structure, functions and abnormalities

<i>“neuroses”</i>	plural of neurosis.
<i>“ocular asthenopia”</i>	ocular, of, pertaining to, or affecting the eye. Astheropic, characterized by asthenopia.
<i>“oligonucleotide”</i>	a polymer made up of a few (2-20) nucleotides. In molecular genetics, a short sequence synthesized to match a region where a mutation is known to occur, and then used as a probe (oligonucleotide probe).
<i>“oncology”</i>	1. the branch of medicine concerned with the study of malignancy. 2. the study of cancerous growths.
<i>“ophthalmology”</i>	the branch of medicine concerned with the study of the physiology, anatomy, and pathology of the eye and the diagnosis and treatment of disorder of the eye.
<i>“opioid”</i>	pertaining to natural and synthetic chemicals that have opium-like effects although they are not derived from opium.
<i>“orphan drug”</i>	a drug that has limited commercial appeal because of the rarity of the condition it is used to treat.
<i>“pancreatic”</i>	pertaining to the pancreas.
<i>“pancreas”</i>	a large lobulated gland of vertebrates that secretes digestive enzymes and the hormones insulin and glucagon.
<i>“peptide”</i>	a molecular chain compound composed of two or more amino acids joined by peptide bonds.
<i>“pharmacodynamics”</i>	the study of how a drug acts on a living organism, including the pharmacologic response and the duration and magnitude of response observed relative to the concentration of the drug at an active site in the organism.
<i>“pharmacokinetics”</i>	the study of the action of drugs within the body, including the mechanisms of absorption, distribution, metabolism, and excretion; onset of action; duration of effect; biotransformation; and effects and routes of excretion of the metabolites of the drug.
<i>“psychogenic”</i>	increasing intrapsychic tensions and acting as a stimulant.
<i>“psychogeny”</i>	produced or caused by psychological factors.
<i>“radiolucent”</i>	pertaining to materials that allow x-rays to penetrate with a minimum of absorption.
<i>“radiotherapy”</i>	the treatment of neoplastic disease by using x-rays or gamma rays.
<i>“senile macula degeneration”</i>	senil, pertaining to or characteristic of old age or the process of aging. macula degeneration is a progressive deterioration of the maculae of the retina. The condition may occur as a primary disorder or may be an effect of several diseases, such as retinitis pigmentosa.

<i>“side effect”</i>	any reaction to or consequence of a medication or therapy. This can be an effect carried beyond the desired limit, such as hemorrhaging from an anticoagulant, or a reaction unrelated to the primary object of the therapy such as an anaphylactic reaction to an antibiotic.
<i>“spleen”</i>	spleen, a large gland like but ductless organ situated in the upper part of the abdominal cavity on the left side and lateral to the cardiac end of the stomach.
<i>“tablet”</i>	solid dosage form of varying weight, size and shape, which may be moulded or compressed, and which contains a medicinal substance in pure or diluted form.
<i>“Thymopetin”</i>	is a type of peptide agent, and synthesized by solid phase peptid procedure.
<i>“toxicity”</i>	1. the degree to which something is poisonous; 2. a condition that results from exposure to a toxin or to toxic amounts of a substance that does not cause adverse effects in smaller amounts.
<i>“toxicology”</i>	the sum of what is known regarding poisons; the scientific study of poisons, their actions, their detection, and the treatment of the conditions produced by them.
<i>“tumor”</i>	1. a swelling or enlargement occurring in inflammatory conditions. 2. also called neoplasm. A new growth of tissue characterised by progressive, uncontrolled proliferation on cells. The tumor may be localized or invasive, benign or malignant. A tumor may be named for its location, for its cellular makeup, or for the person who first identified it.
<i>“ulcerative colitis”</i>	a chronic, episodic, inflammatory disease of the large intestine and rectum. It is characterised by profuse watery diarrhoea containing varying amounts of blood, mucus and pus.
<i>“urologic diseases”</i>	pertaining to urology.
<i>“ursodeoxycholic acid”</i>	a secondary bile salt. It is used in vivo to dissolve cholesterol gallstones.
<i>“varicosis”</i>	a common condition characterised by one or more tortuous, abnormally dilated usually in the legs or the lower trunk.
<i>“WHO”</i>	World Health Organisation, an intergovernmental Organisation within the United Nations system whose purpose is to aid in the attainment of the highest possible level of health by all people.



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