China Healthcare Sector

COMMENT

Still early for bottom-fishing

- **Limited earnings downside from recent drug tenders.** While the market focuses on the drug price cut during tenders, we believe pharma companies with young drugs will benefit from drug tenders as their young drugs will utilise the new drug tenders to penetrate into additional provincial markets. We have analysed the drug tender results in Hunan (announced Feb 2015) and found that the average price cut of the pharma stocks we cover was 10.1%, which we believe is benign given a three-to-four year gap between two rounds of tenders. Further, the number of drug specification wins increased by 52%.

- **However, there could be further valuation downside in the near term.** It seems that the market tends to react negatively to the headline news of drug tender price cut and overlook the upside in volume gain from young drugs. During the last round tender between 2010 and 2012, the H-share and A-share pharma stocks on average were derated by 31% and 36%, respectively, triggered by initiation of the double-envelope tender policy; after that, the H share got re-rated by ~70% between April 2012 and March 2014, and A share by ~30% between May 2012 and April 2014. We expect ten provinces to announce EDL drug tender results, and seven provinces to announce non-EDL drug tender results in 2015. Also, we believe the market's weak sentiment about healthcare may last into 1Q15 and even 2Q15.

- **Still early to bottom fish.** (1) The H-share pharma valuation is still at a 21% premium to historical average valuation, and we expect another potential 10% de-rating driven by the incoming new drug tender results announcement, although the strong FY14 annual results announcement could partially mitigate such downside temporarily. (2) The A-share pharma stocks were relatively resilient, up 7.5% in January 2015 while the market (CSI 300) down 2.8%. However, the sentiment began to change after worse-than-expected tender results in Hunan. As a result, the A-share healthcare sector has been underperforming since Feb. Given the A-share healthcare valuation is still trading at a high premium over CSI300 index P/E, we believe there is a derating risk for valuation benchmark given policy uncertainty.

- **Stock calls.** While in general we don't recommend bottom fishing healthcare stocks in the near term, we believe the below two groups of stocks have less downside risk than others: (1) Tender results better than expected with strong R&D franchise – Sino Biopharm (1177.HK; raise forecasts, TP from HK$6.48 to HK$7.50), the best first-to-market generic drug R&D company in China, and Hengrui (600276.SS) the best drug innovation company in China; (2) share price corrected but business irrelevant to drug tender – China Animal Healthcare (0940.HK), its animal drug business caters to different market unlike human drugs; Huahai Pharma (600521.SS) – chiefly export-oriented; Shandong Weigao (1066.HK) – a medical device company with emerging growth drivers in orthopaedics and dialysis businesses.
Focus charts

Figure 1: Strong earnings growth after 2011 drug tenders

![Average net profit growth of major pharma companies (%)]

<table>
<thead>
<tr>
<th>Year</th>
<th>Tender Initiated</th>
<th>Tender In-progress</th>
<th>Tender Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>15%</td>
<td>25%</td>
<td>35%</td>
</tr>
<tr>
<td>2011</td>
<td>20%</td>
<td>40%</td>
<td>50%</td>
</tr>
<tr>
<td>2012</td>
<td>25%</td>
<td>45%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Note: The average net profit growth is calculated by the major Rx drug companies under our coverage. Source: Company data, Credit Suisse research

Figure 2: We expect acceleration in EDL/non-EDL drug tenders in 2015

![Number of provinces in each tender status]

<table>
<thead>
<tr>
<th>Tender Status</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-EDL drug tender</td>
<td>0</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>EDL drug tender</td>
<td>0</td>
<td>6</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Provincial drug tender website, Credit Suisse research

Figure 3: H-share and A-share pharma stocks got de-rated in 2011 due to harsh tender policies

![Financial crisis, stock market crash, Anhui initiated the dual-envelop tender system, Fujian announced harsh tender policies, Drug tender ending, earnings beat, NDRC cut price ceilings on ~1,300 drugs, GSK bribery investigation reports emerged]

Source: Bloomberg, Go-goal, Credit Suisse research
Limited earnings downside from recent drug tenders

While the market focuses on the drug price cut during tenders, we believe pharma companies with young drugs will benefit from drug tenders as their young drugs will utilise the new drug tenders to penetrate into additional provincial markets. We have analysed the drug tender results in Hunan (announced Feb 2015) and found that the average price cut of the pharma stocks we cover was 10.1% which we believe is benign given a three-to-four year gap between two rounds of tenders. Further, the number of drug specification wins increased by 52%.

Hunan tender: Volume gain from young drugs more than price erosion of old drugs

Hunan province announced its 2015 EDL/non-EDL drug tender results in Feb 2015. Our analysis of 100+ key products of 15 companies suggests ~10% price cut in Hunan 2015 drug tender versus the 2010 tender.

We believe the ~10% price cut in Hunan tender is benign given the four-year gap from its last round of tenders in 2010/11. However, the market reacts negatively on the headline news of drug tender price cut and overlooks the upside from young drugs' volume gain.

After calculating the total number of tender wins in Hunan tenders, we noticed that the 15 companies under our analysis have seen 72 tender wins and 21 tender losses, suggesting that market leaders are gaining market share with their superior sales capability. More importantly, some newly approved key drugs have opportunity to be enrolled in the provincial drug list through the recent round of tenders.

For example, some newly approved key drugs of Hengrui such as Capecitabinen and Imrecoxib opened the door of Hunan's drug market. Among them, Capecitabinen, a potential blockbuster oncology drug, is expected to reach a market size of Rmb500 mn. Salubris also made a breakthrough by winning the tender of its patent anti-hypertension drug, Allisartan. Leveraged by Salubris' strong academic promotion team in CCV area, we believe this new drug will quickly gain market share.

Figure 4: Analysis on key products in 2015 Hunan drug tender

<table>
<thead>
<tr>
<th>Company</th>
<th>No. of drug wins in 2010 Hunan tender</th>
<th>No. of drug wins in 2015 Hunan tender</th>
<th>Price cut in Hunan tender (2015 vs. 2010)</th>
<th>No. of new drugs wins</th>
<th>No. of tender losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sino Biopharm</td>
<td>18</td>
<td>34</td>
<td>-18%</td>
<td>18</td>
<td>2</td>
</tr>
<tr>
<td>CMS</td>
<td>4</td>
<td>5</td>
<td>-7%</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>CSPC</td>
<td>3</td>
<td>5</td>
<td>-7%</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Dawnrays</td>
<td>3</td>
<td>6</td>
<td>-34%</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Luye</td>
<td>8</td>
<td>8</td>
<td>-5%</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Fosun</td>
<td>16</td>
<td>21</td>
<td>-4%</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Sihuan</td>
<td>4</td>
<td>10</td>
<td>-15%</td>
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<td>0</td>
</tr>
<tr>
<td>CTCM</td>
<td>5</td>
<td>4</td>
<td>-5%</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Tasly</td>
<td>7</td>
<td>3</td>
<td>-7%</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>YNBY</td>
<td>5</td>
<td>0</td>
<td>n/a</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Kanion</td>
<td>6</td>
<td>4</td>
<td>-4%</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Mayinglong</td>
<td>2</td>
<td>1</td>
<td>n/a</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Hengrui</td>
<td>12</td>
<td>34</td>
<td>-10%</td>
<td>22</td>
<td>0</td>
</tr>
<tr>
<td>Huahai</td>
<td>2</td>
<td>3</td>
<td>-12%</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Salubris</td>
<td>4</td>
<td>12</td>
<td>-5%</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>99</strong></td>
<td><strong>150</strong></td>
<td><strong>-10%</strong></td>
<td><strong>72</strong></td>
<td><strong>21</strong></td>
</tr>
</tbody>
</table>

Notes: New tender wins represents the drugs that won 2015 Hunan tender but did not win 2010 Hunan tender; tender losses represents the drugs that won 2010 Hunan tender but did not win 2015 Hunan tender. Key products are products with expected 2014 revenue of over Rmb 100 mn or identified by management as key future revenue drivers. Source: Hunan drug tender website, Credit Suisse research
Case study: Strong earnings growth in 2010 tender

In public opinion, the most direct impact from drug price cut are earnings’ downside of pharma companies. However, we proved that the correlation between drug price cut and pharma earnings growth was actually weak. To verify this, we analysed the net profit growth of major pharma companies in the last round of tenders between 2010 and 2012.

The last round of tenders were initiated in late 2010 and completed by early 2012. During this period, the net profit of major pharmaceutical companies maintained a stable YoY growth. In 2012, even though many provinces had already implemented the reduced drug prices to their drug pricing system, a net profit growth of 46% was recorded on a YoY basis. The effects of price cut were exaggerated by the market, and it exerted minimum earnings effect on those major drug manufacturers. Even under the environment of price erosion, these major drug manufacturers can protect their bottom-line growth by (1) grabbing more market share through their existing key drugs and (2) injecting young drugs into provincial drug markets.

Figure 5: Strong earnings growth after 2011 drug tenders

Note: The average net profit growth is calculated by the major Rx drug companies under our coverage (Hengrui, Sihuan, Tasly, Sino Biopharm, CMS, Salubris, Pientzehuang, Huamnwell, Kanion, Huahai, CTCM and Mayinglong). Source: Company data, Credit Suisse research
Further valuation downside in the near term

It seems that the market reacts negatively on the headline news of drug tender price cut and overlooks the upside in volume gain from young drugs. During the last round tender between 2010 and 2012, the H-share and A-share pharma stocks on average were de-rated by 31% and 36% respectively, triggered by the double envelope tender policy announced by Anhui. After that, the H-share rerated by ~70% from April 2012 to March 2014 and A-share by ~30% from May 2012 to April 2014. We expect ten provinces to announce EDL drug tender results, and seven provinces to announce non-EDL drug tender results in 2015. Also, we believe the market’s weak sentiment about healthcare may last into 1Q15 and even 2Q15.

Sector derating during 2011 tender

Both A-share and H-share listed Chinese pharma experienced derating for one whole year in 2011 triggered by a series of policies to restrict drug prices:

(1) In Aug 2010, Anhui announced a harsh drug tender policy, namely a two-envelope tender system. Bidding drugs will be separately evaluated by technical aspects (manufacturer capacity, brand value and drug quality) and commercial aspects (bidding price). This new model imposed excessive focus to pursue the lowest prices. The initiation of this policy led to a market overreaction towards drug price erosion.

(2) In May 2011, Fujian province announced equally hard tender rules, which further set the tone for “lowest-price-win” market environment for drug tenders.

(3) Market sentiment grew worse in March 2011, when the National Development and Reform Commission (NDRC) announced to cut price ceilings for over 1,300 drugs, mainly anti-infective and blood system drugs. The average price cut of 1,300 involved drugs reached 21%.

(4) In May 2011, the rectification program for antibiotics medicine was announced. This government regulation strictly constrained prescription of antibiotic drugs, which led to China’s antibiotic drug market plunging.

(5) The healthcare sector started to re-rate in early 2012 when all major tender events were completed. At that point, the major pharma companies had maintained their strong earnings growth yet they were undervalued by the market.
Weak sentiment may prolong for another one or two quarters

Referring to market reactions during the 2011 tendering period, we believe the weak sentiment about the healthcare sector in this round of tenders may prolong in 1Q15 and even 2Q15. We can foresee a high density of tender events in the first half year of 2015, due to pressure from the PRC government’s tender acceleration policy.

Zhejiang province just announced its tender rules for 2015 non-EDL tender in Jan 2015. All companies have been requested to cut drug prices by at least 10% based on the tender price in the last round Zhejiang tender. Some TCM injection and best sellers in Zhejiang expect further price cut of 5-10%. Zhejiang is about to announce tender results for 2015 EDL tender in the coming months. Pursuant to the previously announced tender rules, drugs are expected to have at least 10% price cut based on their average tender price in other six provinces.

The National Health and Family Planning Commission (NHFPC) released new guidance on 23 October that requires all provinces to complete the new round of provincial non-EDL drug tenders by end-Jun 2015. Over the past two months, this policy has led to an acceleration of the nationwide tender process after a lag of three years. Under this
headwind, we expect ten provinces to announce EDL drug tender results, and seven provinces to announce non-EDL drug tender results in 2015. Among them, Shanxi, Liaoning, Fujian, Jiangxi and Shaanxi are closest to announce their EDL/non-EDL drug tender results within 1H15.

Figure 7: We expect about ten provinces to complete EDL drug tenders in 2015

![EDL Drug Tenders Diagram](source)

Source: Provincial tender policy announcements, Credit Suisse estimates

Figure 8: We expect about seven provinces to complete non-EDL drug tenders in 2015

![Non-EDL Drug Tenders Diagram](source)

Source: Provincial tender policy announcements, Credit Suisse estimates
Still too early for bottom fishing

The H-share pharma valuation is still at a premium of 21% historical average valuation and we expect potentially another ~10% de-rating driven by the incoming new drug tender results announcement, though the strong FY14 annual results announcement could partially mitigate such downside temporarily.

The A-share pharma stocks were relatively resilient, up 7.5% in Jan 2015 while the market (CSI 300) down 2.8%. However, the sentiment began to change after worse-than-expected tender results in Zhejiang and Hunan. As a result, the A-share healthcare sector has underperformed since February. Given the A-share healthcare valuation is still trading at a high premium over CSI300 Index P/E, we believe there is a derating risk for valuation benchmark given policy uncertainty.

We believe it is still early for sector-wide bottom fishing, shadowed by the price erosion concern in coming tenders. However, we would like to call investors’ attention to a few healthcare names that are least impacted by drug tenders:

While in general we don’t recommend bottom fishing healthcare stocks in the near term, we believe below two groups of stocks have less downside risk than others:

**Sino Biopharm and Hengrui: Tender results better than expected with strong R&D franchise**

**Sino Biopharm**

While we used to be concerned about Sino Biopharm’s pipeline gap and intensifying competition in the current drug tenders, its Hunan tender results are much better than we expected. It had five tender wins for its newly launched oncology drugs (after 2012) in the recent Hunan tender. We expect the addition of new products in provincial markets through drug tenders will partially offset the price cut of mature products. Sino Biopharm’s share price was up 13% during 2014, underperforming Sihuan’s 48% and CMS’s 54%. We believe the potential downsides in the rising competition of drug tender has been partially priced in.

We revise up our 2014/15/16E EPS by 5%/11%13% based on higher expectation from oncology drug sales. Our new TP of HK$7.50 (up from HK$6.48) is based on 23x 2015E EPS, at a premium to sector average of 18x given its superior R&D capability.

**Hengrui Medicine**

Hengrui is the No.1 innovative drug manufacturer in China, with the largest oncology drug market share among domestic peers. Nearly all key drugs of Hengrui have won the Hunan tender, yet at a cost of ~10% average price erosion of its product portfolio. In addition to the drugs which have already entered into Hunan province in the last round of tender, some newly approved drugs such as Capecitabinen and Imrecoxib also opened the door for Hunan province. Among them, Capecitabinen, a potential blockbuster oncology drug, is expected to reach a market size of Rmb500 mn in the near future.

**China Animal Healthcare, Weigao and Huahai: Share price corrected but business irrelevant to drug tender**

**China Animal Healthcare**

CAH’s share price dropped 6% due to China healthcare sector’s de-rating driven by drug price cut in human drug tenders. We believe such correction cannot be justified because animal drug is regulated and distributed separately from human drugs in China. CAH has been doing well in the recent government animal vaccine tenders, new wins in Guangdong
with 51% ASP increase, new wins in Hubei, and maintaining its position in Henan. Price cut in animal vaccines are unlikely as the government starts to focus on qualities. Further acquisition of shares in Yikang is on the way while the current progress is a bit behind our expectation; we lowered our EPS forecast (10 Feb) to reflect less earnings consolidation from Yikang.

We revised down our target price to HK$7.60 to reflect our updated EPS forecast and lower multiple benchmarked by recent sector de-rating. Reiterate our OUTPERFORM rating, and we believe CAH is a safe bet to shun away the price cut risks in human drug tenders, and is much undervalued compared to its local/global peers (27/32% discount for FY15/16 P/E).

**Weigao**

Weigao, a medical device company, is another victim of the sector-side derating. We believe its dialysis business will become the next growth engine. It has a dominant leadership among domestic peers and we expect its dialysis consumables to gain market share from MNC brands – a 40%+ revenue growth driven by major break-through in the manufacturing know-how, capacity expansion and direct sales network. With improvement in EBIT margin, dialysis business is expected to account for 9.4% of EBIT in FY16E vs. 1.4% in FY13.

**Huahai**

Huahai pharma focuses on API export and finished drug export business, accounting for 63% and 20% of its total revenues in 2013. Therefore, the price erosion caused by recent drug tenders could only have subtle effects on its earnings growth. However, the share price of Huahai was down by 12.9% since middle-Dec 2014, partially driven by announcement of Anhui tender results. Given Huahai’s strong potential in US generics market, we believe the irrational share price weakness offers a good entry point.
Sino Biopharmaceutical Limited (1177.HK / 1177 HK)

**Tender results better than expected**

- **Better-than-expected tender results in Hunan.** While we used to be concerned about Sino Biopharm’s pipeline gap and intensifying competition in the current drug tenders, its Hunan tender results are much better than we expected. It had five tender wins for its newly launched oncology drugs (after 2012) in the recent Hunan tender: Gemcitabine, Dasatinib, Imatinib, Decitabine and Capecitabine. Management expects these products to generate Rmb150-200 mn revenue in 2014 and Rmb200-300 mn in 2015.

- **Downside in the rising competition partially priced in.** Sino Biopharm’s share price was up 13% during 2014, underperforming Sihuan’s 48% and CMS’s 54%. We believe that potential downsides in the drug tender, arising from competition, has been partially priced in.

- **Potential upside in the hospital investment.** Sino Biopharm is expanding its hospital investment portfolio and we believe it will help reduce its earning’s volatility caused by drug tender.

- **New drug approval and new version of drug reimbursement list should be growth drivers post-2017.** Management expects to have three oncology drugs which have high potential to get approved in 2017. If the new version of RDL can be launched in 2015/16, Sino Biopharm is likely to get Zhiruo and Tianqingyitai on the list and unleash their sales potential.

**Valuation.** We revise up our 2014/15/16E EPS by 5%/11%13% based on higher expectation from oncology drug sales. Our new TP of HK$7.50 (up from HK$6.48) is based on 23x 2015E EPS, at a premium to sector average of 18x given its superior R&D capability.

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**Financial and valuation metrics**

<table>
<thead>
<tr>
<th>Year</th>
<th>12/13A</th>
<th>12/14E</th>
<th>12/15E</th>
<th>12/16E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (HK$ mn)</td>
<td>9,901.2</td>
<td>12,202.2</td>
<td>14,382.3</td>
<td>16,631.3</td>
</tr>
<tr>
<td>EBITDA (HK$ mn)</td>
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<td>2,331.6</td>
<td>2,743.3</td>
<td>3,184.7</td>
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<tr>
<td>EBIT (HK$ mn)</td>
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<td>2,166.1</td>
<td>2,544.2</td>
<td>2,946.7</td>
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<tr>
<td>Net profit (HK$ mn)</td>
<td>1,036.8</td>
<td>1,453.2</td>
<td>1,622.9</td>
<td>1,853.5</td>
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<tr>
<td>EPS (CS adj.) (HK$)</td>
<td>0.21</td>
<td>0.29</td>
<td>0.33</td>
<td>0.38</td>
</tr>
<tr>
<td>Change from previous EPS (%)</td>
<td>n.a.</td>
<td>5.1</td>
<td>11.4</td>
<td>13.3</td>
</tr>
<tr>
<td>Consensus EPS (HK$)</td>
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<td>0.33</td>
<td>0.39</td>
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<tr>
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<td>24.4</td>
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<td>EV/EBITDA (x)</td>
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<td>4.6</td>
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<td>ROE (%)</td>
<td>20.6</td>
<td>24.5</td>
<td>23.1</td>
<td>22.0</td>
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<tr>
<td>Net debt/equity (%)</td>
<td>net cash</td>
<td>net cash</td>
<td>net cash</td>
<td>net cash</td>
</tr>
</tbody>
</table>

Source: Company data, our estimates.

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**Rating** NEUTRAL*  
**Price (10 Feb 15, HK$)** 7.19  
**Target price (HK$)** (from 6.48) 7.50¹  
**Upside/downside (%)** 4.3  
**Mkt cap (HK$ mn)** 35,529 (US$ 4,583)  
**Enterprise value (HK$ mn)** 31,476  
**Number of shares (mn)** 4,941.46  
**Free float (%)** 54.0  
**52-week price range** 8.30 - 5.91  
**ADTO - 6M (US$ mn)** 12.0

*Stock ratings are relative to the coverage universe in each analyst’s or each team’s respective sector.  
¹Target price is for 12 months.

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**Share price performance**

![Price (US$) Rebased Rel (RHS)](chart)

The price relative chart measures performance against the MSCI CHINA F IDX which closed at 6901.29 on 10/02/15. On 10/02/15 the spot exchange rate was HK$7.75/US$1.

**Performance Over 1M 3M 12M**

<table>
<thead>
<tr>
<th>Absolute (%)</th>
<th>Relative (%)</th>
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</thead>
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<tr>
<td>-10.6</td>
<td>-11.1</td>
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<td>-9.0</td>
</tr>
</tbody>
</table>

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**Financial and valuation metrics**

**Year**  
**Revenue (HK$ mn)**  
**EBITDA (HK$ mn)**  
**EBIT (HK$ mn)**  
**Net profit (HK$ mn)**  
**EPS (CS adj.) (HK$)**  
**Change from previous EPS (%)**  
**Consensus EPS (HK$)**  
**EPS growth (%)**  
**P/E (x)**  
**Dividend yield (%)**  
**EV/EBITDA (x)**  
**P/B (x)**  
**ROE (%)**  
**Net debt/equity (%)**

Source: Company data, our estimates.
Companies Mentioned (Price as of 10-Feb-2015)

CSPC Pharmaceutical Group Ltd. (1093.HK, HK$6.09)
China Animal Healthcare Ltd (0940.HK, HK$4.88)
China Medical System Holdings Ltd. (0867.HK, HK$12.28)
Dawnrays Pharmaceutical (Holdings) Limited (2348.HK, HK$4.35)
Jiangsu Hengrui Medicine Co. Ltd (600276.SS, Rmb40.85)
Jiangsu Kanion Pharmaceutical Co Ltd. (600557.SS, Rmb22.97)
Luye Pharma Group Ltd. (2186.HK, HK$8.72)
Mayinglong Pharmaceutical Group Co Ltd. (600993.SS, Rmb20.62)
Shandong Weigao Group Medical (1066.HK, HK$36.36)
Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (2196.HK, HK$25.6)
Shenzhen Salubris Pharmaceuticals Co Ltd (002294.SZ, Rmb36.3)
Sino Biopharmaceutical Limited (1177.HK, HK$7.19, NEUTRAL, TP HK$7.5)
Sinopharm Group Co (1099.HK, HK$27.35)
Tasty Pharmaceutical Group Co Ltd (600535.SS, Rmb42.79)
Yunnan Baiyao Group Co Ltd. (000538.SZ, Rmb60.68)
Zhejiang Huahai Pharmaceutical Co Ltd (600521.SS, Rmb14.21)

Disclosure Appendix

Important Global Disclosures

Iris Wang and Zen Zhou, each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Sino Biopharmaceutical Limited (1177.HK)

<table>
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<tr>
<th>Date</th>
<th>Closing Price (HK$)</th>
<th>Target Price (HK$)</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>06-Mar-12</td>
<td>2.13</td>
<td>3.60</td>
<td>O</td>
</tr>
<tr>
<td>25-Jan-13</td>
<td>3.92</td>
<td>3.60</td>
<td>N*</td>
</tr>
<tr>
<td>18-Mar-13</td>
<td>4.80</td>
<td>4.60</td>
<td></td>
</tr>
<tr>
<td>20-May-13</td>
<td>5.08</td>
<td>4.90</td>
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</tr>
<tr>
<td>02-Sep-13</td>
<td>5.55</td>
<td>5.00</td>
<td></td>
</tr>
<tr>
<td>12-Sep-13</td>
<td>4.76</td>
<td>4.20</td>
<td>U</td>
</tr>
<tr>
<td>08-Oct-13</td>
<td>5.57</td>
<td>5.10</td>
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</tr>
<tr>
<td>14-Nov-13</td>
<td>5.38</td>
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<tr>
<td>28-Jan-14</td>
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<td>27-Mar-14</td>
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<tr>
<td>26-May-14</td>
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<tr>
<td>31-Jul-14</td>
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<tr>
<td>25-Aug-14</td>
<td>6.99</td>
<td>6.48</td>
<td>N</td>
</tr>
</tbody>
</table>

* Asterisk signifies initiation or assumption of coverage.

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O): The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U): The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.
Restricted (R): In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analyzers’ sector weightings are distinct from analysts’ stock ratings and are based on the analyst’s expectations for the fundamentals and/or valuation of the sector* relative to the group’s historic fundamentals and/or valuation:

Overweight: The analyst’s expectation for the sector’s fundamentals and/or valuation is favorable over the next 12 months.

Market Weight: The analyst’s expectation for the sector’s fundamentals and/or valuation is neutral over the next 12 months.

Underweight: The analyst’s expectation for the sector’s fundamentals and/or valuation is cautious over the next 12 months.

*An analyst’s coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

Credit Suisse’s distribution of stock ratings (and banking clients) is:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Versus universe (%)</th>
<th>Of which banking clients (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outperform/Buy*</td>
<td>45%</td>
<td>(53% banking clients)</td>
</tr>
<tr>
<td>Neutral/Hold*</td>
<td>38%</td>
<td>(49% banking clients)</td>
</tr>
<tr>
<td>Underperform/Sell*</td>
<td>14%</td>
<td>(45% banking clients)</td>
</tr>
<tr>
<td>Restricted</td>
<td>2%</td>
<td></td>
</tr>
</tbody>
</table>

*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Price Target: (12 months) for Sino Biopharmaceutical Limited (1177.HK)

Method: Our HK$7.5 target price for Sino Biopharmaceutical Limited is based on 23x FY15E EPS (earnings per share), at a premium to sector average of 18x given its superior R&D capability.

Risk: Risks that could cause the share price to diverge from our HK$7.5 target price for Sino Biopharmaceutical Limited include the government’s on-going anti-corruption campaign.

Please refer to the firm’s disclosure website at https://rave.credit-suisse.com/disclosures for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names

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Credit Suisse provided investment banking services to the subject company (1099.HK) within the past 12 months.

Credit Suisse has received investment banking related compensation from the subject company (1099.HK) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (0940.HK, 600521.SS, 1099.HK, 2196.HK) within the next 3 months.

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Iris Wang ; Zen Zhou

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China Healthcare Sector

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